Pirelli & C. S.p.A. — Milan

Annual Financial Report at December 31, 2009

The pictures present in this volume are a tribute to Bob Noorda, the Dutchman designer died in Milan the 11th of January, 2010. He's universally recognized such as a master of the design and thanks to the collaboration with Pirelli, since the 50s, he took the ideas for the creation of one of the most important advertising campaign of the last part of the XX century.

Designed by
Leftloft, Milan

Printed by
Arti Grafiche Mario Bazzi S.p.A.

Printed on GardaPat 13 Kiara paper

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Pirelli & C. S.p.A. — Milan

Annual Financial Report at December 31, 2009

Call to the Annual General Shareholders' Meeting

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 15:00 P.M. on Tuesday April 20, 2010 in first call;
— at 10:30 A.M. on Wednesday April 21, 2010 in second call to discuss and pass resolutions on the followings

AGENDA

Ordinary session

1. The financial statements at December 31, 2009. Inherent and consequent resolutions.

Extraordinary session

— Modification of the articles 5 (share capital), 7 (shareholders' meetings) and 16 (board of statutory auditors) of the company bylaws; numbering of the articles of the company bylaws in individual sub-sections. Inherent and consequent resolutions. Resolution to grant powers.

First book
Annual Financial Report at December 31, 2009

Second book
Annual Sustainability Report at December 31, 2009

SUSTAINABILITY REPORT

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* °
	Cristiano Antonelli* °
	Gilberto Benetton
	Alberto Bombassei* ^
	Franco Bruni* °
	Luigi Campiglio*
	Enrico Tommaso Cucchiani
	Berardino Libonati* ^
	Giulia Maria Ligresti
	Massimo Moratti
	Renato Pagliaro
	Umberto Paolucci* ^
	Giovanni Perissinotto
	Giampiero Pesenti* ^
	Luigi Roth* °
	Carlo Secchi* °

* Independent director
° Member of the Internal Auditing, Risks and Corporate Governance Committee
^ Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto

BOARD OF STATUTORY AUDITORS[3]

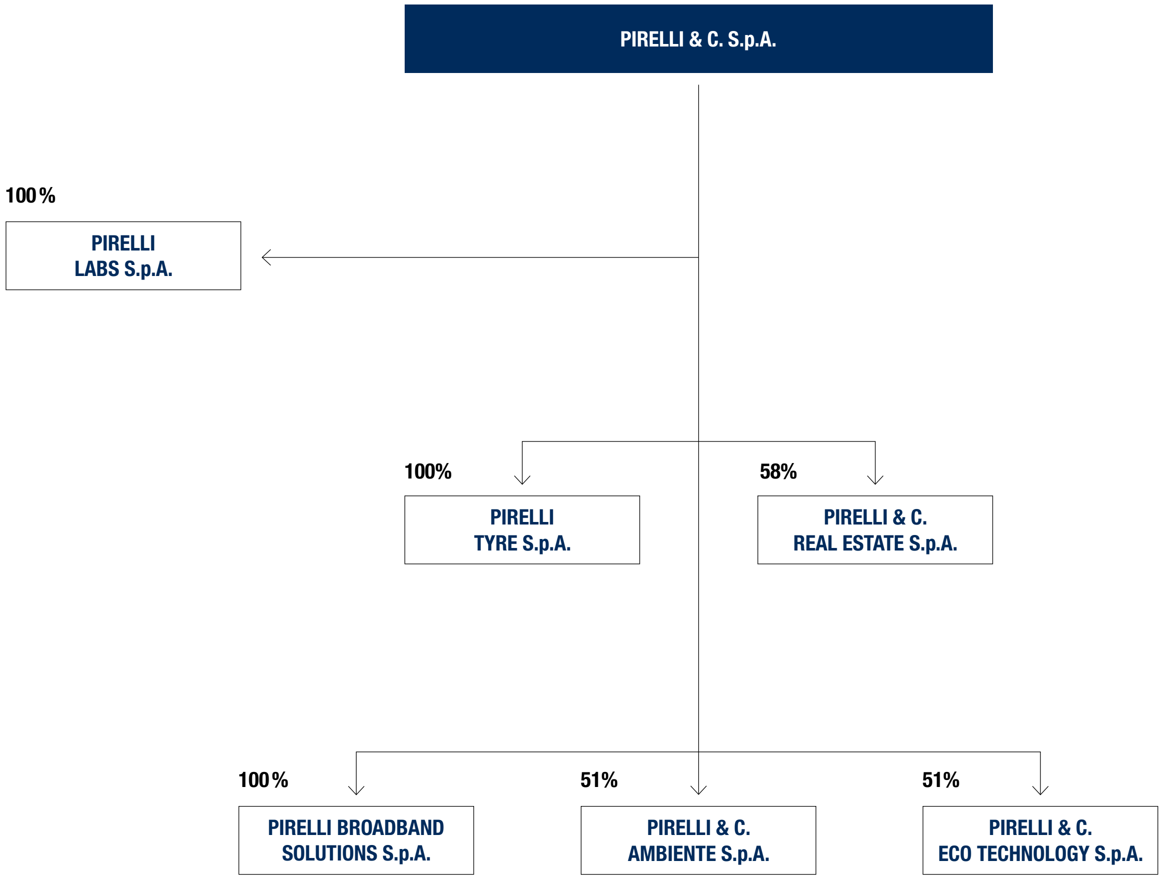
Chairman	Enrico Laghi
Regular Auditors	Paolo Gualtieri
	Paolo Domenico Sfameni
Alternate Auditors	Franco Ghiringhelli
	Luigi Guerra

GENERAL MANAGER

General Management Tyre and Parts	Francesco Gori
INDEPENDENT AUDITORS[4]	Reconta Ernst & Young S.p.A.
MANAGER RESPONSIBLE FOR CORPORATE FINANCIAL REPORTING[5]	Francesco Tanzi

1 Appointment: April 29, 2008. Expiry: Shareholders' meeting called to approve the financial statements at December 31, 2010.
2 Post conferred by the Board of Directors' on April 29, 2008.
3 Appointment: April 21, 2009. Expiry: Shareholders' meeting called to approve the financial statements at December 31, 2011.
4 Post conferred by the shareholders' meeting held on April 29, 2008.
5 Appointment: Post conferred by the board of directors' meeting held on September 16, 2009. Expiry: Shareholders' meeting called to approve the financial statements at December 31, 2010.

Structure of Pirelli Group at December 31, 2009



MARKET TRADING ON THE MILAN STOCK EXCHANGE

	Shares traded volume	Amount (in Euros)
Pirelli & C. S.p.A. - ordinary shares	11,089,025,205	3,408,459,354
Pirelli & C. S.p.A. - saving shares	80,331,904	27,562,908

NUMBER OF SHARES OUTSTANDING

	at December 31, 2009	at March 9, 2010
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

Five-year summary of selected consolidated financial data

IAS/IFRS STANDARDS (in millions of euro)

	2009	2008	2007	2006	2005
Net sales	**4,462**	**4,660**	**6,076**	**4,841**	**4,546**
Net sales (excluding DGAG)*	4,462	4,660	4,780	4,841	4,546
Gross operating margin	429	252	573	614	568
Net operating income	**217**	**43**	**364**	**401**	**355**
Net operating income incl. net income from equity investments	161	(323)	513	1,192	622
Net income	**(23)**	**(413)**	**324**	**(1,049)**	**399**
Net income attributable to to the equity holders of Pirelli & C. S.p.A.	**23**	**(348)**	**165**	**(1,167)**	**327**
Net earnings per share attributable to the equity holders of Pirelli & C. S.p.A. (in euro)	0.004	(0.065)	0.031	(0.217)	0.062
Fixed assets	3,596	3,665	3,815	6,924	7,624
Net working capital	222	418	298	463	(48)
Net invested capital	**3,818**	**4,083**	**4,113**	**7,387**	**7,576**
Equity	2,495	2,374	3,804	4,687	5,614
Provisions	794	681	611	720	785
Net financial (liquidity)/debt position	**529**	**1,028**	**(302)**	**1,980**	**1,177**
Equity attributable to to the equity holders of Pirelli & C. S.p.A.	**2,175**	**2,172**	**2,980**	**3,880**	**5,205**
Equity per share attributable to the equity holders of Pirelli & C. S.p.A. (in euro)	0.41	0.40	0.56	0.72	0.98
Net cash flows provided by/(used for) operating activities	**539**	**76**	**554**	**473**	**467**
R&D expenses	**137**	**156**	**173**	**171**	**174**
Amortization & Depreciation	202	199	214	201	197
Investments in capital goods	225	311	287	255	234
Gross operating margin/Net sales*	9.60%	5.41%	11.99%	12.68%	12.49%
Operating income/Net sales* - ROS	4.86%	0.93%	7.62%	8.28%	7.81%
Net income/Equity** - ROE	(0.93%)	(13.35%)	7.63%	(20.37%)	7.38%
Operating income/Net invested capital** - ROI	5.50%	1.05%	6.33%	5.36%	5.02%
Operating income after equity investments/Net invested capital**	4.07%	(7.89%)	8.92%	15.93%	8.80%
Net financial position/Equity - Gearing	0.21	0.43	n,s,	0.42	0.21
Investments/Depreciation	1.12	1.56	1.34	1.27	1.19
R&D expenses/Net sales *	3.07%	3.35%	3.62%	3.53%	3.83%
Sales * per employee (in thousands of euro)	151	148	155	172	173
Ordinary shares of Pirelli & C. S.p.A. (no. millions)	5,233.1	5,233.1	5,233.1	5,233.1	5,180.7
Savings shares of Pirelli & C. S.p.A. (no. millions)	134.8	134.8	134.8	134.8	134.8
Total shares of Pirelli & C. S.p.A. (no. millions)	5,367.9	5,367.9	5,367.9	5,367.9	5,315.5
Treasury ordinary shares (no. millions)	3.9	3.9	2.6	2.6	2.6
Savings ordinary shares (no. millions)	4.5	4.5	-	-	-
Employees (at December, 31)	29,570	31,056	30,823	28,617	26,827
of which temporary workers	2,245	2,913	3,642	3,479	3,102

* Excluding net sales for deconsolidation DGAG real estate assets

** Average amounts

Chairman's letter

Dear Shareholders,

The strategy that guided Pirelli & C. in 2009 was based on a forceful and challenging slogan, "green performance", a clear choice of environmental and social sustainability which has characterized both our products and our manufacturing processes, in full and open harmony with the most responsible decisions made by international companies attentive to the great economic transformations taking place at the global level.

In executing our 2009-2011 Three-Year Plan, we have worked consistently, aiming to increase the "green" proportion of our products from 20% to 40% over the three year period of reference.

We have been through a period of restructuring and relaunched the group, during 2008 and 2009, combining the reorganizational decisions, even though they were costly in economic and social terms, with the growth and development plans, both in Italy and at the international level. Our investment and expansion initiatives have been focused on the industrial "core business", in the automotive segment, in the production of tyres and particulate filters. A commitment that our leading international investors have appreciated, as can be seen, in fact, from the performance of our shares on the stock exchange .

The year 2009 marks the return of dividends for the parent company thanks to decidedly improved overall results and net financial debt almost halved.
We have taken full advantage of the recovery of the markets – which is evident even among limits and contradictions above all on the main international markets of the Far East and of Latin America – (in particular in the "consumer" segment), in keeping with the demand for greater quality and innovation, confirming the validity both of our technological strategies and of our geographical positioning.

The return to profitability will now enable us to invest in new or increased production capacity in Russia, China, Romania, Brazil and Italy (thanks above all to the new Industrial Hub of Settimo Torinese, which will be completed in 2010 and be fully operational at the beginning of 2011).
The process of turning Pirelli Real Estate around continued with a review of the business model and with a strengthening of the asset and management structures.
It is precisely thanks to the actions taken in 2009 and continued in 2010 and to the positive results achieved up to now that, while conscious of the difficulties still present, we can look to the current year positively and with confidence, with the aim of reinforcing our position as an increasingly innovative, responsible and sustainable Italian industrial multinational.

Directors' report

Directors' report on operations

The restructuring already begun in 2008 and continued in 2009 to counter the effects of the international crisis enabled the Pirelli Group to end the year with decidedly improved overall results, thanks to the effectiveness of the measures adopted to safeguard efficiency and competitiveness and of the strategy outlined with the 2009-2011 three-year business plan.

The Group thus managed to end the period with better results than the targets for 2009, which, besides, had already been revised upwards last November, on the occasion of the announcement of the results for the third quarter.

With reference to the **Group's targets** we can note:
— net sales: 4,462.2 million euro compared with the target of "more than 4.3 billion euro", already revised upwards at the end of third quarter 2009. Of these, 25% derive from "green" activities (20% at the end of 2008), in line with the objectives of the plan;
— EBIT margin after restructuring expenses: 4.9% compared with the target of "approximately 4.5%" envisaged at the end of third quarter 2009, despite the impact of additional restructuring expenses with respect to the initial assumption of more than 50 million euro (approximately 80 million euro in 2009);
— net financial position: negative 528.8 million euro compared with the target "of approximately 700 million euro", already improved at the end of third quarter 2009.

Overall, the **Pirelli Group** ended the year with consolidated net income attributable to the equity holders of the company of 22.7 million euro compared with a net loss of 347.5 million in 2008. There was a total consolidated net loss of 22.6 million euro, a significant improvement on the loss of 412.5 million in the previous year.

Operating income after restructuring expenses, which amounted in the period to 79.6 million euro (144.2 million euro in 2008), was 217.4 million euro, a five-fold increase on the 43.2 million euro of 2008, with a ratio to revenues of 4.9% compared with 0.9% in 2008. Revenues in the period were 4,462.2 million euro, down 3.3% in like-for-like terms net of the exchange rate effect (4,660.2 million euro in 2008). The Group's net financial position at 31 December 2009 was negative for 528.8 million euro, an amount almost halved with respect to the net debt of 1,027.7 million euro at December 31, 2008 (691.4 million euro at September 30, 2009), thanks to the positive contribution of the Pirelli Tyre cash flow, income from the disposal of non-strategic assets and the success of the Pirelli & C. Real Estate S.p.a. capital increase.

The performance of the core tyre business of **Pirelli Tyre** was particularly positive and achieved results decidedly better than the targets:
— net sales: 3,992.9 million euro compared with the target "of approximately 3,900 million euro", already improved at the end of third quarter 2009;
— EBIT margin after restructuring expenses: 7.7%, decidedly better than the target "of 7% or more", which had already been adjusted upwards at the end of third quarter 2009;
— net financial position: approximately one billion euro (negative 1,027.3 million euro) after dividends, compared with the target of 1.3 billion before dividends.

The efficiencies achieved thanks to restructuring actions, the signs of recovery visible on the market (in particular in the 'Consumer' segment) and the positive impact of the reduction in the cost of raw materials, in fact, enabled Pirelli Tyre to end the year with a moderate reduction in net sales (-1.6%, like-for-like) and a marked improvement in all profit indicators: the EBITDA margin before restructuring expenses came out in 2009 at 13.5% compared with 10.8% in 2008; the EBIT margin before restructuring expenses at 8.7% compared with 6.1% in 2008 and the EBIT margin after restructuring expenses at 7.7% compared with 3.7%.

In the fourth quarter, the best of the entire year, Pirelli Tyre's gross operating margin (EBITDA) before restructuring expenses more than doubled to 155.2 million euro (62.9 million in the corresponding period of 2008), with a margin up to 15% from 7.2%, and operating income before restructuring expenses up to the record level of 104.7 million euro (18.9 million euro in the corresponding period of 2008), with a margin of 10.1% (2.2% in 2008). Boosted by a recovery in volumes, net sales exceeded the threshold of one billion euro, with like-for-like growth of 13.9% to 1.03 billion euro.

During 2009 the continual improvement of efficiency in the management of working capital also made possible a positive flow from operating activities of 561.5 million euro (negative by 18.1 million euro in 2008); the net financial position was negative for 1,027.3 million euro, an improvement on the 1,266.8 million euro at end of 2008.

Increasing efficiency on employment costs, usage of materials and procurement processes and savings on the cost of raw materials net of the exchange rate effect also enabled cost cutting of approximately 200 million euro (of which approximately 100 million euro resulting from the reduction of raw material costs net of the exchange rate effect) in line with the 2009 target - 200 million euro at considering the same exchange rates - envisaged for Pirelli Tyre in the Group's 2009-2011 business plan.

It must be stressed that in a year which required close attention to costs, Pirelli Tyre also reduced the ratio of **research and development expenses** to net sales, from 3.5% to 3.3%, but this level still keeps the company at the top in the industry worldwide in terms of process and product innovation, which have always been central elements for the competitive position in the sector.

During the year **Pirelli Eco Technology** consolidated its leading position on the particulate filter market. The approvals obtained, in particular in key markets such as Germany and China, as well as the recent resumption of programmes for the introduction of low pollutant emission zones, place the company among those with the best growth prospects in the industry.
In 2009, however, the difficult economic situation, the delay in operational implementation of the existing legislation on traffic pollution and the longer-than-expected times for the achievement of approvals to develop new markets had negative repercussions on performance and on the execution times of development plans compared with those initially envisaged. Net icome was negative in 2009 of 13.7 million euro, which is substantially in line with 2008 (negative 13.2 million euro).

In the real estate segment, during the year **Pirelli Real Estate** continued its turnaround process involving a cost cutting plan and the recovery of efficiency, an organizational review and reinforcement of the asset structure, together with refocusing of the business model on the asset & fund management business and specialist services, with the aim of increasing recurrent results. Confirming the validity of the action taken up to now, the cost efficienting plan led in 2009 to the achievement of savings on overheads of approximately 68 million euro, much more than the original target of 50 million euro, while on the capital side gearing improved to 0.7 (compared with 2.4 at December 31, 2008) thanks to the success of the share capital increase carried out during the year.

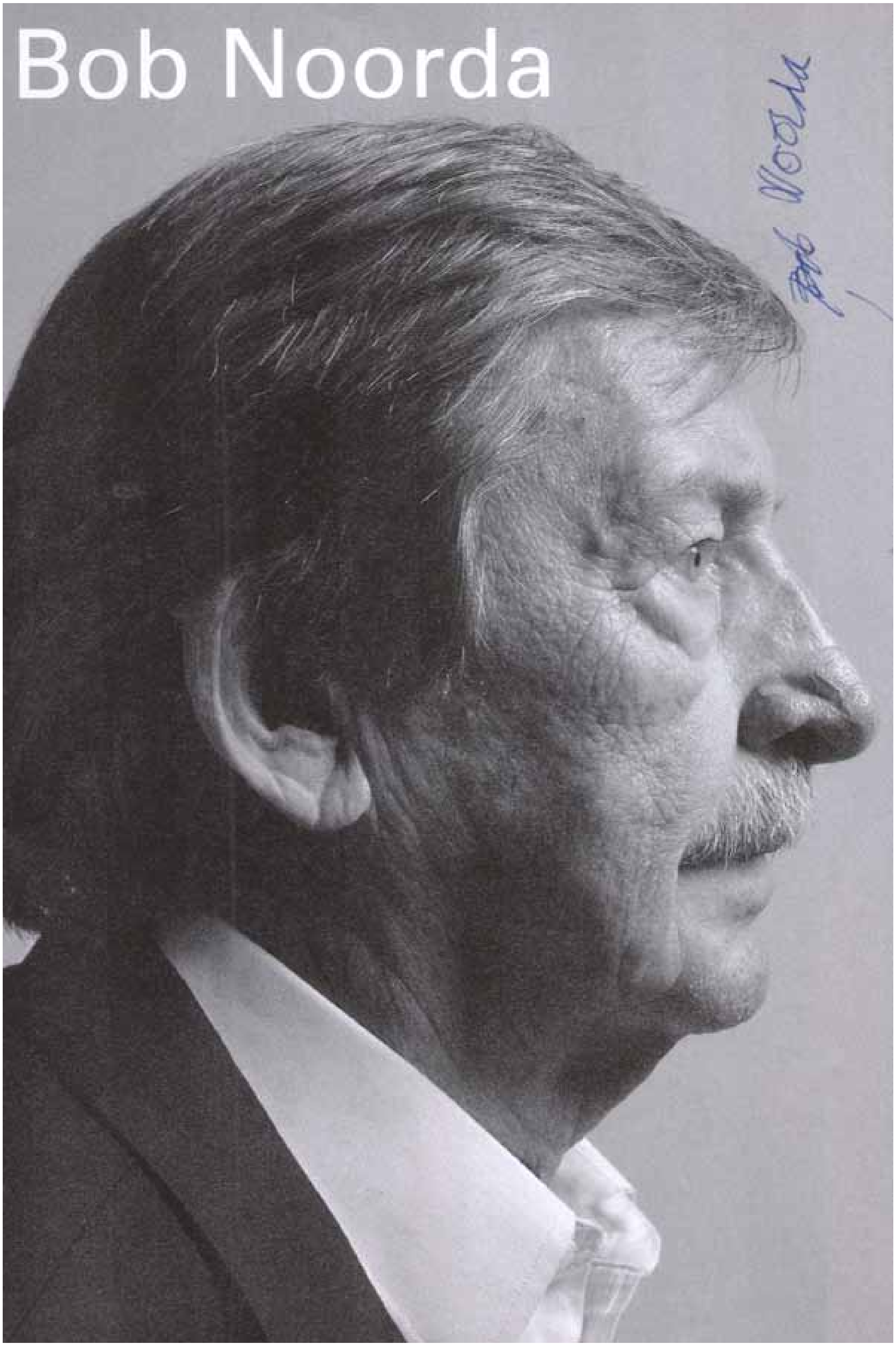
Even though the year was significantly affected by the context of international economic recession, the main economic and financial indicators showed a clear improvement: the net loss in financial year 2009 was almost halved (-104.3 million euro compared with -195 million euro in 2008), while operating income (EBIT), including net income from equity investments and before restructuring expenses and property value adjustments, was negative for 26.1 million euro. The loss was more than halved compared with the 59.7 million euro of 2008, and at the better end of the range (-25/-35 million euro) communicated to the market.

In **other businesses**, particularly noteworthy was the positive performance of Pirelli Broadband Solutions, the group company providing broadband access solutions which ended the year with net sales up 6% to 132.1 million euro and net income of 4.6 million euro compared with 2 million euro in 2008.

In keeping with the guidelines of the 2009-2011 business plan, during the year the group concentrated on:

— **focusing on the core business**: with the aim of reinforcing its position as a leader in the automotive industry, the Group focused more on the core business of tyres and on the similar business of particulate filters brought together in the "Tyre and Parts" Division. In this sense, the Group also disposed of non-strategic assets, including the stake held in Alcatel Lucent Submarine Networks, a sale completed in March 2009 and, through progressive sales made during the year and completed during the third quarter, the stake held in Telecom Italia S.p.A..

— **"Green perfomance"**: during the year the Group concentrated on the development of innovative products and solutions in the field of the green economy, achieving the target of increasing the ratio to net sales to 25% from 20% in 2008 (40% the 2011 target).
All the new tyres of the Cinturato line, an historic **Pirelli Tyre** brand recently relaunched, are in keeping with the "Green performance" strategy, as are the very advanced tyres of the "Winter" family.
As regards sustainable mobility and the reduction of atmospheric pollution, **Pirelli Eco Technology** proposes technologies for the containment of pollutant diesel vehicle emissions. The particulate filters offered by Pirelli Eco Technology can reduce the emission of particulates by more than 90% and that of nitrogen dioxide by more than 50%, with significant reductions in fine dusts.
Also worthy of note was the work done by **Pirelli Ambiente**, the Group company specialized in technologies and solutions for sustainable development operating in the sectors of renewable energy resources, environmental regeneration and the energy efficiency of buildings, and also, in the real estate field, the solutions offered by **Pirelli Real Estate** to reduce the potential environmental impact deriving from the occupation of buildings, in particular with the launch of the environmentally sustainable building programme, Ecobuilding.



Bob Noorda photographed by Aatjan Renders for the cover of the volume that the Dutchman editor [Z]OO producties dedicated to him in the series "Roots"

Significant events during the year

On **January 27, 2009** Brembo, Magneti Marelli and Pirelli announced the start of technological cooperation aimed at developing avant-garde solutions for the Italian and international automotive industry.
Cyber Tyre, the "smart" tyre developed by Pirelli, will be integrated with Magneti Marelli electronic control systems and Brembo advanced braking systems for ad hoc technological solutions, to meet performance and safety needs of all user types.
The skills and the excellence of the three Italian groups, recognised also at the international level, will make it possible to achieve significant synergies and develop applications in particular in the field of security systems for motor vehicles with the aim also of reducing environmental impact, in line with the evolution of international standards and with the new CO2 emission limits envisaged by the European Union from 2012 onwards.

On **February 11, 2009** the Pirelli Group presented the outlines of the 2009-2011 business plan.

On **March 5, 2009**, the Pirelli & C. Real Estate S.p.A. Board of Directors ratified the decision taken in February, approving an operation aimed at strengthening the Company's equity structure and supporting the new business model by proposing a capital increase against payment, in divisible form, to be offered as option to its Shareholders.
The capital increase is an element of the 2009-2011 business plan and the aim is to boost the company and, in particular, by allowing it to pursue the actions foreseen in the plan itself and to improve the ratio between debt and own capital, thus reinforcing the equity structure.

Subsequently, on **April 17, 200**9, an extraordinary Shareholders' Meeting of Pirelli & C. Real Estate S.p.A. approved the capital increase.
In June the terms were defined for the capital increase, which involved the issue of 798,574,564 ordinary shares with enjoyment from January 1, 2009 and with a par value of 0.50 euro, with no premium. The option assignment ratio was set at 135 newly-issued shares for every 7 shares already held for a total amount of 399.3 million euro.
On **July 3, 2009** the option rights offer period in relation to the capital increase of Pirelli & C Real Estate S.p.A., which had begun on June 15, 2009, came to an end.
A total of 41,142,801 option rights were exercised and 793,468,305 newly-issued Pirelli & C. Real Estate S.p.A. ordinary shares were subscribed, representing approximately 99.361% of total shares offered in option, for a total countervalue of approximately 396.7 million euro.
Fulfilling the undertakings given, the controlling shareholder Pirelli & C. S.p.A. exercised all the option rights available to it, subscribing 463,752,540 newly-issued Pirelli & C. Real Estate S.p.A. ordinary shares, representing approximately 58.07% of the shares offered, for a total countervalue of approximately 231.9 million euro. Pirelli & C. S.p.A. subscribed the portion attributable to it converting into capital part of the financial receivable due from Pirelli & C. Real Estate S.p.A..
At the end of the option offer period 264,768 option rights were therefore not exercised; corresponding to a total of 5,106,240 newly-issued Pirelli & C. Real Estate S.p.A. ordinary shares, for a total countervalue of approximately 2.6 million euro. Under the terms of Art. 2441, Clause 3, of the Civil Code, the unexercised option rights were offered on the Stock Exchange in the sessions of July 13, 14, 15, 16 and 17, 2009.
Through this offer all the unopted rights were placed on the market. The capital increase procedure therefore ended with the subscription of all the remaining 5,106,240 ordinary shares offered in option, at the price of 0.50 euro per share, for a total countervalue of 2,553,120 euro.
The capital increase was therefore completed with the subscription of all the 798,574,545 newly-issued ordinary shares, for a countervalue of 399,287,272.50 euro.
The new share capital of Pirelli & C. Real Estate S.p.A. is therefore 420,585,888.50 euro, divided into 841,171,777 ordinary shares of a par value of 0.50 euro each. As of today Pirelli & C. S.p.A. is thus the holder of an equity interest of 487,798,972 shares representing 57.99% of the new share capital of Pirelli & C. Real Estate S.p.A..

On **March 24, 2009**, Pirelli and Alcatel-Lucent reached agreement on the sale by Pirelli to Alcatel-Lucent of its equity interest in Alcatel-Lucent Submarine Networks, the company concerned with submarine systems for telecommunications. The transaction took place as a result of Pirelli's exercise of its 'put' option, agreed between the two companies in 2004, at the time of the agreement, whereby Alcatel acquired some Pirelli submarine systems businesses. The sale, for a total value of 56 million euro, entailed a capital gain of 11.2 million euro. This disposal by Pirelli is consistent with its strategy of focusing on its core business, as announced by the Group when it presented its 2009-2011 business plan.

On **March 26, 2009** Pirelli Tyre launched Cinturato P7, the first environment-friendly high-performance tyre for the high end of the market. P7 completes the Cinturato green product family, launched last year with models P4 and P6 for mid-range cars. From an environmental point of view, Cinturato P7, besides cutting CO2 emissions by as much as 4 grams per kilometre, with consequently reduced fuel consumption, also lowers sound emissions by 30%.
From the point of view of safety, it ensures excellent performance on both dry and wet roads. The tyre contributes on average to 20% of the total consumption and carbon dioxide emissions of a vehicle.
At the same time as the launch of the new product, Pirelli Tyre has introduced a new incentive program for tyre replacement in Italy, with a totally self-financed initiative which, like that for vehicle scrapping, offers a contribution towards the purchase of fuel to those who replace their tyres with Pirelli environment-friendly products.
This measure, a complete novelty for the industry, is aimed at sustaining demand at a time of economic crisis and at encouraging the adoption of products with low environmental impact for each segment of the car market and fostering road safety, by subsidising the replacement of tyres whose wear exceeds legal limits.
The worn tyre replacement incentive is part of the Pirelli program to develop increasingly innovative and environment-friendly products and solutions, in line with the aims announced in the 2009-2011 business plan presented by the Group last February.

On **April 7, 2009**, the 150 million euro bond issued by Pirelli & C. S.p.A. in 1999 at a fixed rate of 5.125% was redeemed on maturity.

On **April 8, 2009** Carlo A. Puri Negri left the post of Executive Vice-President of Pirelli & C. Real Estate S.p.A.. At the same time, Giulio Malfatto joined the Group Pirelli Real Estate with the role of Managing Director of Pirelli & C. Real Estate S.p.A., with responsibility for the business, while Claudio De Conto, Managing Director Finance, has maintained responsibilities for supervision and direction in financial areas.

On **May 26, 2009**, the Board of Directors of Pirelli Real Estate S.p.A. confirmed the economic targets to 2011, reviewing also certain strategic decisions concerning mainly the intention to concentrate the Group's attention on what are considered core businesses capable of generating revenues of a recurrent nature. With this the Pirelli Real Estate Group aims to reposition itself on the market, taking advantage of the specific skills which enabled its success in the years immediately following its listing, such as the fund management business and the provision of specialist real estate services (mainly agency and property management) which are accompanied by the credit servicing business, owing precisely to its ability to generate recurrent revenues. Finally, the Board approved further action for rationalization and the recovery of efficiency at the Group level.

On **June 9, 2009** the Arcandor Group presented a petition to the Court of Essen, initiating the procedure for declaration of bankruptcy under the terms of German law. Up to now, the Receivers appointed by the Court have fulfilled the obligations provided for by the existing master lease agreements and have prepared a rescue plan for the group which has to obtain the approval of the creditors' meeting to be held some time in the next few months. The Receivers have also informally stated that they have reached an outline agreement with all the categories of debtors of the group.

On February 25, 2010 the Proprietor Companies signed a New Master Lease Agreement which provides among other things for (i) release by Kardstadt of 13 properties, with consequently no further payment of rents (ii) reduction of the total rent paid on 5 specific properties (iii) reduction - limited to a period of 5 years - of the total rent (not allocated asset by asset) on the remaining properties (iv) extension of the term of the master lease agreement from the current year of expiry, 2021, up to the end of 2026.
On February 25, 2010 the Proprietor Companies also negotiated and signed with the lending banks of the HighStreet project the appropriate changes to the financing needed to adapt to the content of the New Master Lease Agreement summarised above, which among other things extended the current expiry of the credit facilities from July 2011 to July 2014.
With reference to the valuation of the real estate portfolio, Cushman & Wakefield were asked to update the valuation of the real estate portfolio at December 31, 2009 on the basis among other things of (i) the effective restructuring of the Kardstadt Group (ii) the effective extension of the master lease agreement by at least 5 years.
It should be noted that at December 31, 2009 Pirelli RE's remaining investment in the initiative, which was also affected by devaluations made in the period, amounted to 35.6 million euro compared with 61.2 million euro at December 31, 2008.

On **June 29, 2009**, in the context of non-performing loans, Pirelli Real Estate reduced its financial commitment to the investment platform European NPL S.à r.l. (67% DGAD International S.à r.l. - a company wholly controlled by Calyon S.A. - 33% Pirelli Real Estate) thanks to the refinancing of 250 million euro disbursed by DGAD International S.à r.l. which enabled Pirelli Real Estate to repay its shareholder loan. As part of the same operation DGAD International S.à r.l. became a shareholder of Pirelli RE Credit Servicing S.p.A. with a 20% stake. As a result of the above Pirelli Real Estate recorded a positive change in its net financial position, including the shareholder loan, of approximately 89 million euro.
One of the aims of the operation is to acquire mandates for the management of portfolios of non-performing loans on behalf of third parties, in keeping with the growing focus of the Pirelli Real Estate Group in the service sector.

On **July 2, 2009**, during a press conference held at the Brazilian Santo Andrè factory, the Pirelli Group announced that it intended to continue to reinforce its presence and to invest more in Brazil, where this year it is celebrating 80 years of industrial and commercial business.
In keeping with the 2009-2011 business plan, in the three-year period the Group is will to invest about 200 million dollars in addition to the 100 million dollars already invested in the previous year. The strategy of reinforcement in the area will consolidate the Pirelli Group's leadership in the South American markets.
The new investments will enable a 20% increase in car and motorcycle tyre production. The 300 million US dollars of total investments in the 2008-2011 period are destined one third for research and development and the remainder for increasing the production capacity.

On **July 31, 200**9, as part of the actions taken to redefine the structure of the financing relations of Pirelli & C. Real Estate S.p.A., a club deal financing agreement was signed with eight leading Italian credit institutions for a total of 320 million euro expiring in July 2012. The operation enabled Pirelli Real Estate S.p.A. to extend the average remaining term of the credit facilities, also increasing by 40 million euro the resources already granted by the above institutions.

In **July 2009**, 123,923,185 Telecom Italia S.p.A. ordinary shares were sold for total revenues of approximately Euro 129.4 million. Following this operation the Pirelli Group no longer holds any Telecom Italia S.p.A. shares.

On **September 15, 2009** Pirelli signed a "Memorandum of Understanding" with the Hixih Group (formerly the Yinhe Group), a partner of the group since 2005 in the production of tyres, for the creation of a filter production plant at Yanzhou, in the province of Shandong (China).
The agreement is to be seen in the context of the protocols signed with the Italian Ministry of the Environment and Protection of the Territory and the Sea, with the Chinese Ministry for

Environmental Protection and with the Municipality of Beijing, for the diffusion of advanced technologies for the abatement of pollutant emissions of diesel vehicles in China. The agreement enables Pirelli to reinforce and consolidate its presence established in the country in 2005. The new factory, where construction is expected to begin by the end of first quarter 2010, will be located in the same area as the manufacturing facility built by the partners for the production of truck and car tyres and will create a real and proper diversified industrial pole, capable of taking maximum advantage of the synergies deriving from the production and sale of the two products. The plant for particulate filters, for both "retrofitting" and original equipment, will develop gradually. The investment, which was envisaged in the 2009-2011 business plan, will take account of the evolution of the market and may be up to 50 million euro in the three-year period, with a production capacity of approximately 100,000 filters per year and approximately 1,200 employees.

On **September 16, 2009** the Board of Directors of Pirelli & C. S.p.A. approved the Group's new organizational framework. In keeping with the strategy and the objectives of the 2009-2011 business plan of focusing on the core business, the company decided to simplify its organizational structure and bring together all the activities in direct support of the core business in the new "Tyre and Parts" Division, responsibility for which was entrusted to Francesco Gori, who also maintains the position of Chief Executive Officer of Pirelli Tyre S.p.A..
The reorganization will enable a significant reduction in the size of the structures at the corporate level, with savings, expected from 2010 onwards, of at least 10 million euro on an annual basis, and bring together the operating activities necessary for development of the core business: tyres (Pirelli Tyre) and filters (Pirelli Eco Technology), within the new Division will thus ensure unitary governance of the business processes.
In line with the focus on the industrial activities, the reorganization therefore entails the replacement of the Operational General Management, entrusted to Claudio De Conto, who now concentrates his work, in his capacity as Chief Financial Officer, on Pirelli & C. Real Estate S.p.A. together with the Chief Executive Officer of Pirelli & C. Real Estate S.p.A., Giulio Malfatto, continuing to manage the turnaround process positively launched and conducted up to now.

On **September 30, 2009** an equity interest of 5% in the subsidiary Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., leader in Italia in real estate fund management, was sold to Intesa Sanpaolo at a price of 10 million euro, with an agreement which provided for the purchase by Intesa Sanpaolo of a total equity interest in Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. of 10%. After obtaining the necessary authorization from the Bank of Italy, the operation was completed on December 30, 2009 with the sale to Intesa Sanpaolo of a further 5% stake.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., on one hand, will be able to grow internally with the development of the real estate funds and the launch of new products reserved for investors; on the other hand, instead, it will be able to seize the opportunities for external growth deriving from consolidation of the managed savings sector, aggregating other AMCs operating on the Italian market.

On **November 11, 2009** Pirelli & C. S.p.A., Pirelli & C. Real Estate S.p.A. and Fimit-Fondi Immobiliari Italiani Sgr S.p.A. announced that they had reached an agreement on the need to carry out a joint feasibility study for an operation aimed at the industrial integration of the businesses of Pirelli Real Estate and Fimit to create a new entity in the sector of asset management and real estate services.
Subsequently on January 29, 2010 Pirelli & C. S.p.A., Pirelli & C. Real Estate S.p.A. and Fimit announced the suspension of the joint feasibility study for industrial integration between Pirelli Real Estate and Fimit. As matters stand, owing to its dimensions and complexity, the process of integration is not considered compatible over time with the real estate development plans of Pirelli Real Estate already underway and with Fimit's reorganization process.
In keeping with the announcements made to the market, the Pirelli Group is continuing in any case with the process of focusing its business on industrial activities, pushing forward with the plan to separate the real estate businesses which should be completed by the end of the year, once the specific project, the terms and conditions of which have already been defined, has been examined and approved by the competent bodies of the companies involved.

On **November 12, 2009** the European Investment Bank (EIB) and Pirelli Tyre S.p.A. signed a financing agreement for 100 million euro granted by the EIB to support Pirelli Group projects in the area of research and development for the period 2009-2012. The loan is earmarked for the support of research and development work in the field of innovation of products and manufacturing processes with the aim also of reducing the environmental impact of tyres, improving performance and safety standards thanks to the identification of innovative materials and components.
The project involves the work carried on in the various Pirelli research and development centres in Italy and abroad and was designed to make use of the credit facility of 200 million euro granted by the EIB last July.
The new loan consolidates the relationship between Pirelli and the EIB, which contributed already in the past to the group's constant commitment to innovation and to the development of its competitiveness worldwide.

On **November 13, 2009** Pirelli & C.Ambiente S.p.A. and Global Cleantech Capital (GCC) reached an agreement which provides for the acquisition by Pirelli & C. Ambiente S.p.A. of the 50% that had been held by GCC in the joint venture Solar Utility S.p.A.. The operation, worth approximately 8 million euro, meant that at the end of November Pirelli & C. Ambiente S.p.A. held 100% of the company. The purchase will enable Pirelli & C. Ambiente S.p.A. to take advantage of new development opportunities for Solar Utility, including through industrial partnerships such as the one recently launched with the Norwegian national energy supplier, Statkraft, as the first step in building an important player in the field of renewable energy in Italy. Solar Utility S.p.A. was set up in 2007 as an equal joint venture between Pirelli & C. Ambiente S.p.A. and GCC, a private equity fund specialized in investments in clean energies, to make joint investments in the fotovoltaic sector.

On **December 3, 2009** Pirelli and Russian Technologies signed an agreement for implementation of the 'Memorandum on Terms' which provides for an extension of the collaboration begun in the context of the joint venture currently being finalized for the production of tyres and steelcord in Russia.

On **December 17, 2009** the European Investment Bank (EIB) and Pirelli Tyre S.p.A. signed a 50 million euro loan agreement. The loan is to be used to increase the production of tyres for cars and light commercial vehicles at the Pirelli factory in Slatina, Romania, and will be a part of the investments of 250 million euro announced by the group for its Romanian business for the three years 2009-2011.
The new loan consolidates the relationship between Pirelli and the EIB, which participated already in the past in the group's constant commitment to innovation and to the development of its competitiveness worldwide both in the field of research and development and in support of industrial growth.

Bob Noorda, announcement straps for car, 1955

Group

In this report on operations, in addition to the financial performance measures established by the IFRSs, certain non-IFRS measures originated from the latter are presented although they are not required by the IFRSs (Non-GAAP Measures).

These performance measures are presented to enable a clearer understanding of the trend of the Group's operations and should not be construed as a substitute for the information required by the IFRSs.

Specifically, the Non-GAAP Measures used are the following:

- **Gross Operating Margin (EBITDA)**: this economic measure is used by the Group as a financial target for internal presentations (business plans) and external presentations (to analysts and investors), and is a useful unit of measurement to assess the overall operating performance of the Group and of the individual business segments in addition to Operating Income. The Gross Operating Margin is an intermediate economic measure deriving from Operating Income, but excluding depreciation and amortization of tangible and intangible assets;
- **Fixed assets**: this measure consists of the sum of "Property, plant and equipment", "Intangible assets", "Investments in associates and joint venture" and "Other financial assets";
- **Provisions**: this measure is the sum of "Provisions for other liabilities and charges (current and non-current)", "Provisions for employee benefits" and "Deferred tax liabilities";
- **Net working capital**: this measure consists of all the items not included in the two measures above, in "Equity" and in "Net financial position";
- **Net financial position**: this performance measure is represented by the gross financial debt and other financial receivables less cash and cash equivalents. The section "Explanatory notes on the consolidated financial statements" presents a table showing the balance sheet amounts used to calculate the measure.

It is important to remember that the Integrated Facility Management business of Pirelli Real Estate and the Photonics business, which were both sold during 2008, were considered "Discontinued operation".

The Group's consolidated accounts can be summarized as follows:

(in millions of euro)

	12/31/2009	12/31/2008
Net sales	**4,462.2**	**4,660.2**
Gross operating margin before restructuring expenses	508.1	396.1
of which property value adjustments	(7.9)	(9.3)
% of net sales	11.4%	8.5%
Net operating income before restructuring expenses	297.0	187.4
of which property value adjustments	(7.9)	(9.3)
% of net sales	6.7%	4.0%
Restructuring expenses	(79.6)	(144.2)
Net operating income	217.4	43.2
of which property value adjustments	(7.9)	(9.3)
% of net sales	4.9%	0.9%
Net income from equity investments	(56.7)	(366.5)
of which property value adjustments	(23.5)	(126.5)
Financial income/(expenses)	(85.4)	(80.0)
Income tax	(97.9)	(72.6)
Net income from continuing operations	**(22.6)**	**(475.9)**
Net income from discontinued operations	**-**	**63.4**
Total net income	**(22.6)**	**(412.5)**
Net income attributable to the equity holders of Pirelli & C. S.p.A.	22.7	(347.5)
Total net earnings per share attributable to the equity holders of Pirelli & C. S.p.A. (in euro)	0.004	(0.065)
Fixed assets	3,596.2	3,686.7
Net working capital	221.8	397.1
Net invested capital	3,818.0	4,083.8
Total net equity	2,494.7	2,374.4
Provisions	794.5	681.7
Net financial (liquidity)/debt position	528.8	1,027.7
Equity attributable to the equity holders of Pirelli & C. S.p.A.	2,175.0	2,171.8
Equity per share attributable to the equity holders of Pirelli & C. S.p.A. (in euro)	0.405	0.405
Investments in property, plant and equipment	225	311
R&D expenses	137	156
% of net sales	3,1%	3,3%
Employees (number at end of period)	29,570	31,056
Industrial sites no.	21	21
PIRELLI & C. S.P.A. SHARES		
Ordinary shares (no. millions)	5,233.1	5,233.1
of which treasury shares	3.9	3.9
Savings shares (no. millions)	134.8	134.8
of which treasury shares	4.5	4.5
Total shares (no. millions)	**5,367.9**	**5,367.9**

For a better understanding of the Group's performance, the income data and the net financial position are presented below divided by business segments.

SITUATION AT 12/31/2009 (in millions of euro)

	Tyre	Eco Technology	Real Estate	Broadband Access	Other *	Total
Net sales	**3,992.9**	**56.6**	**271.7**	**132.1**	**8.9**	**4,462.2**
Gross operating margin before restructuring expenses	538.0	(9.1)	(5.0)	5.3	(21.1)	508.1
of which property value adjustments	-	-	(7.9)	-	-	(7.9)
Operating income before restructuring expenses	345.5	(10.8)	(12.4)	4.5	(29.8)	297.0
of which property value adjustments	-	-	(7.9)	-	-	(7.9)
Restructuring expenses	(37.0)	-	(23.9)	(0.5)	(18.2)	(79.6)
Operating income	308.5	(10.8)	(36.3)	4.0	(48.0)	217.4
of which property value adjustments	-	-	(7.9)	-	-	(7.9)
Net income from equity investments	4.2	-	(45.1)	-	(15.8)	(56.7)
of which property value adjustments	-	-	(23.5)	-	-	(23.5)
Operating income including net income from equity investments excluding property value adjustments and before restructuring expenses			(26.1)			
Financial income/(expenses)	(76.1)	(2.5)	(15.6)	0.3	8.5	(85.4)
Income tax	(90.0)	(0.4)	(7.8)	0.3	-	(97.9)
Net income from continuing operations	146.6	(13.7)	(104.8)	4.6	(55.3)	(22.6)
Net income from discontinued operations	-	-	-	-	-	-
Net income	146.6	(13.7)	(104.8)	4.6	(55.3)	(22.6)
Net financial (liquidity)/debt position	**1,027.3**	**47.2**	**41.3**	**(35.7)**	**(551.3)**	**528.8**

SITUATION AT 12/31/2008 (in millions of euro)

	Tyre	Eco Technology	Real Estate	Broadband Access	Other *	Total
Net sales	**4,100.2**	**62.9**	**365.1**	**124.6**	**7.4**	**4,660.2**
Gross operating margin before restructuring expenses	441.2	(11.0)	(17.6)	4.8	(21.3)	396.1
of which property value adjustments	-	-	(9.3)	-	-	(9.3)
Operating income before restructuring expenses	250.7	(11.8)	(27.0)	3.9	(28.4)	187.4
of which property value adjustments	-	-	(9.3)	-	-	(9.3)
Restructuring expenses	(100.0)	-	(44.2)	-	-	(144.2)
Operating income	150.7	(11.8)	(71.2)	3.9	(28.4)	43.2
of which property value adjustments			(9.3)	-	-	(9.3)
Net income from equity investments	27.8	-	(168.5)	-	(225.8)	(366.5)
of which property value adjustments	-	-	(126.5)	-	-	(126.5)
Operating income including net income from equity investments excluding property value adjustments and before restructuring expenses			(59.7)			
Financial income/(expenses)	(82.8)	(1.6)	(26.0)	(2.6)	33.0	(80.0)
Income tax	(70.1)	0.2	(1.9)	0.7	(1.5)	(72.6)
Net income from continuing operations	25.6	(13.2)	(267.6)	2.0	(222.7)	(475.9)
Net income from discontinued operations	-	-	74.6	-	(11.2)	63.4
Net income	25.6	(13.2)	(193.0)	2.0	(233.9)	(412.5)
Net financial (liquidity)/debt position	**1,266.8**	**19.0**	**289.5**	**(15.0)**	**(532.6)**	**1,027.7**

* The item includes the environmental company, Ambiente (operating loss in 2009 of Euro 3.7 million compared with a loss of Euro 2.6 million in 2008), PZero S.r.l. (operativo loss in 2009 of Euro 3.8 million compared with a loss of Euro 3.9 million in 2008), all the financial companies (including the Parent Company), the other service companies and, as regards the item net sales , the eliminations on consolidation

NET SALES

Net sales in financial year 2009 amounted to Euro 4,462.2 million compared with Euro 4,660.2 million in the year 2008.
The percentage breakdown of net sales into business segment is as follows:

	2009	2008
Tyre	89.4%	88.0%
Eco Technology	1.3%	1.3%
Real Estate	6.1%	7.8%
Broadband Access	3.0%	2.7%
Other	0.2%	0.2%
	100%	**100%**

The consolidated change on a like-for-like basis broken down by business segment is as follows:

Tyre	- 1.6%
Eco Technology	- 10.0%
Real Estate	- 25.6%
Broadband Access	+ 6.0%
Group Total	**- 3.3%**
Foreign exchange effect	- 1.4%
High inflation effect	+ 0.5%
Total change	**- 4.2%**

OPERATING INCOME

The **operating income before restructuring expenses** amounted to Euro 297 million (of which Euro 7.9 million relating to property devaluations in Pirelli Real Estate) compared with Euro 187.4 million in the year 2008 (of which Euro 9.3 million relating to property devaluations in Pirelli Real Estate).

Restructuring expenses, of Euro 79.6 million, are associated primarily with the rationalization of Pirelli Tyre's staff structures and manufacturing base in Europe (Euro 37 million), the rationalization of Pirelli Real Estate's structures (Euro 23.9 million) and the reorganization of the corporate structures (Euro 18.2 million).

The **operating income** amounted to Euro 217.4 million compared with Euro 43.2 million in the previous year.

The change in relation to the single business segments is as follows:

(in millions of euro)

Operating income 2008		**43.2**
Tyre	94.8	
Eco Technology	1.0	
Real Estate	14.6	
Broadband Access	0.6	
Restructuring expenses	64.6	
Other	(1.4)	
Total		**174.2**
Operating income 2009		**217.4**

Noorda, poster, 1962

NET INCOME FROM EQUITY INVESTMENTS

Net income from equity investments, which includes the share of the net income of companies carried at equity, the effects of sales or impairment losses and dividends from unconsolidated equity investments, is negative by Euro 56.7 million, compared with a negative figure of Euro 366.5 million in the previous year.
Among the most significant events we can note the improvement in the proportions of net income of associates and joint ventures in relation to the Pirelli Real Estate Group, which went from a negative effect of Euro 168.5 million (of which Euro 126.5 million relating to property devaluations) to a negative amount of Euro 45.1 million (of which Euro 23.5 million relating to property devaluations).

In 2009 the amount also included the negative effect deriving from the sale of the remaining equity investment in Telecom Italia S.p.a. for Euro 17.5 million, while the net income for the previous year included also the negative value adjustment of the equity investment in listed companies (Telecom Italia S.p.A. of Euro 173 million, RCS MediaGroup S.p.A. of Euro 66 million and Avanex Corporation of Euro 24 million).

NET INCOME

Net income from continuing operations is negative by Euro 22.6 million compared with a loss of Euro 475.9 million in the previous year.
The figure for the previous year included **discontinued operations**, the net income of which (a positive Euro 63.4 million) related to the sale of the Photonics business
(negative Euro 11.2 million) offsetting the positive effect of the sale of the Facility Management business of Pirelli Real Estate (Euro 74.6 million).
Total net income is negative by Euro 22.6 million compared with a loss of Euro 412.5 million in the previous year.
The **total net income attributable to Pirelli & C. S.p.A.** is a positive Euro 22.7 million (Euro 0.004 per share), compared with a negative Euro 347.5 million in the year 2008 (negative Euro 0.065 per share).

EQUITY

Consolidated equity increased from Euro 2,374.4 million at December 31, 2008 to Euro 2,494.7 million at December 31, 2009.
Equity attributable to equity holders of Pirelli & C. S.p.A. as of December 31, 2009 is Euro 2,175 million (Euro 0.405 per share) compared to Euro 2,171.8 million (Euro 0.405 per share) at December 31st, 2008.

The change can be summarised as follows:

(in millions of euro)

	Group	Minorities	Total
Equity at 12/31/2008	**2,171.8**	**202.6**	**2,374.4**
Translation differences	40.7	(3.1)	37.6
Net income	22.7	(45.3)	(22.6)
Pirelli & C. Real Estate S.p.A. capital increase	(2.6)	165.5	162.9
Dividends paid	-	(2.3)	(2.3)
Tyre minorities acquisition	-	(4.3)	(4.3)
Adjustment to fair value of available-for-sale financial assets/derivatives	25.4	4.8	30.2
Share of other components recognised in equity related to associates and joint ventures	(1.3)	(0.4)	(1.7)
Net actuarial gains/(losses) on employee benefits	(77.2)	(0.3)	(77.5)
Other changes	(4.5)	2.5	(2.0)
Total changes	**3.2**	**117.1**	**120.3**
Equity at 12/31/2009	**2,175.0**	**319.7**	**2,494.7**

The statement of reconciliation between the Equity of the Parent Company Pirelli & C. S.p.A. and the Consolidated Equity attributable to the equity holders of the Parent Company is presented below, under the terms of the Consob Communication of the 28th of July 2006.

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

	Share Capital	Reserves	Income (loss)	Total
Equity - Pirelli & C. S.p.A. at December 31, 2009	**1,554**	**156**	**113**	**1,823**
Results for the year of consolidated companies (pre-consolidation adjustments)			62	62
Capital and reserves of consolidated companies (pre-consolidation adjustments)		1,504		1,504
Consolidation adjustments:				
- carrying amount of investments in consolidated companies		(1,232)		(1,232)
- intragroup dividends		201	(201)	-
- other		(31)	49	18
Consolidated equity - Group at December 31, 2009	**1,554**	**598**	**23**	**2,175**

NET FINANCIAL POSITION

The Group's net financial position went from a negative Euro 1,027.7 million at December 31, 2008 to Euro 528.8 million at December 31, 2009.

The change in the year can be summarised in the following cash flow:

(in millions of euro)

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009	2008
Operating income (EBIT) before restructuring expenses	50.3	72.0	82.8	91.9	297.0	187.4
Amortization & Depreciation	51.4	52.4	52.3	55.0	211.1	208.7
Property, plant and equipment and intangible assets	(42.9)	(37.4)	(32.0)	(115.5)	(227.8)	(378.2)
Change in working capital/other	(262.8)	96.7	84.4	357.5	275.8	(147.5)
Operating cash flow	**(204.0)**	**183.7**	**187.5**	**388.9**	**556.1**	**(129.6)**
Financial income/(expenses)	(20.2)	(19.2)	(13.6)	(32.4)	(85.4)	(80.0)
Income tax	(26.3)	(19.2)	(36.1)	(16.3)	(97.9)	(72.6)
Net operating cash flow	**(250.5)**	**145.3**	**137.8**	**340.2**	**372.8**	**(282.2)**
Impact of Speed S.p.A. acquisition	-	-	-	-	-	(835.5)
Financial investments/divestments	37.9	78.1	129.4	(26.3)	219.1	(11.7)
Dividends paid	-	(2.4)	-	-	(2.4)	(168.0)
Cash Out for restructuring expenses	(45.8)	(25.1)	(15.7)	(19.6)	(106.2)	(28.1)
Pirelli & C. Real Estate S.p.A. capital increase subscribed by minorities		-	167.4	-	167.4	-
Exchange differences/other	7.2	(24.6)	(2.7)	(131.7)	(151.8)	(4.3)
Net cash flow	**(251.2)**	**171.3**	**416.2**	**162.6**	**498.9**	**(1,329.8)**

The table below shows a breakdown of the net financial position by business segment:

(in millions of euro)

	Tyre	Real Estate	Other businesses	Corporate	Consolidated
Gross debt *	1,553	489	101	276	1,824
Financial receivables	(84)	(415)	(37)	(561)	(502)
Cash equivalents and securities held for trading	(442)	(33)	(4)	(314)	(793)
Net financial position	**1,027**	**41**	**60**	**(599)**	**529**
* of which due to Corporate	411	72	73		

The item "Other business" includes Pirelli Eco Technology, Pirelli Broadband, Pirelli Ambiente and PZero.

A breakdown of the structure of gross debt, divided by type and maturity, is shown below:

(in milioni di Euro)

	Financial Statements 12/31/2009	Maturity date			
		2010	2011	2012	2013
Utilization of committed lines	1,061	35	50	976	-
Other financing	763	283	100	143	237
Total gross debt	**1,824**	**318**	**150**	**1,119**	**237**
		17.4%	8.2%	61.3%	13.0%

At December 31, 2009 unused Committed credit facilities amounted to Euro 819 million.

INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT

Investments in property, plant and equipment amounted to a total of Euro 225 million, of which Euro 217 million in relation to the Tyre segment, with a ratio of 1.1 with respect to the amount of depreciation.

EMPLOYEES

At December 31, 2009 the Group had 29,570 employees (of which 2,245 temporary) compared with 31,056 on December 31, 2008 (of which 2,913 temporary).

	12/31/2009		12/31/2008	
GEOGRAPHICAL AREAS				
Europe:				
- Italy	4,454	15.06%	5,170	16.65%
- Rest of Europe	8,131	27.50%	9,079	29.23%
North America	230	0.78%	245	0.79%
Central and South America	11,754	39.75%	11,819	38.06%
Oceania, Africa and Asia	5,001	16.91%	4,743	15.27%
	29,570	**100.00%**	**31,056**	**100.00%**
BUSINESS SEGMENT				
Tyre	27,480	92.94%	28,601	92.10%
Eco Technology	284	0.96%	218	0.70%
Real Estate	1,139	3.85%	1,558	5.02%
Broadband Access	128	0.43%	113	0.36%
Other businesses	539	1.82%	566	1.82%
	29,570	**100.00%**	**31,056**	**100.00%**

Research and development activities

The Pirelli Group puts at the centre of its growth strategy the ability to innovate products and processes and to assess new opportunities that may arise from its continual research work.
Although it was a year that required close attention to costs, **expenses** on research and development work incurred by the **Group**, which were completely accounted for in the income statement, amounted to **Euro 137 million** with a ratio to sales of 3.1%, practically at the same level as in the previous year (3.3%).
The main businesses are concentrated in **Pirelli Tyre**, which in 2009 incurred **expenses of Euro 133 million**. This business is strongly focused on technological excellence and on continual innovation of processes and products, thanks to the constant Research & Development work carried out through a unit that employs more than 800 human resources.
The traditional focus on the development of new high-end products (UHP, winter, runflat, SUV and motorcycle tyres), was accompanied by increasing strategic attention on reducing the environmental impact, taking advantage of the most advanced technological components and know-how, the result of intense research work in the areas of materials, models, profiles, tread patterns and processes.

This “Green Performance” strategy involves 360° eco-innovation in technology:
— evolution of the MIRS, the Pirelli robotized tyre manufacture system; NEXT MIRS & PTSM (production plant for high-quality compounds with low energy consumption);
— new bio-materials, of organic origin, especially silica from rise chaff, with benefits as regards both the environment and costs. The development of "green performance" products

Noorda, cover of the magazine "Rivista Pirelli" n°3/1954

is envisaged for the different segments, reinforcing – in particular – the leadership already achieved in the Premium segment;
- technological partnerships with other protagonists in the industry. An example is the agreement signed with Brembo and Magneti Marelli for the Cyber Tyre, the tyre with a chip incorporated which will make a significant contribution in terms of safety and reduction of consumption. Pirelli has availed itself for some time of the contribution of some of the most prestigious players in the field of research: these include Ispra, Politecnico University of Milan, Politecnico University of Turin, the University of Berkeley, the University of Craiova, the Shandong University; developments in "open innovation" with: STM, Comau, Sinteco, Evotek and many other industrial partners;
- development of the technological and manufacturing hub of Settimo Torinese, with the aim of creating the most technologically advanced and efficient green tyre production facility in the group, as part of a process that ensures higher standards of efficiency and productivity for the factory (Green factory).

Thanks to the R&D work carried out in 2009, Pirelli confirms its leadership both in terms of performance and security, and of ecocompatibility, showing that it has taken on board the philosophy and guiding values of "Green Performance". Pirelli, in fact, obtained excellent results in the tests held at the beginning of 2010 by ADAC, the most important and prestigious Automobile Club in Germany and Europe, with more than 19 million members.
The results of the tests, which were also distributed through the Automobile Clubs of Austria and Switzerland (TCS and OAMTC), show that Cinturato P7 and P6 are extremely reliable and are therefore considered strongly recommended for users.
Under test conditions, Pirelli Cinturato P7 proves itself the best at combining high-level performance, both in the dry and in the wet, with low resistance to rolling, higher mileage and reduced sound emissions. This is the result of Pirelli's approach to "Green Performance" which has enabled the company to achieve a position of leadership combining safety, performance and ecocompatibility.
There were similar results for Cinturato P6 which not only came top in the tests, but is also the only tyre that can be classified in the Green Performance area.
In the field of open innovation (the work of technological collaboration between Pirelli, its suppliers, its technologically most significant customers and numerous Universities worldwide) there were important developments in 2009.
Brembo, Magneti Marelli and Pirelli began a technological cooperation aimed at developing avant-garde solutions for the Italian and international automotive industry.
Cyber Tyre, the smart tyre developed by Pirelli, will be integrated with Magneti Marelli electronic control systems and Brembo advanced braking systems for ad hoc technological solutions, to meet performance and safety needs of all user types.
The skills and excellence of the three Italian groups, recognised also at the international level, will make it possible to achieve significant synergies and develop applications in particular in the field of security systems for motor vehicles with the aim also of reducing environmental impact, in line with the evolution of international standards and with the new CO_2 emission limits envisaged by the European Union from 2012 onwards.
In 2009 a system based on Cyber Tyre - or "smart" tyre - concepts reached the engineering stage. The aim is to meet the requirements of new European legislation which prescribes the adoption of a tyre pressure detection system on all newly-homologated vehicles from 2012 onwards. This system differs from traditional valve-mounted pressure sensors in that it is powered by an innovative power generator patented by Pirelli, which uses the vibrations of the tyre and converts them into electricity, and in its ability to provide additional services such as an indication of the temperature of the compound, the load on each wheel and the number of rotations. This last information is used for the purposes of preventive maintenance of the tyres. The system is designed for cars and motorcycles, for a considerable increase in driving safety for all.

In 2009 a concrete collaboration also began with the Politecnico University of Turin as part of a project partially funded by the Piedmont Region, with the establishment of a joint research laboratory situated in the area of the Politecnico University of Turin, where a dozen or so researchers carry on their work on the subject of the Cyber Tyre (an advanced system for the

improvement of vehicle performance), for the development of electronic and application technologies underlying the operation of the system itself.
The other two areas covered by the collaboration are the NEXT MIRS & PTSM projects mentioned above.
As well as the joint activity of the pool of researchers, the programme also involves regular general meetings both at Pirelli and at the Politecnico University of Turin.
Numerous patents arising from this collaboration are being prepared.
The innovations resulting from this collaboration are also in the implementation stage at the New Industrial Hub of Settimo Torinese, one of the most modern and efficient tyre manufacturing plants in the world.
The Group also helps to fund a professorship in Mechanical Engineering.
The collaboration between Pirelli and the academic world also involves the University of Milan-Bicocca. In 2009 Pirelli also made available through Corimav (Consortium for advanced materials research) three study bursaries for PhD students of the School of Sciences, of which two for the study of photovoltaic applications and the third for technologies for particulate filters.
In 2009 the European Investment Bank (EIB) and Pirelli Tyre signed a loan agreement for 100 million euro granted by the EIB to support the Pirelli Group's projects in the area of research and development for the period 2009-2012.
The loan is to be used to sustain research and development work in the field of innovation of products and manufacturing processes with the aim also of reducing the environmental impact of tyres, improving performance and safety standards through the identification of innovative materials and components.
The project involves the work carried on at the various Pirelli research and development centres in Italy and abroad and was designed to make use of the credit facility of 200 million euro granted by the EIB last July.
The new loan consolidates the relationship between Pirelli and the EIB, which contributed already in the past to the group's constant commitment to innovation and to the development of its competitiveness worldwide.
In 2009 Unioncamere published a report on the patents and trademarks filed at the European Patent Office (EPO) between 1999 and 2006. Pirelli Tyre was among the 10 Italian firms that alone filed 3,000 patent applications in the period, representing 11.4% of the national total.

"For the great contribution of innovation to the business results, achieved through the integration of concepts and tools for innovation into the daily activity of its personnel at all levels of the organization" Pirelli Tyre was awarded the 2009 "Imprese per l'Innovazione" (Enterprises for Innovation) Prize in the context of the 2009 'National Innovation Awards' organized by Confindustria and given also to two other large companies and six small-medium enterprises. The Prize, launched by Confindustria in collaboration with APQI – Associazione Premio Qualità Italia (Quality Prize Italy Association) and with a number of experts in the different sectors, aims to promote knowledge and spread organizational and strategic models oriented to growth through innovation.
The prize, which was opened to large companies only in 2009, was recognized among the awards in the "Prize of Prizes" competition established in 2008 by the Prime Minister's Office to reward the best capacity for innovation of companies, universities, public administrations and bodies, or single inventors.
In the field of car tyres, in 2009 Pirelli's research and development work generated new green products: "Cinturato P7" (the green performance tyre for premium cars) and "Snowcontrol II" (the green performance tyre for the winter season).
Fuel consumption and harmful emissions are lowered by up to 4%, noise levels are reduced by 30%, braking distance is shortened, on wet and dry roads, by up to 2 metres. These are the 'green numbers' of Cinturato P7, the first ecological tyre for high-powered cars launched in April 2009 by Pirelli.
Chosen as original equipment by Alfa Romeo (159 Facelift, Nuova 147), Mercedes (E Class, S Class), Audi (A4, A4 Allroad, A5), BMW (X1, 1m Series, 3 Series), Volvo (C30, S40, V50, S80, V70, S60), Cinturato P7 anticipates European regulations on tyre eco-compatibility, in line with "green performance", the Pirelli Group's strategy for the next three years.

Dekra and TUV, the German independent quality certification bodies, have acknowledged that the tyres of the Cinturato family are those that, in their category, best combine safety, respect for the environment and road holding.
Later in 2009 Pirelli launched the winter tyre designed for city cars and mid-range cars, which combines safety, savings and ecology: Winter Snowcontrol Serie II.
Awareness on the part of drivers of the importance of the use of winter tyres has in fact grown, alongside the technological evolution of the products. Pirelli, in this sense, has always played a strategic role both in the promotion of a culture of road safety, and in the development of tyres capable of expressing at the same time performance, reliability, savings and eco-compatibility. Winter Snowcontrol Serie II is another step forward in this traditional commitment, extending to small and medium-sized cars – the fastest-growing market segment in Western Europe – the added values of the Winter Sottozero Serie II high-performance seasonal tyres, launched in 2008: low environmental impact and reduced consumption, but above all safety and comfort. The Ecoimpact icons - found on all Pirelli's new products - attest to this.
At the important SEMA show in Las Vegas, the annual exhibition devoted to the aftermarket business for cars and SUVs, Pirelli also presented two further product lines:
— PZero Trofeo, a racetrack tyre approved also for road use, deriving from technology developed in more than 100 years of winning in motor racing.
— Scorpion Verde All Season, the first green performance tyre for SUVs, Crossovers and Light Trucks; it offers improved braking performance in the wet, handling on dry and wet roads, traction on snow, reduced aquaplaning; moreover, reducing the rolling resistance, and the weight by 8%, Scorpion Verde All Season reduces CO^2 emissions.

Pirelli enjoys close relationships with many leading global motor manufacturers, for the purpose of supplying original equipment tyres but also fundamental for the development of new products and for the implementation of new technologies.
In development work the close collaboration with motor manufacturers is continuing. In 2009, Pirelli obtained, among other things, the following final approvals:
Porsche Panamera and Carrera 997, Audi A4, Daimler E-Class, Volvo XC60, Aston Martin V12 Vantage, BMW 1 series, 3 series, 7 series and X1, Lotus Evora, Bentley Mulsanne, Alfa Romeo Giulietta.
During 2009 the German specialized press named Pirelli as the winner with the Ultra High Performance P Zero tyre in tests carried out by Gute Fahrt, Auto Zeitung, Sport Auto, the Chrono Camper in tests by Pro Mobil, the P7 and the Cinturato P6 in the test by Auto Motor und Sport.
In 2009 Pirelli Tyre's research and development efforts brought significant results in the competitions: test benches for new technological solutions in limit conditions of vehicle use.
In Europe, Pirelli won various national Rally championships: Switzerland, the Netherlands, Austria, Great Britain, France, Italy.
It also dominated, finally, in various important competitions at the global level: Grand Am (USA), Ferrari Challenge, World Rally Championship, Le Mans 24 hours, Lamborghini Super Trofeo.
In 2009 Pirelli Moto launched Angel ST, the new radial tyre for touring motorcycles of the latest generations. The segment of application is Sport-Touring-Radial, a market which in Europe accounts for 1,300,000 tyres sold in the replacement channel and is the second segment in the order of volumes sold. In brief, Angel ST is a product designed for people who love to travel by motorcycle and that, at the right moment, do not want to miss the emotion of fast road riding.

In a world preview in 2009 Pirelli Moto also presented the new market leader for the coming 2010 season, the Diablo Rosso Corsa. Developed on tracks all over the world thanks to the know-how of the SBK World Championship, the new Diablo Rosso Corsa will be on sale from the start of 2010 to meet the needs of customers who have a sports bike in their garage with which they regularly ride on everyday roads, without saying no to a few laps on the track in the right season. The Diablo line, introduced in 2007 with the Diablo Rosso, is the most advanced Pirelli motorcycle tyre range not only in terms of performance, but also of style, image, prestige and exclusiveness. The Diablo Rosso Corsa is the only supersport tyre designed for combined road and track use that derives from WSBK technology. The new Pirelli tyre has become part of the Racing Street segment (tyres approved for road use) usable 30% on tracks and 70% on public roads, combining the strictly racing performance of Diablo Supercorsa SC with the su-

Noorda, back cover of the magazine "Rivista Pirelli" n°6/1954

persport performance of Diablo Rosso. The objective with this brand new tyre is to offer it to the public as the most versatile sports tyre on the market for extremely flexible road-racetrack use, combining the experience gathered from Pirelli's commitment to sporting competitions at the highest levels, to the EPT (Enhanced Patch Technology) engineering philosophy of the supersport road world and to process uniformity guaranteed by the manufacturing technology, which ensures high performance consistent over time.
The new Diablo Rosso Corsa thus represents an expansion of the Pirelli range to respond adequately to all the needs of the sporting motorcyclist, from road to circuit. A tyre, then, that take up a position in performance terms just below the most extreme Supercorsa tyres but which, in fact, has been created to replace the Diablo Corsa III tyres, launched in 2006 and currently still leaders in a slightly higher segment than that represented brilliantly by the Diablo Rosso.

Pirelli Tyre strengthened its commitment to the truck sector launching the R:01 Series onto the European market. This is a tyre for industrial vehicles in the regional sector. It has been developed by the Pirelli research centres to meet the requirements of professional operators in terms of tyre mileage, reduced consumption, retreadability and respect for the environment. Pirelli Tyre also presented to the international press the H88 Amaranto and G88 series - developed for long distance transport and yard vehicles respectively - and the ST: 01 series for trailers. Four products which have in common their extremely low operating cost, and which extend the Pirelli range designed for transport professionals in order to cover 80% of the European market in the fastest-growing sectors.
The Group also presented a new version of the Pirelli Retreading System.
This is based on three fundamental elements: the quality of tyre design and production, optimising the retreadability of the carcass; a network of Pirelli certified retreaders to extend the quality of the first life also to subsequent retreads; the renewed range of Novateck segments, the dedicated Pirelli trademark which, through original designs, covers the great majority of vehicle requirements for various purposes. The Pirelli Retreading System takes advantage of the quality of newly-generated carcasses to reduce mileage costs, lower total tyre running costs and reduce environmental impact.
The first products in the innovative 01 Series (available in the FR:01 version for the steering axle and TR:01 for the drive axle), are tyres developed for regional transport. Completely innovative in their structure, in their profiles and in the materials used, they are made with the SATT patented process, the most advanced truck tyre manufacturing technology.
R:01 is the starting point for developments in technology and use which will translate into new products in the near future, and is the most advanced tyre in the process of renewal of Pirelli's truck range.
In 2009, in fact, G88 and H88, for the sectors G-On/Off and H-highway respectively, have been successfully launched. These tyres are characterised by their low operating cost (high mileage, high retreadability, reduction of fuel consumption). The renewal of the Pirelli range was completed with the arrival of the new ST01, a trailer tyre, developed to maximise both duration, in terms of mileage, and retreadability, and to reduce fuel consumption.

As regards the other businesses, the activities carried out with the contribution of the Pirelli Labs can be summarised as follows:

PIRELLI & C. ECO TECHNOLOGY

In November a patent application was filed for an innovative catalytic system which uses no noble metals and is particularly effective in the oxidation of particulates.
A technical and economic feasibility study is continuing with regard to a process and the associated plant for the production of Biogenic Silicon Carbide (starting out from rice chaff as biomass) in collaboration with an external company.

PIRELLI BROADBAND SOLUTIONS

The work of integration of printed circuit antennas continued; the solution of a pair of antennas integrated into the ADSL modem/gateway was engineered and launched into the mass production stage. The stage of testing this solution produced good results.
Towards the middle of the year work began on developing and integrating printed circuit antennas into an IPTV decoder for cable digital television designed for an important Italian operator. The work, which is still at the design stage, will continue in the second half of the year and will be completed most likely with the production and sale of the system developed.
In the feasibility study for the creation of the packaging for the Set Top Box with plastic instead of lined metal, various commercial polymers obtained from renewable resources were examined with the aim of using them to obtain durable goods.

PIRELLI AMBIENTE

The design of a solar tracker for conventional photovoltaic modules was completed and prototyping is currently in progress; this will be followed by an ample stage of testing in the field. This solar tracker orients photovoltaic modules in the direction of the sun, maximizing the solar radiation falling on the modules, and thus increasing by approximately 40% the energy produced by the photovoltaic modules. This solution was the subject of a patent application.

Project for very highly efficient photovoltaic solar concentration

Photovoltaic solar concentration is widely considered a technology which - thanks to the very high efficiency and to the chance for significant reductions in the costs of both components and processes with respect to conventional photovoltaic technologies - could have a future also irrespective of government subsidies (such as the Italian energy account).
The technology is based on the possibility of focusing solar light on very small photovoltaic cells through the use of lens or mirrors; in this way the cell occupies an area 500-1000 times less than that required by photovoltaic cells with conventional technologies (flat silicon panels, thin film, etc..).
The main partners taking part in the project are Enea, the JRC-Ispra European Research Centre, and the Polytechnic of Catalonia through the CIMNE Consortium.
The first stage involves the creation of two complete prototypes: the first will be installed in Italy and its performance will be analysed in collaboration with Enea. The second will be located at Manresa, where an experimental field has been created with photovoltaic systems using different technologies. This last will be tested by the IREC, the Catalan agency for renewable energy.

PZERO

Support was provided to PZero both for the assessment of a number of technologies and in the search for suppliers and producers in the sector of accessories.
With a view to increasing the performance of PZero footwear in extreme weather conditions and, in particular, grip on wet or icy surfaces, work has begun on the research and characterisation of various materials that can be used to create soles for footwear.

Significant events subsequent to the end of the year

On **January 19, 2010** the Pirelli & C. S.p.A. Block Shareholders Agreement was renewed, with expiry on April 15, 2013. All the parties to the agreement signalled their intention to renew the agreement by January 15, 2010, the contractual deadline for any withdrawals.

Risks and uncertainties

The current macroeconomic situation is characterised by a series of factors of uncertainty associated mainly with the volatility of the financial markets, the trend in interest rates, the cost of raw materials, the unemployment rate, and the growing difficulties in obtaining credit. This context requires the adoption of rigorous business management models, which should make it possible to mitigate the uncertainties deriving from the limited forseeability of future events, influenced by often uncontrollable exogenous factors.

The market context, in which the Group works, entailed a profound review of the strategy and the preparation of an incisive action plan with the aim of ensuring the maximization of efficiency and competitiveness. The main strategic guidelines, the actions taken and the related financial resources available to implement them were announced on the occasion of presentation to the financial community of the 2009-2011 business plan.

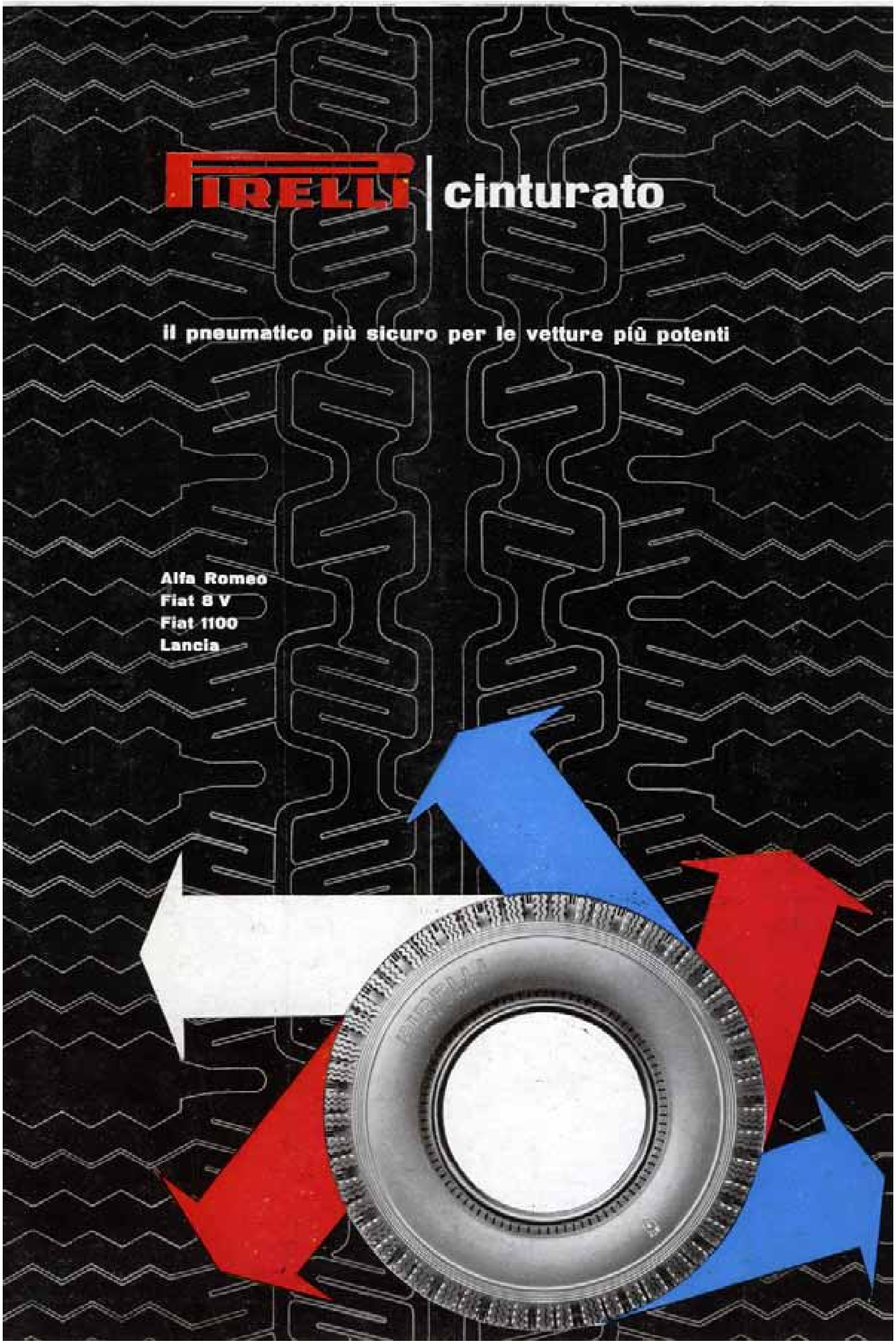
RISKS ASSOCIATED WITH THE BUSINESS IN WHICH THE GROUP OPERATES

As regards the **Tyre sector**, the results obtained in 2009 fully achieved the targets set for the first year in the 2009-2011 business plan, in a context of ongoing widespread macroeconomic difficulties.
The risks for continuation of the plan on the one hand concern the expected recovery of economic and productive activities in macroeconomic terms, especially in the Western markets, which, if it happens more slowly, could reduce the growth of turnovers in the industry: on this point however it must be stressed that the company's strategy, oriented in the Consumer segment to the production of "high range" goods and in the Industrial segment to focusing on emerging markets, attenuates this risk.
On the other hand the significant growth in the cost of raw materials, especially natural rubber, seen in the last few months, may cause in the first stage a partial reduction of absolute and percentage profitability, to the extent to which the disadvantage cannot be recovered immediately through the commercial lever of the price/mix and the internal lever of cost efficiencies.

As regards the **Real Estate Sector**, the main cases involved in the situations of uncertainty caused by the current macroeconomic context, are, in particular, the measurement of equity investments both in associated companies and joint ventures and in other companies, and of intangible assets (including goodwill).

In particular, the profitability envisaged in the new 2009-2011 business plan takes into account the macroeconomic scenario of reference for the property market.

With particular reference to the Italian real estate market, also during 2009, there was a gradual decline in the main indicators: number of transactions, average time to completion of rentals, sales and lending transactions. Property market operators expect 2010 to be difficult but characterized by a slow recovery of transactions in the residential market and substantial stability in other markets, confiding also in the economic policy decisions that had been taken by governments and central banks.



Noorda, announcement, 1955

Offsetting all of the above there are however both structural and economic/financial aspects characterising the Italian real estate sector which, unlike in other European countries, could help to revive the market:

1. the low rate of growth of the available stock of new spaces, that has characterized the last few years, means that in Italy there is no excess supply as is the case in other countries such as Spain and the United Kingdom;
2. the low rate of indebtedness of Italian families compared with those of other countries, which makes the Italian banking system more solid, should help to sustain the propensity to consume and, therefore, the sustainability of rents for commercial businesses;
3. the substantial reduction in the cost of money, with the return of the Euribor to the levels of 2002, will contribute to the sustainability of borrowing costs for real estate investment operations;
4. investment in real estate is perceived as inherently defensive and less risky, in particular during periods of economic uncertainty.

In this scenario it is therefore possible for prices and values to encounter a period of particular volatility until the market recovers conditions of stability.
This scenario led the Company to consider the potential of every single initiative and to continue in the process of revision of the structure of operating costs and of internal reorganization, which has already begun in 2008.

Although in a difficult economic and financial context which determined a slowdown in the global economy, with particularly accentuated effects in the real estate sector, and which consequently also affected the consolidated net income for the financial year 2009, the Company believes that, as matters stand, there are no factors that might jeopardise the company's ability to continue as an ongoing concern in consideration of the success of the share capital increase completed in July 2009, of the obtainment from eight leading financial institutions of a "committed" credit facility more adequate to the new business needs of the Company, and of the actions in progress and planned.
The market context in which the Real Estate Group works entailed, however, a profound review of the strategy with a strong objective focused on the "core" businesses and in particular on fund management, and the preparation of an incisive action plan with the aim of ensuring the maximization of efficiency and competitiveness.

As far as the **Particulate Filter business** is concerned, the main risk lies in the speed of growth in demand in the markets where the group operates, which depends on the definition of specific regulations, and on the ability to obtain the approvals needed for its products.

FINANCIAL RISKS

As reported also in the notes to the consolidated financial statements, the Group is exposed to risks of financial nature, associated mainly with trends in exchange rates, the procurement of financial resources on the market, the fluctuation of interest rates, and the ability of its customers to fulfil their obligations towards the Group.
Management of financial risks is an integral part of management of the Group's businesses and is carried out centrally on the basis of guidelines defined by the General Management. These guidelines define the risk categories and for each type of transaction and/or instrument, they specify the procedures and operational limits.

Exchange rate risk

The different geographical distribution of the manufacturing and commercial businesses of the Group entails an exposure to exchange rate risk. This risk is managed by the Group Treasury which, coordinating its work with the corresponding functions of the Segments, collects information on the positions subject to the exchange rate risk, assesses and manages the net position for each currency. It does this in accordance with the guidelines and the constraints laid down, by the trading on the market of derivative hedging contracts, typically futures contracts, with the aim of minimizing the effects of this type of risk.

Liquidity Risk

The main instruments used by the Group to manage the risk of insufficiency of financial resources available to fulfil its financial and commercial obligations within the set terms and deadlines are annual and three-year financial plans and treasury plans, which enable complete and correct detection and assessment of cash in-flows and out-flows. The differences between the plans and the final balances are constantly analysed.

Prudent management of the risk described above requires the maintenance of an adequate level of cash equivalents and/or easily-cashable short-term securities, the availability of funds obtainable through an adequate amount of committed credit facilities and/or the ability to close open positions on the market. Owing to the dynamic nature of the business in which it operates, the Group prefers flexibility in sourcing funds, resorting to committed credit facilities.
The Group has implemented a centralized system for the management of collection and payment flows in accordance with the various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short- and medium-term financial needs at the lowest possible cost. The procurement of medium/long-term resources on the capital market is also optimized through centralized management.

Interest rate risk

The Group's policy is to attempt to maintain a correct proportion between indebtedness at fixed and variable interest rates.
The Group manages the risk of an increase in interest rates associated with indebtedness at a floating rate through indirect offsetting with financial receivables at a floating rate and, for the net amount, through recourse to derivative contracts, normally interest rate swaps and interest rate collars with the aim, as part of the correct mix mentioned above, to protect itself against an excessive rise in interest rates.

Price risk associated with financial assets

The Group is exposed to price risk only as regards the volatility of financial assets such as listed and unlisted shares and bonds, listed real estate funds and unlisted closed-end real estate funds.

Credit risk

Credit risk relates to the Group's exposure to potential losses deriving from the non-performance of obligations assumed by both trade and financial counterparties.
In order to limit this risk where trade counterparties are concerned, the Group has put in place procedures for evaluating its customers' potential and their financial solidity, for monitoring expected incoming cash flows, and for recovering credit.
The aim of this procedure is to establish customer credit limits, which if exceeded result in a suspension of further sales.
In some cases customers are asked to provide guarantees. These are mostly bank guarantees, issued by subjects with excellent credit or personal standing. Less frequently mortgage guarantees may be requested.
Another instrument used for the management of commercial credit risk is the purchase of insurance policies with the aim of preventing the risk of non-payment through a careful selection of the customer portfolio carried out together with the insurance company, which undertakes to guarantee compensation in the event of insolvency.

As regards the financial counterparties used for managing temporary surplus cash or for trading in derivatives, the Group uses only operators with high credit standing.
The Group does not show significant concentrations of credit risk.

RISKS ASSOCIATED WITH HUMAN RESOURCES

The Group is exposed to the risk of loss of key resources which might therefore determine a negative impact on future results. To guard against this risk, the Group has adopted bonus policies which are regularly reviewed on the basis also of the general macroeconomic context. Moreover, the effectiveness of any restructuring measures that entail staff cuts could be limited by the legislative constraints and trade union agreements existing in the various countries in which the Group operates.

COUNTRY RISK

The Group operates in countries such as Venezuela, Argentina, Brazil, Turkey, China and Egypt, in which the general political and economic context and the tax regime applied may in future prove unstable.

RISKS ASSOCIATED WITH ENVIRONMENTAL ASPECTS

The activities and products of the Pirelli Group, a multinational which does business all over the world, are subject to many different environmental laws depending on the specific features of the various countries.
These laws share in any case a tendency to evolve in an increasingly restrictive manner, also because of the growing commitment of the international community to environmental sustainability.
We can therefore expect a gradual introduction of stricter laws in relation to the various environmental aspects on which businesses may have an impact (use of water, emissions into the atmosphere, generation of waste, effects on the soil, effects of products on the living environment, etc.), owing to which the Pirelli Group expects to have to continue to make investments and/or to incur costs that may be significant.

Business outlook

In 2010 the Group will concentrate further on its core business, increasingly becoming a 'Pure Tyre Company' with an absolutely leading position in 'Green Performance'.

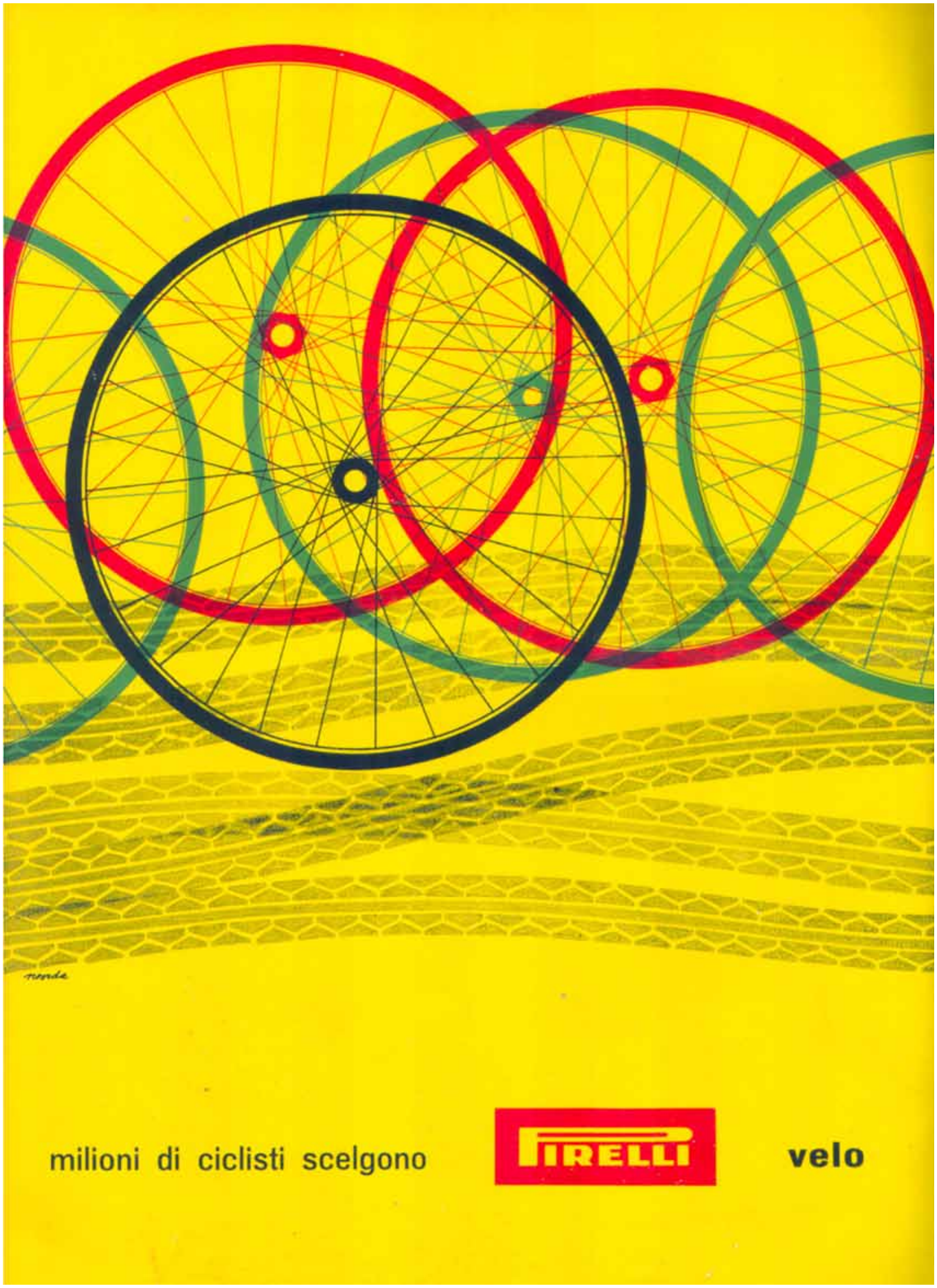
— In the "**Tyre and Parts**" area (tyres and filters) further strengthening is expected, on the basis of the results achieved in 2009. For the **Tyre** business, in particular, ongoing growth is expected with an approach differentiated between Consumer and Industrial, further improvement of competitiveness on costs and an acceleration of investments, in order to increase manufacturing capacity in particular in emerging markets that present higher growth rates and lower industrial costs. During the financial year **investments of more than 300 million euro are planned with a ratio of investments to depreciation of 1.6 (up from 1.1 in 2009)**. On the cost front the continuation of the efficiency plan, already launched in the previous year, has the aim of achieving savings in 2010 of more than 60 million euro (before the effect of raw material price increases). The signs of market recovery, above all in the Consumer segment, enable us to forecast **an increase in revenues of between 6% and 8% and an EBIT margin roughly in line with that of 2009**, taking into account the impact of increases in the prices of raw materials, especially natural rubber. For the **Filters** business (Pirelli Eco Technology) the geographical diversification and above all the application of stricter laws on the limitation of traffic pollution are good grounds for aiming at **double-figure growth in revenues, break-even at the operating level (EBIT) and positive cash generation**.

— For the "**other businesses**", mainly Pirelli Ambiente and PZero, we plan to seize new growth opportunities. In particular, the PZero project offers the opportunity to increase further the value of the brand. For 2010 these businesses aim to **reach their break-even point at the level of operating income**.

— **Pirelli Real Estate** expects in 2010 to further consolidate its leadership in Fund Management in Italy, to continue focusing on services in order to increase recurrent revenues and to maintain careful financial discipline. For **service activities an operating income of between +20 and +30 million euro is expected**. The target envisaged for sales of properties by the end of 2010 is between 1.3 and 1.5 billion euro, maintaining total assets under management substantially stable. The 2011 targets are also confirmed and in particular the achievement of net income of 50 million euro from the service businesses.

At **the group level the forecast for revenues is approximately 4.7-4.8 billion euro and the EBIT margin is expected to come out at between 6.5% and 7%**. The actions taken to rationalize and simplify the corporate organizational structure, announced last September, will also enable the achievement of savings of approximately 10 million at the level of gross operating margin (EBITDA), after the financing of the already announced management bonus plans. **The target for consolidated net indebtedness at the end of 2010 is approximately 700 million euro** after payment of 81.1 million euro for dividends payable on financial year 2009.

Pirelli will present the new 2011-2013 three-year plan to the financial community by the end of 2010.



Bob Noorda, advertising campaign layet tyre, 1955

Pirelli Tyre

The table below shows a summary of the main consolidated results for financial year 2009, compared with the corresponding period of 2008:

(in millions of euro)

	12/31/2009	12/31/2008
Net sales	3,992.9	4,100.2
Gross operating margin before restructuring expenses	538.0	441.2
% of net sales	13.5%	10.8%
Gross operating income before restructuring expenses	345.5	250.7
% of net sales	8.7%	6.1%
Restructuring expenses	(37.0)	(100.0)
Operating income	308.5	150.7
% of net sales	7.7%	3.7%
Net income from equity investments	4.2	27.8
Financial income/(expenses)	(76.1)	(82.8)
Income tax	(90.0)	(70.1)
Net income	146.6	25.6
% of net sales	3.7%	0.6%
Net financial (liquidity)/debt position	1,027.3	1,266.8
Net operating cash flow	395	(171.0)
Investments in property, plant and equipment	217	285
R&D expenses	133	145
% of net sales	3.3%	3.5%
Employees (number at end of period)	27,481	28,601
Industrial sites no.	20	21

Net sales in financial year 2009 came out at 3,992.9 million euro, down 2.6% compared with the same period of the previous year.

The like-for-like change, excluding the effect of fluctuations in exchange rates and of the application of accounting for hyperinflation in the Venezuelan subsidiary, was a drop of 1.6%, with a negative change in volumes (-5.8%) partially offset by the change in the price/mix (+4.2%).

Exchange rates had a negative effect of 1.6%, and the effect of restating the figures for the Venezuelan subsidiary resulting from the application of the principles for hyperinflation was a positive 0.6%.
Sales in fourth quarter 2009 confirmed the positive trend compared with the same period in the previous year, already seen in the third quarter, with an overall positive change of 13.9% in like-for-like terms.

The table below summarises the individual components of the changes in sales in 2009, detailing the trend in each quarter:

	Q1	Q2	Q3	Q4	2009
Volumes	-18.1%	-13.3%	-3.3%	15.6%	-5.8%
Prices/Mix	6.9%	5.6%	4.7%	-1.7%	4.2%
Change on a like-for-like basis	**-11.2%**	**-7.7%**	**1.4%**	**13.9%**	**-1.6%**
Foreign exchange effect	-2.7%	-1.5%	-3.3%	2.0%	-1.6%
High inflation	-	-	-	2.8%	0.6%
Total change	**-13.9%**	**-9.2%**	**-1.9%**	**18.7%**	**-2.6%**

The contraction of sales was concentrated in the Industrial segment (-10.3%), while in the Consumer segment there was slight overall growth (+0.9%): this determined an increase, in terms of sales, of the proportion of the Consumer segment (71% compared with 68%), with a consequent reduction in the Industrial segment (29% compared with 32%).

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

GEOGRAPHICAL AREA

	2009	2008
Italy	9%	9%
Rest of Europe	33%	36%
North America	8%	7%
Central and South America	34%	33%
Africa, Asia, Pacific	16%	15%

PRODUCT CATEGORY

	2009	2008
Car tyres	63%	60%
Tyres for industrial vehicles	27%	29%
Motovelo tyres	8%	9%
Steelcord / other tyres	2%	2%

There was confirmation, in a year with a market scenario of recession above all in the mature markets, of a percentage reduction in the proportion of turnover in Europe compared with 2008 (from 45% to 42%), owing chiefly to the reduction of volumes in the Original Equipment channel. As regards the figure for North America it must be remembered that the amounts were affected positively also by the revaluation of the average exchange rate in the period of the US Dollar to the euro compared with the same period of 2008.

As regards **operating income for financial year 2009**, the following table shows the quarterly and cumulative trend compared with the corresponding periods of the previous year:

(in millions of euro)

	Q1		Q2		Q3		Q4		Cumulative	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Net sales	926.9	1,076.9	989.0	1,089.4	1,042.7	1,062.9	1,034.3	871.0	3,992.9	4,100.2
% change	-13.9%		-9.2%		-1.9%		18.7%		-2.6%	
Gross operating margin before restructuring expenses	107.8	151.0	133.0	135.5	142.0	91.8	155.2	62.9	538.0	441.2
% of net sales	11.6%	14.0%	13.4%	12.4%	13.6%	8.6%	15.0%	7.2%	13.5%	10.8%
Operating income before restructuring expenses	61	102.8	85.5	88.2	94.3	40.8	104.7	18.9	345.5	250.7
% of net sales	6.6%	9.5%	8.6%	8.1%	9.0%	3.8%	10.1%	2.2%	8.7%	6.1%
Operating income	57.5	100.3	79.3	85.7	85.9	14.1	85.8	(49.4)	308.5	150.7
% of net sales	6.2%	9.3%	8.0%	7.9%	8.2%	1.3%	8.3%	-5.7%	7.7%	3.7%

Net income in fourth quarter 2009 was up compared both with the same period last year, and with the previous quarters and specifically:
— the total **gross operating margin before restructuring expenses** was 155.2 million euro (15.0% on sales), more than double compared with the same period of 2008 (Euro 62.9 million with a ratio on sales of 7.2%);
— **operating income before restructuring expenses** reached Euro 104.7 million (10.1% on sales), higher than in the corresponding period of 2008 when it amounted to Euro 18.9 million (with a ratio on sales of 2.2%).

The positive change in **operating income in fourth quarter 2009** was mainly due to:
— continuation of the positive impact deriving from the reduction in the cost of raw materials for an amount of Euro 81.5 million, after that of Euro 18.0 million already recorded in the second quarter and Euro 36.5 million recorded in third quarter 2009;
— confirmation of the benefits deriving from the restructuring measures implemented;
— a change in the direction of the trend in volumes, compared with the corresponding periods of the previous year, with a positive impact of Euro 30.8 million.

Progressively for the **whole of 2009** the **gross operating margin before restructuring expenses** was Euro 538.0 million (13.5% on sales), up Euro 96.8 million over the corresponding period of 2008, when it amounted to Euro 441.2 million (with a ratio on sales of 10.8%).

Operating income before restructuring expenses for financial year 2009 came to Euro 345.5 million (8.7% on sales), an improvement of Euro 94.8 million compared with the corresponding period of 2008 when it amounted to Euro 250.7 million (with a ratio on sales of 6.1%). The change in operating income before restructuring expenses for financial year 2009 compared with the previous year in the various periods can be summarized as follows:

The change in **operating income before restructuring expenses for financial year 2009** compared with the previous year in the various periods can be summarized as follows:

(in millions of euro)

	Q1	Q2	Q3	Q4	2009
2008 operating income before restructuring expenses	**102.8**	**88.2**	**40.8**	**18.9**	**250.7**
Foreign exchange effect	(1.6)	1.4	(3.1)	0.4	(2.9)
Prices/mix	43.0	35.6	39.1	(23.3)	94.4
Volumes	(28.7)	(46.1)	(12.7)	30.8	(56.7)
Cost of production factors (raw materials)	(37.3)	18.0	36.5	81.5	98.7
Cost of production factors (labour/energy/others)	(16.6)	(4.2)	(18.5)	(4.8)	(44.1)
Efficiencies	(1.2)	4.8	16.7	15.3	35.6
Amortization, depreciation and other (*)	0.6	(12.2)	(4.5)	(14.1)	(30.2)
Change	**(41.8)**	**(2.7)**	**53.5**	**85.8**	**94.8**
2009 operating income before restructuring expenses	**61.0**	**85.5**	**94.3**	**104.7**	**345.5**
* of which fixed from/to stock	(2.7)	(5.1)	(10.1)	(1.9)	(19.8)

The price\mix variant and the efficiencies achieved – which were even more important because they were obtained despite a business scenario characterized by periods of overcapacity, in addition to the positive trend in the costs of factors of production, in particular thanks to the reduction in the cost of raw materials, made it possible to improve in absolute terms the results achieved progressively in 2008, more than offsetting the negative effect of the reduction in sales volumes.
As far as restructuring work is concerned, Pirelli Tyre continued the actions planned, in the context of the ongoing process of increasing efficiency, improving the industrial framework, and adjusting the overheads structure to the new market scenario.
The actions were essentially focused on the reduction of 15% of workforces in Western Europe by the end of 2009, including the decision to halt definitively in December 2009 the production of tyres at the factory in Manresa, Spain, which had already been reduced by 40% from February onwards.
Therefore the internal efficiencies involving labour costs, together with all those deriving from the work done on the use of materials and on the procurement process and with the advantage obtained on the cost of raw materials before the exchange rate effect (greater than the advantage envisaged at start of the year), made it possible to obtain overall in the year a positive effect on the costs greater than the targets envisaged for the first year of the Business Plan.

Operating income for financial year 2009 was Euro 308.5 million, an improvement over the result for the corresponding period of 2008, when it amounted to Euro 150.7 million euro, with a ROS (ratio between operating income and sales) of 7.7%, a figure that amply reached the profitability target indicated in the first year of the Business Plan.

Total net income for financial year 2009 was Euro 146.6 million (after financial expenses and net income from equity investments of Euro 71.9 million and income taxes amounting to Euro 90.0 million) and compares with a figure for the previous year of Euro 25.6 million (after financial expenses and net income from equity investments of Euro 55.0 million and income taxes amounting to Euro 70.1 million).
It should be recalled that the result for last year benefited from a positive impact of Euro 27.3 million in relation to the purchase of most of the minority interests in subsidiaries in Turkey, deriving from the negative difference between the purchase price and the equity acquired; in the first quarter of this year the purchase of the remaining minority interests in subsidiaries in Turkey was substantially completed, at a cost of Euro 4 million, and with a further positive impact on net income from equity investments of Euro 3.4 million.

The **net financial position** showed debts of Euro 1,027.3 million, down by Euro 239.5 million euro compared with December 31, 2008 and with Euro 271.3 million compared with September 2009.

The change is summarised below:

(in millions of euro)

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009	2008
Operating income (EBIT) before restructuring expenses	61.0	85.5	94.3	104.7	345.5	250.7
Total amortization & depreciation	46.8	47.5	47.7	50.5	192.5	190.5
Investments in Property, plant and equipment/Intangible assets	(36.8)	(27.6)	(33.2)	(119.8)	(217.4)	(294.2)
Change in working capital/other	(255.4)	77.4	109.6	309.3	240.9	(165.1)
Operating cash flow	**(184.4)**	**182.8**	**218.4**	**344.7**	**561.5**	**(18.1)**
Financial expenses/tax expenses	(46.4)	(40.0)	(49.2)	(30.5)	(166.1)	(152.9)
Net operating cash flow	**(230.8)**	**142.8**	**169.2**	**314.2**	**395.4**	**(171.0)**
Dividends paid	(0.2)	(66.3)	-	-	(66.5)	(93.2)
Acquisition of Speed S.p.A.	-	-	-	-	-	(409.0)
Purchase of minorities in Turkey and asset sales	11.0	-	-	-	11.0	(32.3)
Cash out for restructuring expenses	(39.0)	(8.3)	(7.4)	(7.7)	(62.4)	(15.3)
Exchange differences/other	4.0	(13.4)	6.6	(35.2)	(38.0)	13.6
Net operating cash flow	**(255.0)**	**54.8**	**168.4**	**271.3**	**239.5**	**(707.2)**

Fundamental factors in the good result achieved, in addition to higher income, were continual efficiency in the management of working capital, especially on the asset side in relation to inventories and receivables, and the careful selection of investment activities in a year characterized in part by underuse of manufacturing capacity.

The criterion for the determination of **industrial sites** was reviewed, considering as a single site situations where different products are manufactured at the same place.
The 2008 figure was therefore restated as 21, because the Steel Cord facilities in Turkey and Romania were included in the tyre production site.
At the end of 2009 there are 20 industrial sites following the closure of the manufacturing activities of the Spanish subsidiary and they are divided as follows:
— Bollate (Italy), production of Car tyres
— Settimo Torinese (Italy), production of tyres for Industrial Vehicles
— Settimo Torinese (Italy), production of Car tyres (during 2010 this will be incorporated in the site producing tyres for Industrial Vehicles)
— Figline Valdarno (Italy), production of Steel Cord
— Breuberg (Germany), production of Car and Motorcycle tyres
— Merzig (Germany), production of Steel Cord
— Burton (UK), production of Car tyres
— Carlisle (UK), production of Car tyres
— Izmit (Turkey) production of tyres for Cars and Industrial Vehicles and Steel Cord
— -Slatina (Romania) production of tyres for Cars and Industrial Vehicles and Steel Cord
— Alexandria (Egypt), production of tyres for Industrial Vehicles
— Rome (USA), production of Car tyres
— Merlo (Argentina), production of Car tyres
— Campinas (Brazil), production of Car tyres
— S. André (Brazil), production of tyres for Industrial Vehicles
— Feira de Santana (Brazil), production of tyres for Cars and Industrial Vehicles
— Gravatai (Brazil), production of tyres for Industrial Vehicles and Motorcycles
— Sumaré (Brazil), production of Steel Cord
— Guacara (Venezuela), production of Car tyres
— Yanzhou (China), production of tyres for Cars and Industrial Vehicles.

Investments amounted to Euro 217 million (Euro 285 million in 2008). These investments were aimed at increasing manufacturing capacity in "low cost" and emerging countries, increasing high-range production, developing innovative processes, launching new "Green Performance"

products and at improvements in the fields of the health and safety of workers and environmental management of factories.
In relation to the single businesses, as regards the production for **Cars**, plans to increase manufacturing capacity in the high-range segment were carried forward in Europe and the investments begun in Romania, China and Brazil were consolidated. Actions continued on technological and qualitative product improvements, and the prototype line of the innovative "Next Mirs" process was launched for the production of high-range tyres. Work also began on construction of the new Technological Hub at Settimo Torinese.
As regards the **Autocarro All Steel business**, manufacturing growth was consolidated in Turkey and Egypt and projects began for further growth in Brazil and Egypt.
In the field of innovative processes, the installation continues of machinery for the manufacture of products with SATT technology (Spiral Advanced Technology for Trucks), deriving from MIRS technology.

At December 31, 2009, there were 27,481 **employees**, including 1,997 temporary workers and 126 supply workers.
Compared with December 31, 2008, there was a sharp reduction of 1,120 units of which 89 members of management and clerical staff and 1,031 factory workers.

At December 31, 2009, the workforce (excluding workers with temporary contracts) is divided as follows:

	2009	2008
Executives	0.9%	0.9%
Clerical staff	18.9%	19.3%
Factory workers	80.2%	79.8%
	100,0%	**100,0%**

Business Consumer

The table below shows the consolidated economic and financial results obtained in fourth quarter 2009 and the total figure for the year, and comparisons with the corresponding periods of 2008:

(in millions of euro)

			Cumulative	
	Q4 09	Q4 08	2009	2008
Net sales	719.8	593.6	2.827.8	2.801.5
Delta for year over previous	21%		1%	
Gross operating margin before restructuring expenses	111.5	32.8	379.7	281.9
% of net sales	15.5%	5.5%	13.4%	10.1%
Operating income before restructuring expenses	73.2	0.1	233.7	139.1
% of net sales	10.2%	-	8.3%	5.0%

In **financial year 2009** sales of the Consumer segment totalled Euro 2,827.8 million (+0.9% from 2008); the gross operating margin before restructuring expenses amounted to Euro 379.7 million, or 13.4% of sales (+34.7% from 2008), while operating income before restructuring expenses reached Euro 233.7 million, with a return on sales of 8.3%, compared with 139.1 million euro achieved in the corresponding period of 2008 (5.0% on sales).

Fourth quarter 2009 saw sales of Euro 719.8 million (+21.2% from the same period of 2008), with profitability significantly higher than in the previous year both in absolute terms (operating income of Euro 73.2 million compared with Euro 0.1 million, both before restructuring expenses) and in percentage terms, with a return on sales of 10.2% (none in the same period of 2008).

With reference to sales, the positive organic change in the fourth quarter (+15.5%) was entirely attributable to the recovery of volumes compared with the same period of the previous year, while at the progressive level the organic change was a positive 1.2% with the contribution of the price/mix lever (+3.9%) completely offsetting the decline in volumes in the year (-2.7%), a decline concentrated in the first half of the year.
Positive elements which determined the substantial improvement of the levels of profit in the fourth quarter were the positive effect of volume, the benefit deriving from the reduction in raw material costs, the actions for efficiency and improvement of the competitive framework facilitated by the greater use of manufacturing capacity. This was in the presence of a price/mix change which was negative in the quarter, not so much compared with previous periods of 2009, as with the last quarter of the previous year, owing substantially to the basis for comparison of the same period which was characterized by the sharp drop in sales to Motor Manufacturers both in Europe and in South America (crisis of the automobile industry that began in the last quarter of 2008) together with an accentuation of the increase in prices at the same time as the peak recorded by the increase in raw material costs.
In particular at the level of the market in the **Original Equipment** channel positive growth rates were recorded compared with the last quarter of 2009, of +18% in Europe, +2% in North America, +44% in the Mercosur area.
In 2009 the market however recorded significant falls compared with 2008: -12% in Europe, -32% in North America, -1% in the Mercosur.
In the **Replacement** channel, in the fourth quarter the market grew in comparison with the corresponding period of 2008 in all areas, with Europe +12% (with a positive progressive trend in the winter segment, thanks to the destocking process seen at the end of the last season), North America +8%, and significant growth again in the Mercosur area with +18%; in the year as a whole there was little change in Europe, -3% in North America and a 7% increase in the Mercosur area.
The positive performance in volume terms was determined also by the growth in market share in all areas, with the exception of Russia.
As regards **Motorsport** activities, in 2009 Pirelli Tyre consolidated its presence as exclusive supplier of the prestigious American series Rolex Grand Am and in the World Rally Championship (WRC), where Pirelli was the first to introduce “green A.O.F. (Aromatic Oil Free)” tyres already in 2008. In the FIA-GT international championship, we can note the second place in the GT2 class (with BMS-Scuderia Italia) at the Le Mans 24h and the supply to various national single-tyre championships (French GT FFSA Championship, Italian GT Championship, GT UK, GT Scandinavia, GT Brazil).
Pirelli is also the exclusive supplier of competition tyres for the Ferrari Challenge championships in Italy, Europe and the United States and of the Lamborghini Super Trofeo at the European level.
Confirming its presence on new markets, Pirelli Tyre was made the exclusive supplier of the WV Scirocco Cup in China and of the Lumina Cup in the Middle East.
Pirelli was confirmed as the leader in rallies in Europe winning the Italian championship with P. Andreucci, the Swiss championship with F. Gonon, the Austrian championship with R. Baumschlager and the German championship with H. Gassner Jr. Other important results arrived in Group N of the Chinese Rally Championship, in the FIA Asia-Pacific Championship where Pirelli won the title again with C. Crocker in a Subaru Impreza and in the FIA Middle East Championship with N. Al-Attiyah.
Pirelli was reconfirmed as single-tyre supplier in the British Rally Championship, the Swedish Rally Championship, the Finnish Rally Championship, the Argentinean Rally Championship and the Codasur Rally Championship.
The programme continued for selection of the most promising young pilots worldwide (5 teams), who in 2010 will take part in the Pirelli Star Driver project, the races of which will be held on the occasion of a number of World Championship rallies in Europe.

Among the new products developed in 2009 the PZero™ Trofeo represents the state of the art of "racing for fun" ensuring exciting performance with a “green AOF” tyre.

Sales of **Motorcycle** tyres declined in 2009, owing to a contraction of the reference markets. The Original Equipment channel was profoundly affected, above all in South America, by the squeeze on consumer credit owing to the financial crisis which resulted in a drastic reduction in registrations of new motorcycles.
In the Replacement channel too the market was difficult in Europe and North America, while volumes were positive in South America and the Asia-Pacific area.
In 2009, confirming Pirelli’s technological leadership, important new approvals were also obtained, thanks to the new tyres launched on the market during the year.
For the Pirelli brand, Aprilia: Mana 850 and Mana GT with Shiver 750 and Shiver GT with Angel ST; Ducati: 1198 S & R with Diablo Supercorsa SP, Multistrada B S T with Scorpion Trail, Street Fighter B & S and Monster 1100 S with Diablo Rosso Corsa, Hypermotard 796 and 1100 EVO and also Monster 1100 B with Diablo Rosso, Hypermotard EVO SP with Diablo Supercorsa SP, Monster 696 B & S with Angel ST; Kawasaki: New Z1000 with Diablo Rosso; KTM: RC8 with Diablo Rosso; MV Agusta: F4 with Diablo Supercorsa SP, Brutale 990 with Diablo Rosso.
For the Metzeler brand, Aprilia RSV4R 1000 with Metzeler K3 Interact, BMW: F 650 GS with Tourance EXP, R 1200 R with Roadtec Z6 Interact, S 1000 RR and HP2 Sport with Racetec K3 Interact; Triumph: New Rocket Base & Touring and New America with ME880; Yamaha: new X-MAX 125/250 with Feel Free; Honda: VT750S and VT1300CX (Fury) with ME880 Marathon.
For Pirelli 2009 was a year full of success on all racetracks. Participation as the sole supplier of the World Superbike series, in which as many as 7 manufacturers took part (Aprilia, BMW, Ducati, Honda, Kawasaki, Suzuki and Yamaha) brought a considerable increase in visibility in the media. In Motocross there were numerous prestigious wins, such as the Motocross MX2 World Championship, the World Rally Championship, the Dakar. Metzeler achieved success once again off road, winning first place in the World Enduro Championship in the E1, E2 and E3 classes.
Our presence in both road and off-road racing, ranging from globally important championships to local championships, is the ideal platform for developing new solutions and confirming our technological leadership.

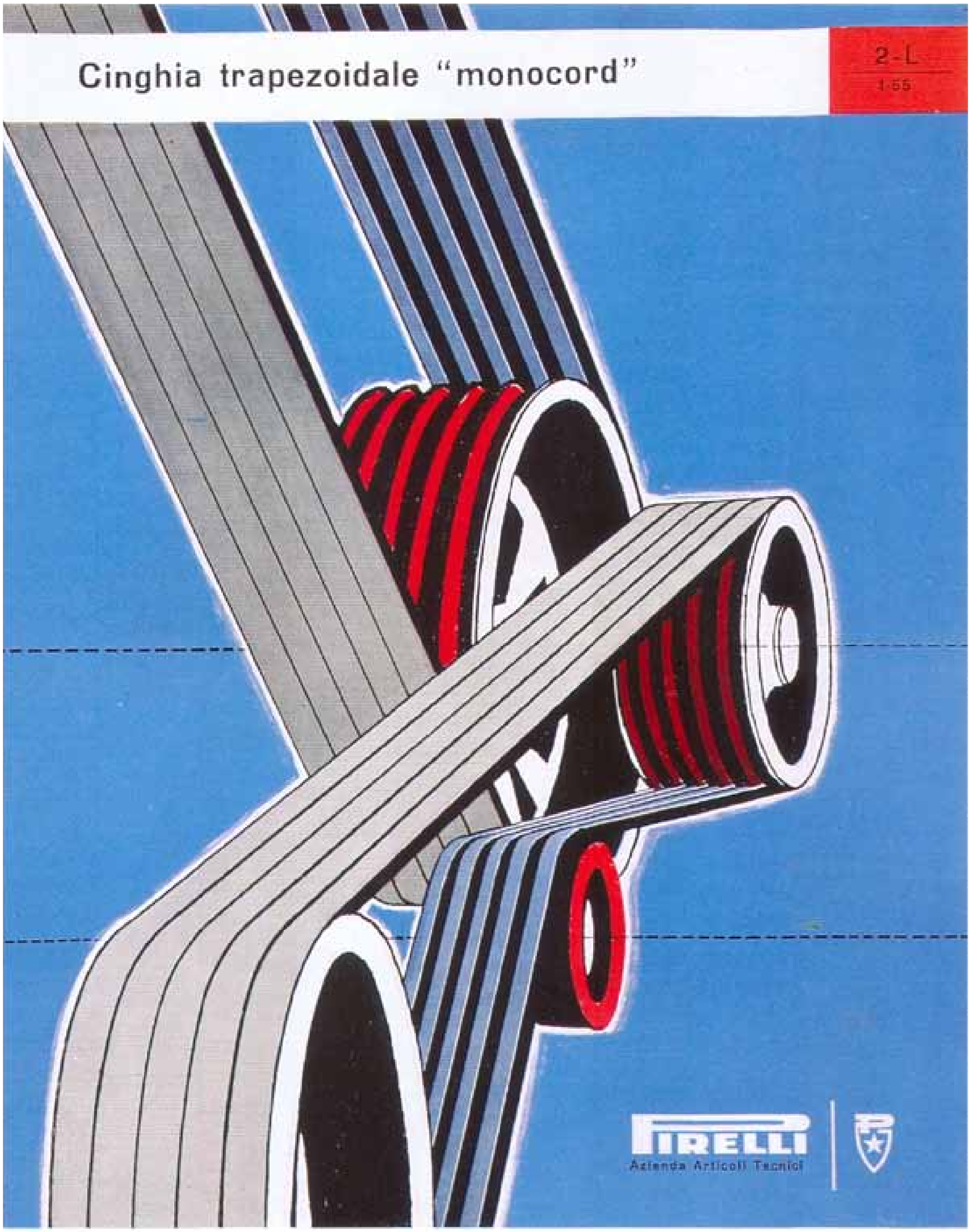
Industrial Business

The table below shows the consolidated economic and financial results obtained in fourth quarter 2009 and the total figure for the year, and comparisons with the corresponding periods of 2008:

(in millions of euro)

			Cumulative	
	Q4 09	Q4 08	2009	2008
Net sales	314.5	277.4	1,165.1	1.298.7
Delta for year over previous	13%		-10%	
Gross operating margin before restructuring expenses	43.6	30.1	158.3	159.3
% of net sales	13.9%	10.9%	13.6%	12.3%
Operating income before restructuring expenses	31.5	18.8	111.8	111.6
% of net sales	10.0%	6.8%	9.6%	8.6%

In financial year 2009 sales reached Euro 1,165.1 million (-10.3% from 2008); the gross operating margin before restructuring expenses amounted to Euro 158.3 million, (practically unchanged from 2008), representing 13.6% on sales, while operating income before restructuring expenses reached Euro 111.8 million, with a return on sales of 9.6%, in line with 2008, but with an increase of one percent in relation to percentage return (in 2008 8.6%).



Noorda, cover of booklet, 1955

The **fourth quarter of 2009** recorded revenues of Euro 314.5 million (+13.4% from 2008), reaching a Gross Operating Margin before restructuring expenses of Euro 43.6 million, which represents an improvement in terms of percentage return (a ratio on sales of 13.9% compared with 10.9% in 2008) as well as in absolute terms (Euro 30.1 million in fourth quarter 2008).

Operating Income before restructuring expenses presents a similar trend amounting to Euro 31.5 million compared with Euro 18.8 million in 2008, reaching a return on sales of 10% (compared with 6.8% in third quarter 2008).

As regards sales, the volumes for Pirelli Tyre have **increasingly** decreased by 12.6% compared with the whole of 2008, but up 14% in the fourth quarter (again compared with the corresponding period of 2008); the change deriving from the price/mix lever was positive in progressive terms (+5,0%) and led to an overall organic decline of 7.6% for financial year 2009; the organic change in the fourth quarter was +10.5%.
The results of the Industrial segment also continued to show in the fourth quarter the positive effects of both the benefit arising from the reduction in raw material costs, and the strategic concentration of the business line in the emerging markets which were less affected by the crisis in the international markets.
In the Industrial segment, in fact, the market scenario was always negative in both sales channels, in particular in the mature markets, but the strategic positioning of Pirelli Tyre, with both production and marketing focused on the emerging markets, facilitated the maintenance of good levels of returns.
The Industrial segment is, in fact, generally the most cyclical, being directly affected by the general trend in the entire economy and in certain specific sectors, such as public works, large construction projects, etc.. Therefore the general drop recorded in the Industrial market in 2009 (Original Equipment Europe -64%, Original Equipment Mercosur -19%, Replacements Europe -16%, Replacements Mercosur -9%), which was only partially attenuated in the fourth quarter (Original Equipment Europe -44%, Original Equipment Mercosur +16%, Replacements Europe +12%, Replacements Mercosur +23%), was due to the general slowdown in the economy and to the lower need for industrial transport of goods with the exception of the Chinese market which maintained positive growth rates.

Outlook for the current year

For the Tyre business ongoing growth is expected with an approach differentiated between Consumer and Industrial, further improvement of competitiveness on costs and an acceleration of investments, in order to increase manufacturing capacity in particular in emerging markets that present higher growth rates and lower industrial costs. During the year investments of more than 300 million euro are planned, with a ratio of investments to depreciation of 1.6 (up from 1.1 in 2009). On the cost front the continuation of the efficiency plan already launched in the previous year has the aim of achieving savings in 2010 of more than 60 million euro (before the effect of raw material price increases). The signs of market recovery, above all in the Consumer segment, enable us to forecast an increase in revenues of between 6% and 8% and an EBIT margin roughly in line with that of 2009, taking into account the impact of increases in the prices of raw materials, especially natural rubber.

Pirelli Eco Technology

The consolidated data can be summarised as follows:

(in millions of euro)

	12/31/09	12/31/08
Net sales	56.6	62.9
Gross operating margin	(9.1)	(11.0)
Operating income	(10.8)	(11.8)
Financial income/(expenses)	(2.5)	(1.6)
Income tax	(0.4)	0.2
Net income	(13.7)	(13.2)
Net financial (liquidity)/debt position	47.2	19.0
Employees (number at end of period)	284	218

Sales in financial year 2009 amounted to Euro 56.6 million (of which 33% relating to the particulate filter business) compared with Euro 62.9 million in 2008 (of which 9% relating to the particulate filter business).

The **gross operating margin** was a negative Euro 9.1 million compared with the previous year's negative figure of Euro 11.0 million.

Operating income was a negative Euro 10.8 million, an improvement on the previous year when a loss of Euro 11.8 million was recorded.
The profitability of the GECAM business was positive, while the particulate filter business was affected, not only by the start-up costs of the new production facility in Romania and the reinforcement of the commercial structure, but also by the operational investment for the development of the filter business in China and delays in the reference markets during the first nine months of 2009 associated both with the current economic situation and with the delayed operational implementation of the relevant legislation.

Net income was a negative Euro 13.7 million after deduction of borrowing costs and taxes of Euro 2.9 million.

The **net financial position** was a negative Euro 47.2 million, up by Euro 4.3 million compared with September 30, 2009.

At December 31, 2009, there were 284 **employees**, an increase compared with December 31, 2008, mostly factory workers and office staff at the production site in Bumbesti Jiu, Romania.

GECAM – White Diesel

In 2009 there was a significant drop in sales compared with the same period of 2008 with volumes down 22.6% and the average unit price down 17.2% owing to the lower price of diesel and the different weight of the sales channel, with a recovery of profitability of 1.6 points. The reduction of sales volumes in Italy (-35%) was due in part to the lack of purchases by ATM and Bertani, and to the widespread slowdown in the economy that characterized the first nine months of the year only slightly offset by an increase in business in France (+6% compared with 2008).

Particulate filters

During the year 4,677 Feelpure filtering systems were sold (1,318 to September 2008) for a total of Euro 18.5 million (Euro 5.5 million to December 2008). The sales were concentrated essentially in Italy, above all in the last quarter of the year, in Germany and in the Netherlands.
Following completion of the approval process in China 187 Feelpure filtering systems were sold.
During the year the production facility at Bumbesti Jiu in Romania was definitively launched, enabling the company to serve both the already active markets, and the automobile Original Equipment market for which the first 6,432 filters were delivered.

Outlook for the current year

In 2010 the work will be focused on developing the Retrofits line (Feelpure Filtering Systems), on expanding the product range, and on commercial expansion with the structuring of adequate pre- and post-sales services – distinguishing factors with respect to the competitors working in the industry.
The production of Silicon Carbide Filters has been concentrated since the end of June at the Bumbesti Jiu works, and in 2010 volumes produced are expected to double compared with 2009.
At the end of 2010 the start of production of Silicon Carbide Filters is planned in China, destined for the emerging local and Asian market.
The growing interest of the media in the problem of atmospheric pollution in the last few months of 2009, which continued in the early months of the current year, combined with the greater operational implementation of the existing legislation on the limitation of traffic pollution, and the expansion of public financing for the purchase of filtering systems, are a good basis for aiming for double-figure growth in revenues, achievement of the break-even point at the operating level (EBIT) and positive cash generation.
It is also worth noting the change in the level of minimum community excise duty on the Gecam which makes its use more costly.

Pirelli & C. Real Estate

Pirelli Real Estate, which has been listed on the Milan Stock Exchange since 2002, is one of the leading operators in the real estate sector in Italy and at the European level; it does business in Italy, Germany and Poland.
In the pursuance of its objectives, at the end of 2009 Pirelli Real Estate can count on approximately 1,100 human resources, of which 600 in Italy: an extremely well-qualified structure, with profound sectoral and interdisciplinary skills and a track record of excellence accumulated in the international competitive context.
Pirelli Real Estate is a fund & asset manager which manages real estate portfolios on behalf of third-party investors, enhances their value, through a distinctive model based on the integration of specialist services (Agency, Property and Facility Management) functional to the management activity (Fund & Asset Management).
Under its new business model Pirelli Real Estate will no longer make significant equity investments in the real estate sector: in the past, it took qualified minority equity interests in managed investment initiatives, with the aim of seizing their opportunities for revaluation; from 2009 onwards, the Pirelli Real Estate Group has opted for a less risky business model which defines it as a "pure manager", continuing to carry on the work of identification and management of investment opportunities for third parties and setting itself the aim of gradually reducing the equity investments still in its portfolio.
For the Pirelli Real Estate Group 2009 was a year in which, with a view to regaining the confidence of the market and achieving an expectation of sustainable growth, it continued the cost-cutting and internal reorganization process begun last year to take account of changing market conditions. Combined with this, there were the aims of focusing on core activities and in particular on fund management by Pirelli & C. Real Estate SGR S.p.A. and on reducing indebtedness and the net invested capital.
With regard to the first of these objectives, as described in more detail in the section on significant events, the sale of 10% of Pirelli & C. Real Estate SGR S.p.A. to Intesa Sanpaolo completed in the second half of the year was aimed at supporting the growth of the assets managed by the Pirelli & C. Real Estate SGR S.p.A. and therefore the development of the fund management business, both central features of the development strategy announced in the 2009-2011 Business Plan, with the goal of increasing the recurrent profits deriving from the property management business, and the aggregation of other operators in the industry.
Instead as regards the reinforcement of the financial and capital structure of the Pirelli Real Estate Group, it is important to note on the one hand the success of the share capital increase evident from full subscription by the market of the portion attributed and, on the other hand, the obtainment from eight leading financial institutions of a committed credit facility more

adequate for the company's new business needs of 320 million euro with expiry July 2012. Although the year was significantly affected by the context of international economic recession, in 2009 the main economic and financial indicators showed a clear improvement, confirming the validity of the actions taken up to now. The net loss was almost halved compared with the past year, as was the operating loss, which recorded a downward trend for the third consecutive quarter in 2009.

At December 31, 2009 **assets managed** amounted to 16.0 billion euro (17.3 billion euro at December 31, 2008) with a portion attributable to Pirelli RE of 4.2 billion euro (4.4 billion euro at December 31, 2008). The assets managed are made up of properties of 14.4 billion euro (15.4 billion euro at December 31, 2008) and non-performing loans of 1.6 billion euro (1.9 billion euro at December 31, 2008). As regards the asset allocation, of the 14.4 billion euro of real estate assets, 50% are managed in Italy, 49% in Germany and 1% in Poland, percentages in line with those of December 31, 2008.
The change in the period in managed real estate assets expressed at the market value of 1.0 billion euro is attributable to the combined effect of an increase of 0.4 billion euro relating to acquisitions and capitalizations in the period (mostly attributable to the purchase of the former head office building of the Istituto Poligrafico dello Stato) and a decrease of 1.4 billion euro resulting both from sales of properties in the period, and from the aforementioned property devaluations.

Economic and financial analysis

(in millions of euro)

	12/31/09	12/31/08
Consolidated net sales	**271.7**	**365.1**
Operating income before restructuring expenses and property value adjustments	(4.5)	(17.7)
Net income from equity investments before property value adjustments	(21.6)	(42.0)
Operating income including net income from equity investments before restructuring expenses and property value adjustments	(26.1)	(59.7)
Financial income from equity investments	19.5	23.0
Operating income including net income and revenues from equity investments before restructuring expenses and property value adjustments	(6.6)	(36.7)
Restructuring expenses	(23.9)	(44.2)
Property value adjustments	(31.4)	(135.8)
Net operating income incl. net income from equity investments	(61.9)	(216.7)
Financial expenses	(35.1)	(49.0)
Income tax	(7.8)	(1.9)
Net income before discontinued operations	(104.8)	(267.6)
Discontinued operations	-	74.6
Net income	**(104.8)**	**(193.0)**
Net income attributable to equity holders of the company	**(104.3)**	**(195.0)**
Equity	663.1	366.4
of which attributable to equity holders of the company	653.4	361.7
Net financial position	**41.3**	**289.5**
Receivables for Shareholder Loans	404.5	572.3
Net financial (liquidity/debt) position gross of shareholder loans	445.8	861.8
Gearing ratio	0.67	2.35

Although 2009 brought negative net income again, which reflects the effects of the trend in the property market, the results of the period, however, show the first signs of recovery. Not only was the net loss at December 2009 almost halved compared to the last period, but at the level of operating income including net income from equity interests and interest income from financial receivables with associates, *joint ventures* and others, before restructuring expenses and property value adjustments, the amount is close to the *break-even* point (-6.6 million euro), despite a number of specific negative effects described below.
It should be noted that during 2009 the actions undertaken made it possible in fact to obtain savings on overheads of 68 million euro (of which roughly half referable to staff cuts), amply exceeding the original target for the year 2009 initially set at 50 million euro.

Consolidated net sales amounted to 271.7 million euro compared with 365.1 million euro at December 31, 2008. It must be remembered that in 2008 the Real Estate Group benefited from approximately 49 million euro of revenues relating to the sale of a single asset in Poland. More in detail, in 2009 revenues from services represented 69% of the total compared with 61% in 2008.

At December, 31 2009 **operating income, including net income from equity investments before restructuring expenses and property value adjustments** was -26.1 million euro, compared with a negative of 59.7 million euro at December, 31 2008. The Real Estate Group thus confirmed the target previously communicated to the market of loss income in 2009 between 25 and 35 million euro, positioning itself at the better end of the range.

Adding to the above indicator the amount of interest income from financial receivables with associates, joint ventures and others, the 2009 operating loss was 6.6 million euro compared with a loss at December 31, 2008 of 36.7 million euro. The improvement over the previous year was even more significant when compared with the data in like-for-like terms, net of the one-off components, of income from sales of equity investments, of the impact of *impairment* of non-performing loans and of the impact of derivative hedging instruments.

Net of the components indicated above operating income - inclusive of net income from equity investments and of interest income from financial receivables with associates, joint ventures and others, before restructuring expenses and property value adjustments at December 31, 2009 would be a positive 20.8 million euro compared with a negative amount of 34.1 million euro of the previous period, therefore with a total positive change of 54.9 million euro.

In particular net income at December 31, 2009 includes: income deriving from the sale of equity investments of 13.5 million euro resulting from the sale of 10% of Pirelli & C. Real Estate SGR S.p.A. and 20% of Pirelli RE Credit Servicing S.p.A.; a negative impact of *impairment* of non-performing loans following the redefinition of certain business plans of 30.4 million euro and a negative impact of 10.5 million euro deriving from measurement at fair value of derivative hedging instruments.

Net income at December 31, 2008 included: 32.0 million euro of one-off income made up of 15.0 million of income from the sale of a single asset in Poland and of 17.0 million from the compensation received for the replacement of Pirelli & C. Real Estate SGR S.p.A. in the management of the Berenice Fund; a negative impact of 17.4 million euro deriving from measurement at fair value of derivative hedging instruments and a negative impact of impairment of non-performing loans following redefinition of certain business plans of 11.2 million euro. Moreover net income at December 31, 2008 included a pro quota loss of 6.0 million euro on the equity interest in the commercial joint venture Rinascente-Upim.

Following the classification of the equity investment in Rinascente/Upim among "assets held for sale" (sale of the equity investment in Upim already completed in January 2010), the net income for the proportion attributable in 2009 of these assets was included under financial operations.

With reference to **property value adjustments**, 2009 brought a total negative balance of 31.4 million euro compared with a balance, also negative, of 135.8 million of the previous period.

The revaluations carried out, with a positive economic impact of 67.4 million euro, resulted from the formalization of the "hold" strategy for most of the residential properties in Germany (a positive impact of 31.6 million euro) and for selected prestigious assets in Italy held by the Retail & Entertaiment Fund and by the Fondo Regione Sicilia (a positive impact of 35.8 million euro): these assets were revalued on the basis of IAS 40 which provides for the possibility of adjusting the estimated value of properties which it has been decided to maintain in the medium term in the portfolio for strategic reasons. The figure for revaluations was however more than offset by devaluations of other portfolios of 98.8 million euro, relating for 52.3 million euro to the portfolio in Italy and for 46.6 million euro to properties in Poland and Germany (of which 40.8 million euro relating to the Highstreet portfolio alone).

The **equity attributable** amounted to 653.4 million euro compared with 361.7 million euro at December 31, 2008. The change of 291.7 million euro was substantially due to the effect of the capital increase completed at the beginning of July net of the closing costs (+394.8 million euro) and to the net income attributable for the period (negative of 104.3 million euro).

Thanks to the work done on redefining the structure of the Group's borrowing relationships and to the aforementioned capital increase, the **gearing ratio** came out at 0.67 compared with 2.35 at December 31, 2008.

The **net financial position** at December 31, 2009 is a negative 41.3 million euro compared with 289.5 million euro at December 31st, 2008.

The **net financial position gross of shareholder loans** at December 31, 2009 is a negative 445.8 million euro compared with 861.8 million euro at December 31, 2008.
The improvement with respect to December 31, 2008, of 416 million euro, was due to a positive effect of 516.7 million euro, made up mostly of (i) 399.3 million euro from the capital increase and of (ii) 113.6 million euro referrable both to the agreement that led to the sale of 20% of Pirelli RE Credit Servicing S.p.A. and which enabled Pirelli Real Estate at the same time to recover its shareholder loan to the European NPL investment platform, and to the sale of 10% of Pirelli & C. Real Estate SGR S.p.A.. This is offset by a total negative effect of 100.7 million euro referable mainly to the payment of restructuring expenses (40.4 million euro), to equity investments (31.1 million euro) and to the contribution of equity in vehicles and funds in which the company holds an equity interest (29.2 million euro).

The **Net Financial Position of the vehicles and funds in which Pirelli Real Estate holds an equity interest** at December 31, 2008 was 11.1 billion euro and is made up of 9.7 billion of net bank debt relating to real estate and 1.4 billion of net bank debt relating to NPLs.
The total portion attributable to Pirelli Real Estate in the banking indebtedness of funds and vehicles of 3.0 billion euro is divided into 2.5 billion invested in real estate and 0.5 billion in NPLs.
The main features of the pro-rata net financial debt of funds and vehicles are:
— a very limited amount of recourse guarantees (45.8 million euro pro-rata). Considering operations already concluded by the end of February 2010 the figure would come out at 41.6 million euro pro-rata. If we consider also the sale already being finalized of the stake in Turismo & Immobiliare the figure would come down to 28.7 million euro;
— a high proportion of hedging of interest rate risk and an average maturity of approximately 2.6 years, which if we consider also the new maturity of the Highstreet loans relating to the restructuring process in progress would go up to 3.4 years.

The average bank leverage (excluding NPLs) is 67% of the market value of the assets, which allows for safety margins in regard to existing covenants.
Loans set to mature in 2010 amount to Euro 219 million euro pro-rata and, in the two year period 2011-2012, represent more than 40% of the existing portfolio and amount to 1,226 million euro, excluding repayment instalments. Considering the new maturity of the Highstreet loans relating to the restructuring process the pro-rata amount of loans in the two years would be 816 million euro.

Noorda, announcement, 1961

SERVICES

Thanks to cost-cutting actions in 2009, management services (fund & asset management) and real estate services (property management, agency), including general and administrative expenses, achieved a positive operating income, including net income from equity investments before restructuring expenses and property value adjustments, of 7.8 million euro (a negative 5.7 million euro net of the aforementioned revenue of 13.5 million deriving from the sale of equity interests), a significant improvement on the figure at December 31, 2008 negative of 30.3 million euro (a negative 47.3 million euro if we exclude the one-off income of 17.0 million mentioned above). It is worth noting that the net income at December 31, 2009 in relation to the real estate services platform, excluding the loss for the period deriving from the restructuring of Pirelli RE Credit Servicing S.p.A. of 5.7 million euro, would be at the break-even point. The improvement in the period net of the components mentioned above would be positive of 41.6 million euro.

INVESTMENT

At December 31, 2009 the business relating to investment initiatives recorded instead negative net income of 14.4 million euro (a positive 26.5 million euro net of the aforementioned negative impact of 40.9 million of derivative hedging instruments and of the impairment of non-performing loans mentioned above) compared with negative net income of 6.4 million euro at December 31, 2008 (a positive 13.2 million if we exclude the negative impact of 28.6 million illustrated previously and referable to derivative hedging instruments and to impairment of non-performing loans, the one-off income of 15.0 million euro from the sale in Poland, and the pro-rata loss of 6.0 million of Rinascente/Upim). The improvement in the period net of the comonents mentioned above would be positive of 13.3 million euro.

At December 31, 2009 **sales** of properties of 1,031.4 million euro had been completed compared with 864.9 million euro at December 31, 2008, thus exceeding the target of 1 billion euro announced to the market, and NPLs of 322.7 million euro were collected compared with collections of 514.2 million euro at December 31, 2008. Despite the unfavourable trend of the macroeconomic situation, during 2009 Pirelli Real Estate managed to complete its real estate transactions at amounts in line overall with the estimated values. The **margin on sales** at December 30, 2009 was approximately 14%, while in the same period of 2008 it was 19%. At December 31, 2009 **total rents** amounted to 780.6 million euro (669.2 million in 2008, a figure that includes rents from the Highstreet portfolio for only six months); the pro-rata attributable to Pirelli Real Estate on the rents amounted to 193.6 million euro (164.9 million at December 2008).

Performance of the divisions

Pirelli Real Estate carries on its business through a structure organized into geographical areas. The business performance in these areas is described in this section, divided into income provided by the services platform and income deriving from investing activities.

ITALY REAL ESTATE

At December 31, 2009, **operating income including net income from equity investments** before restructuring expenses and property value adjustments and including interest income from financial receivables with associates, joint ventures and others was a positive 28.7 million euro, a sharp improvement compared with the negative amount of 7.6 million euro at December 31, 2008.

On a like-for-like basis, net of the income of 11.7 million deriving from the sale of 10% of Pirelli RE SGR and of the negative impact of 3.3 million of hedging instruments, net income at December 31, 2009 would have been positive of 20.3 million euro compared with the negative net income of 11.9 million euro of the previous period, net of the one-off income of 17.0 million relating to the compensation received for the replacement of Pirelli & C. Real Estate SGR S.p.A. in the management of the Berenice Fund, of the negative impact of 6.6 million euro of derivative hedging instruments and of the pro-rata loss of 6.0 million euro on the equity investment in the commercial joint venture Rinascente-Upim.
The operating income is made up of 32.0 million euro of net income from the services platform (20.3 million euro on a like-for-like basis), a significant improvement compared with the positive figure of 11.3 million of the previous period (a negative 5.7 million euro on a like-for-like basis) and of -3.3 million euro of net income from investing activities (at break-even on a like-for-like basis), an improvement compared with the negative figure of 18.8 million of the previous period (a negative 6.2 million euro on a like-for-like basis).
At December 31, 2009 **sales** of properties amounted to 613.5 million euro compared with 570.5 million euro at December 2008. Total **rents** were 292.5 million euro (336.9 million euro in the same period of 2008). Total **gains** realized at December 31, 2009 amounted to 66.7 million euro (104.3 million euro at December 31, 2008), while pro-rata gains were 27 million euro (40.8 million euro at December 31, 2008).

GERMANY REAL ESTATE

At December 31, 2009, **operating income including net income from equity investments** before restructuring expenses and property value adjustments and including interest income from financial receivables with associates, joint ventures and others was a negative 1.4 million euro, a considerable improvement over the negative figure of 24.3 million euro at December 31, 2008.
On a like-for-like basis, excluding the negative impact of 5.1 million of derivative hedging instruments, operating income would have been a positive 3.7 million euro compared with a negative figure of 16.5 million euro for the previous period.
Operating income is made up of 1.3 million euro of net income from the services platform, an improvement compared with the negative figure of 9.7 million of the previous period and of -2.8 million euro (a positive 2.3 million euro on a like-for-like basis) of net income from investing activities, an improvement compared with the negative figure of 14.5 million of the previous period (a negative 6.8 million euro on a like-for-like basis).
At December 31, 2009 **sales** of properties amounted to 380.1 million euro compared with 184.5 million euro at December 2008. Total **rents** were 487.6 million euro (331.9 million euro in the same period of 2008). Total **gains** realized at December 31, 2009 amounted to 68.3 million euro (28.8 million euro at December 31, 2008), while pro-rata gains were 19.1 million euro (10.8 million euro in 2008).

POLAND REAL ESTATE

At December 31, 2009, **operating income including net income from equity investments** before restructuring expenses and property value adjustments and including interest income from financial receivables with associates, joint ventures and others was a positive 0.1 million euro compared with 19.8 million euro at December 31, 2008.
On a like-for-like basis, excluding the one-off income of 15.0 million attributable to a single asset sold in Poland and the negative impact of 0.3 million of derivative hedging instruments, net income at December 31, 2008 would have been a positive 5.1 million euro.

The operating income is made up of negative net income of 1.1 million euro from the services platform, an improvement compared with the negative figure of 2.0 million of the previous period, and of positive net income of 1.2 million euro from investing activities, compared with the 21.8 million of the previous period (a positive 7.1 million euro if we exclude the impacts mentioned above).

At December 31, 2009 **sales** of properties amounted to 37.8 million euro compared with 109.9 million euro at December 2008. Total **rents** were 0.4 million euro compared with 0.5 million euro of the same period of 2008. Total **gains** realized at December 31, 2009 amounted to 8 million euro (34.2 million euro at December 31, 2008), while pro-rata gains were 3.5 million euro (24.8 million euro in 2008).

NON-PERFORMING LOANS

At December 31, 2009, **operating income including net income from equity investments** before restructuring expenses and property value adjustments and including interest income from financial receivables with associates, joint ventures and others was a negative 13.5 million euro compared with the positive amount of 8.0 million euro at December 31, 2008.
On a like-for-like basis, net of the income of 1.8 million deriving from the sale of 20% of Pirelli RE Credit Servicing S.p.A., of the negative impact of 30.4 million euro of impairment of non-performing loans following the redefinition of certain business plans and of the negative impact of 2.1 million of derivative hedging instruments, operating income at December 31, 2009 would have been 17.2 million euro compared with positive income of 21.9 million euro of the previous period if we exclude the negative impact of 11.2 million euro of impairment of non-performing loans and the negative impact of 2.7 million euro of derivative hedging instruments.

The operating income is made up of negative net income of 4.0 million euro from the services platform (negative of 5.8 million euro net of the income of 1.8 million euro as above) compared with the positive figure of 3.7 million of the previous period, and of negative net income of 9.5 million euro from investing activities (a positive 23.0 million euro on a like-for-like basis) compared with the positive figure of 4.3 million of the previous period (18.2 million euro on a like-for-like basis).

Business outlook

For the whole of 2010 the Real Estate Group expects to achieve for the services business an operating income of between +20 and +30 million euro, thanks to further actions to increase efficiency and to leverage the development of fund management, on internal and external lines.
The target envisaged for sales of properties by the end of 2010 is between 1.3 and 1.5 billion euro, maintaining total assets under management substantially stable.
Pirelli Real Estate also confirms the 2011 targets as recently indicated in the Plan, and in particular the achievement of net income of 50 million euro from service businesses.
It is worth remembering that the projections for 2010 and 2011 may however be heavily influenced by uncontrollable exogenous factors, such as changes in the macroeconomic scenario, the trend on the real estate market, movements in interest rates and the terms of access to credit, as these are independent of the intentions of the Real Estate Group and currently unforseeable.

Pirelli Broadband Access

The economic and financial data can be summarised as follows:

(in millions of euro)

	12/31/09	12/31/08
Net sales	132.1	124.6
Gross operating margin	5.3	4.8
Operating income	4.0	3.9
Financial income/(expenses)	0.3	(2.6)
Income tax	0.3	0.7
Net income	4.6	2.0
Net financial (liquidity)/debt position	(35.7)	(15.0)
Employees (number at end of period)	128	113

At December 31, 2009 **net sales** amounted to Euro 132.1 million, up 6.0% compared with Euro 124.6 million in 2008. The overall change with respect to the figure for 2008 was dependent on the richer product mix which mainly characterized the Access Gateways line and on the growth of volumes concentrated in the same product line which offset the price erosion recorded both on broadband access products and on IPTV products.

Operating income was a positive Euro 4.0 million, substantially in line with the result for 2008.

Net income was a positive Euro 4.6 million after financial income of Euro 0.3 million, compared with positive net income of Euro 2.0 million in the previous year.

The **net financial position** is a positive Euro 35.7 million compared with a positive balance of 15.0 million in 2008. This positive change essentially reflects an overall improvement in the management of working capital.

As of December 31, 2009 there were 128 **employees**, an increase of 15 units compared with December 2008, concentrated in the Research & Development and Commercial Functions.

Broadband Access

The global broadband market is still growing despite the fact that the economic slowdown has reduced the growth rate of new ADSL connections in the mature markets, offset by rapid growth of ADSL connections in emerging markets and by the effect of upgrading to VDSL2 offers in advanced markets projected towards next-generation ultra-fast broadband.
In the IPTV market there was also confirmation of a growth trend at the global level only partially affected by the unfavourable economic situation.
During 2009 the product portfolio continued to develop both in terms of acquisition of new markets and customers and in terms of range, expressed in the main "CPE" lines made up of Residential Access Gateways, developed also with a view to fixed-mobile convergence, and Set-top Boxes for IPTV, and of ancillary products represented by Small Business Access Gateways and Extenders (devices for IPTV distribution in the home).
In 2009, finally, a healthy growth trend was confirmed also for the PMP (Pirelli Management Platform), a software system for the remote management of CPE.

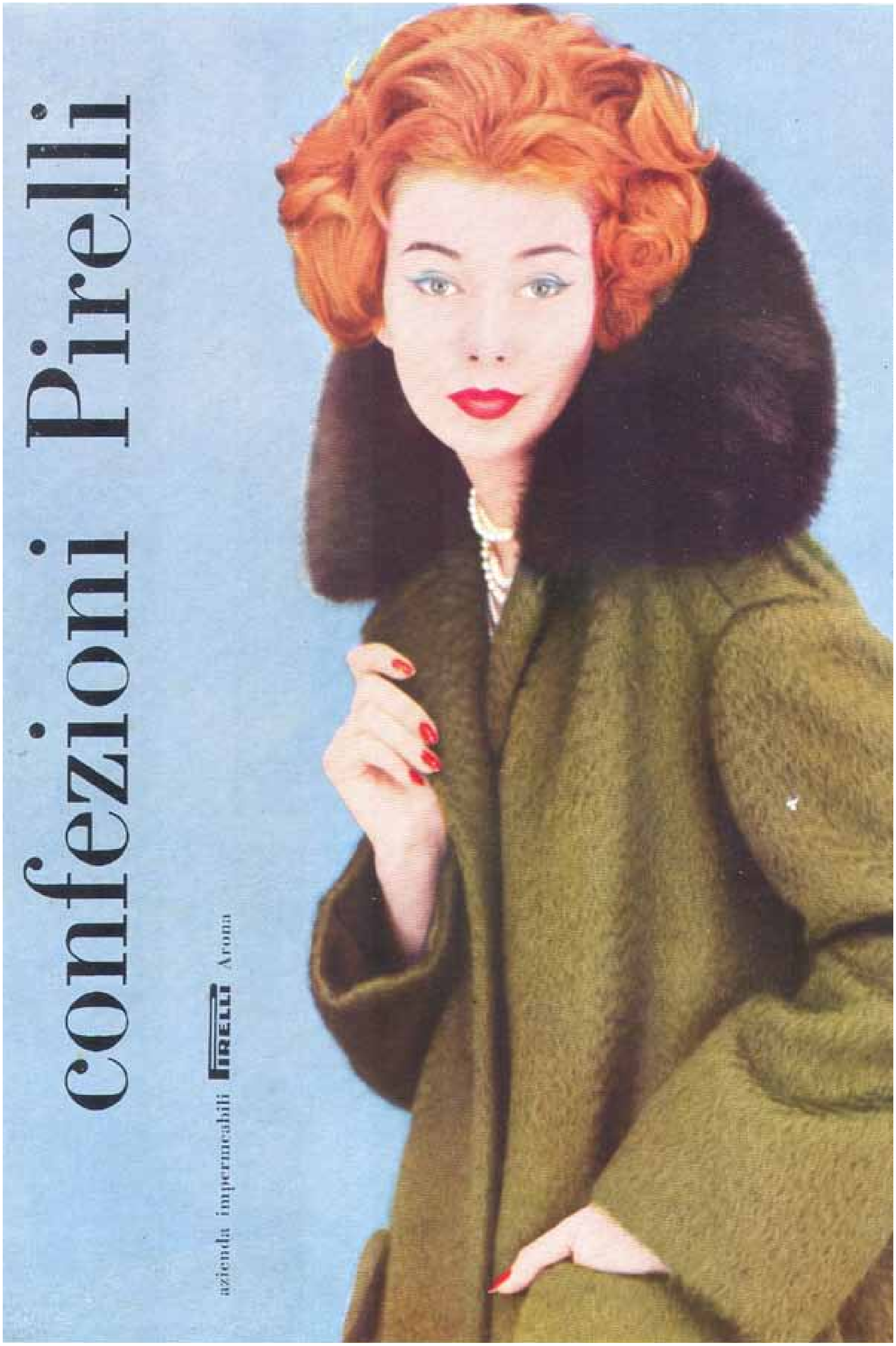
In the high-range **Residential Access Gateways** line the Company strengthened its positioning in IAD platforms for new generation networks (NGNs), being selected by Telekom Austria for the supply of the new VDSL2 Home Gateways line, in the wake of the reputation established with acquisition of a similar order from the Swiss operator Swisscom.
While the medium-high range IAD ADSL2+ line is still the core product in terms of continuity of volumes with the two main customers (Telecom Italia and Fastweb), medium-low range lines with WiFi ADSL2+ Routers contributed to an expansion of the position with customers such as Wind (Italy), Tele2 (Italy), Telecom Argentina, BTC, Telecom Serbia, Portugal Telecom and Tellcom (Turkey).
In 2009 there was also structured expansion of solutions for mobile connectivity, which culminated in the finalization of a new range of 3G internet keys and of the "Ministation" product for Vodafone Italia.

For the **Set-top Box (STB)** line the business development operation continued successfully in the Ericsson environment for IPTV, which led to the selection of the new Pirelli product for the Hellenic Telecommunication Organization (OTE) SA service in Greece.
The developments of the new "hybrid" product platforms were also launched and are destined to be completed in 2010. They consist of an IP function associated with a terrestrial digital or satellite decoder, and have the aim of new positioning in the broadcasters market, with potential use also in Over-The-Top (OTT) solutions. These are products that can be positioned in an agnostic manner on telecommunication networks.

In the **Small Business Gateway** line, technical qualification of the IAD ADSL2+ product was completed at the laboratories of our main potential customers, and culminated with a contract to supply BT Italia, where it is supplied with a data back-up function using a mobile key.

The **Extenders** line, with the HCNA product, which enables the distribution of high-quality video over domestic coaxial cable, made possible the first commercial appointment of the Company, with a series of tests in collaboration with the Telefonica Group in Brazil.

In line with the strategic objective of growth of the share of value generated by **software products** and services, in 2009 the software portfolio area underwent further development and saw the launch of the project for the Pirelli software stack. This represents a significant investment planned for completion in 2010 with the aim of creating a Pirelli proprietary software platform.



Noorda, back cover of the magazine "Rivista Pirelli" n°5/1958

Outlook for the current year

The current year sees the business mainly focused on three lines of development:

1. strengthening of the position gained in the market of CPE for operators, through technological renewal of the portfolio and the expansion of sales into new geographical markets;
2. diversification to new B2B customers such as broadcasters, with the completion of a portfolio of hybrid IP + satellite / terrestrial digital decoders;
3. innovation for the creation of new value chains through EpicentroTM, a new open, modular and expandable software architecture for Pirelli CPE.

Other businesses

We report in this section on the businesses referable to the companies Pirelli & C. Ambiente S.p.A. and PZero S.r.l..
It should be recalled that, as regards Pirelli & C. Ambiente S.p.A., 51% is held by Pirelli & C. S.p.A. and 49% by Cam Partecipazioni S.p.A., a Camfin Group company.

Pirelli Ambiente

The company operates in the environmental field, through investee companies, in the following specific sectors: production of photovoltaic electricity, environmental regeneration, production of high-quality fuel deriving from urban solid waste and energy certification. In 2009 the company recorded negative operating income of Euro 3.7 million and negative net income of Euro 5.3 million.

PHOTOVOLTAIC

Solar Utility S.p.A. continued its work on the development of its business completing and connecting during the year approximately 6 MW of which 50% located in the province of Potenza in Basilicata and the remaining 50% in the province of Lecce in Puglia. The company plans to continue its operational business and, by the end of 2010, to bring on-stream systems for a total power output of approximately 11 MW. During the last quarter of the year 50% of the company was acquired from Global Cleantech Capital (GCC) for an amount of approximately 8 million euro, meaning that Pirelli & C. Ambiente S.p.A. now holds 100% of the company.

ENVIRONMENTAL REMEDIATIONS

During the year Pirelli & C. Ambiente Site Remediation S.p.A. continued its business in the complete management of problems of an environmental nature with reference mainly to Group companies and their affiliates and to external customers, with particular regard to the work of Environmental Due Diligence, assessment, design and management of demolition work and remediation carried out through specialized companies authorized for such work, and of Energy Certification of buildings.

PRODUCTION OF HIGH-QUALITY FUEL FROM REFUSE

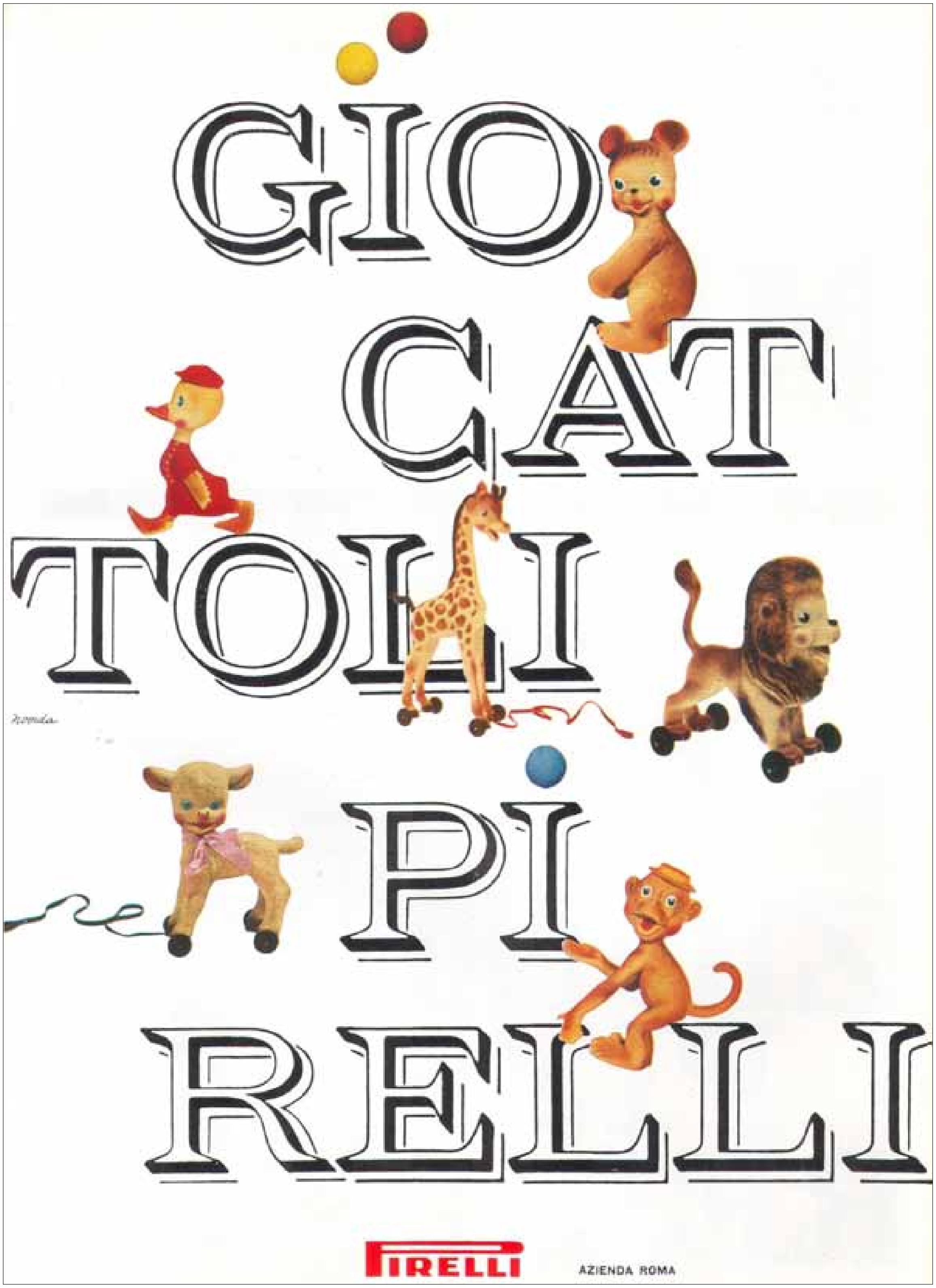
The work of production of high-quality fuel (CDR-P) was carried on during the year through the associate I.D.E.A. Granda S.Cons.R.L., which processed for energy recovery 22,212 tonnes of refuse derived fuel compared with 18,616 tonnes in the previous year.
The business of trading Energy Efficiency Certificates (EECs) was carried on by the affiliate Serenergy S.r.l.. The year was characterized by the obtainment of EECs relating to the years 2007 and 2008 and by trading on the electronic market of the Electricity Market Manager of 4,500 certificates.

ENERGY CERTIFICATION

On December 16, 2009 the company Green&Co2 S.r.l. - wholly owned by Pirelli & C. Ambiente S.p.A. - was incorporated. The new company, with share capital of Euro 10,000, will operate as an energy service company promoting the optimization of energy consumption and the reduction of pollutant emissions.

PZero

Incorporated at the end of 2007, this company is a natural development of a licensing and brand extension project launched in the early 2000s with the aim of building BRAND EQUITY on the Pirelli brand.
In synergy with Pirelli's communication activities, PZero S.r.l. enables value to be developed around the group's brands through important advertising campaigns in the Italian and international media, but also thanks to the newsworthiness in the press and to the visibility guaranteed by products positioned in high-level sales points.
In 2009, which was deeply affected by a state of crisis of consumption particularly significant in the sectors of clothing and footwear, PZero S.r.l. achieved sales of Euro 5 million and negative operating income of Euro 3.8 million.
Besides the Italian market, PZero S.r.l. continued to develop several foreign markets which saw its turnover doubling overall compared with the previous year.
In June, on the occasion of the latest edition of Pitti Immagine Uomo, the leading trade fair in the sector, the new Angel product was presented with the Spring-Summer 2010 collection.
Angel is the new sneaker for men 'with a double soul': it features a pattern on the rubber sole which reproduces the outline of an angel, based on the sport touring motorcycle tyre Angel ST which after a thousand kilometres changes its tread pattern.
The sales campaign in relation to the Spring-Summer 2010 season, which ended in October 2009, showed very positive signs with orders up 50%. Of total orders, 40% are for foreign markets and in particular Spain, Russia, the Middle East and China.
During 2009 numerous research activities began for the development of PZero products with a highly innovative and technological content. In particular Pirelli Labs provided support to PZero both for the assessment of a number of technologies and in the search for suppliers and producers in the sector of accessories.
With a view to increasing the performance of PZero footwear in extreme weather conditions and, in particular, grip on wet or icy surfaces, work began on the research and characterisation of various materials that can be used to create soles for footwear. The data will be entered in a database that will be updated regularly.
In collaboration with Pirelli Tyre, work began on selecting compounds normally used in the tyre product with the aim of extending their application also to the products of the PZero line.
The trend in orders relating to the Spring-Summer 2010 line, the ongoing development of foreign distribution and completion of the product range, also in collaboration with Pirelli Labs, enable us to forecast further growth for PZero S.r.l. in 2010 with substantial achievement of its break-even point.



Bob Noorda, advertisement for Pirelli games, 1959

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

Balance sheet and financial situation

(in millions of euro)

	12/31/2009	12/31/2008
Property, plant and equipment	94.4	93.2
Intangible assets	2.4	1.5
Financial fixed assets		
- Subsidiaries	1,223.7	1,041.1
- Associates and other financial assets	324.8	419.9
Net working capital	(11.6)	(16.1)
	1,633.7	**1,539.6**
Equity	1,822.8	1,685.6
Provisions	64.0	59.4
Net financial (liquidity)/debt	(253.1)	(205.4)
	1,633.7	**1,539.6**

The table presented above shows the balance sheet and financial structure of the company. Among the most significant changes that occurred in financial year 2009 we can note:

— **financial fixed assets** recorded a net increase of Euro 87.5 million compared with the previous period (Subsidiaries: net increase of Euro 182.6 million, associates and other financial assets: net decrease of Euro 95.1 million), in detail:

SUBSIDIARIES (in millions of euro)

Investments	
Pirelli & C. Real Estate S.p.A.	231.9
PZero S.r.l.	3.0
Pirelli & C. Ambiente S.p.A.	1.6
Other companies	0.8
	237.3
Resolution to reduce capital	
Pirelli Ltda	(8.4)
	(8.4)
Impairment	
Pirelli Uk Ltd	(37.2)
Pirelli Finance (Luxembourg) S.A.	(4.1)
PZero S.r.l.	(4.0)
Other companies	(1.0)
	(46.3)
Total	**182.6**

ASSOCIATES AND OTHER FINANCIAL ASSETS (in millions of euro)

Investments	
F.C. Internazionale Milano S.p.A.	1.4
	1.4
Divestments:	
Telecom Italia S.p.A.	(46.7)
Alcatel Submarine Networks S.a.S.	(44.8)
Vittoria Capital N.V.	(5.7)
	(97.2)
Impairment	
Telecom Italia S.p.A.	(7.5)
Cyoptics Inc.	(16.0)
	(23.5)
Other changes	(0.2)
Measurement at fair value through equity	**24.4**
Total	**(95.1)**

— **equity** increased by Euro 137.2 million compared with December 31, 2008 a breakdown of the changes is shown in the following table:

(in millions of euro)

Equity at 12/31/2008	**1,685.6**
Net income	112.6
Gains/(losses) recognised directly in equity	24.4
Other changes	0.2
Equity at 12/31/2009	**1,822.8**

The equity can be broken down as follows:

(in millions of euro)

	12/31/2009	12/31/2008
Share capital	1,554.3	1,554.3
Share premium reserve	229.7	416.5
Legal reserve	94.3	94.3
Other reserves	22.4	24.1
IAS Reserve	(190.5)	(215.1)
Retained income	-	1.0
Net income	112.6	(189.5)
	1,822.8	**1,685.6**

— at December 31, 2009 **net liquidity position** amounted to Euro 253.1 million (Euro 205.4 million at December 31, 2008). A breakdown of the change is shown in the following table:

(in millions of euro)

Net liquidity position at 12/31/2008	**205.4**
Financial investments	(238.8)
Financial divestments	113.2
Dividends received	205.1
Investments in property, plant and equipment and intangible assets	(6.2)
Other changes	(25.6)
Net liquidity position at 12/31/2009	**253.1**

Income statement

(in millions of euro)

	2009	2008
Net financial income/(expenses)	0.1	30.5
Net income/(expenses) from equity investments	150.8	(181.0)
Other net operating income/(expenses)	(39.5)	(37.4)
- of which non-recurrent events	(11.0)	(1.4)
Net income before taxes	**111.4**	**(187.9)**
Income taxes	1.2	(1.6)
Net income	**112.6**	**(189.5)**

January, 2008: Bob Noorda, at the "Triennale di Milano", is the testimonial of the exposition "Un viaggio, ma..." about Cinturato Pirelli

Net income amounted to Euro 112.6 million compared with a loss for the previous year of Euro 189.5 million. The most significant items were:

— the item **net financial income/(expenses)** shows a drop compared with the previous year of Euro 30.4 million. The reduction was mainly due to a decline in interest income following the contraction of average financial receivables with group companies in 2009 and to a fall in interest rates (Euro 60.2 million) partially offset by lower borrowing costs following the reduction in financial debts (Euro 28.3 million). A breakdown of these items is shown in the following table:

(in millions of euro)

	2009	2008
Interest expenses	(16.7)	(45.0)
Other financial expenses	(3.5)	(5.3)
Interest income	19.8	80.0
Other financial income	0.5	0.8
Total net financial income/(expenses)	**0.1**	**30.5**

— Details of the item **net income/(expenses) from equity investments** are provided in the following statement:

(in millions of euro)

	2009	2008
Dividends		
Pirelli Tyre S.p.A.	64.2	54.9
Pirelli & C. Real Estate S.p.A.	-	48.6
Pirelli Holding N.V.	25.0	11.0
Mediobanca S.p.A.	-	9.8
Sipir Finance N.V.	110.5	9.5
Telecom Italia S.p.A.	2.4	3.8
Other companies	2.9	10.2
	205.0	**147.8**
Impairment		
Pirelli Finance (Luxembourg) S.A.	(4.1)	(167.1)
RCS Mediagroup S.p.A.	-	(65.7)
Telecom Italia S.p.A.	(7.5)	(46.1)
Pirelli Uk Ltd	(37.2)	(31.8)
Cyoptics Inc.	(16.0)	(8.7)
Pzero S.r.l.	(4.0)	-
PGT Photonics S.p.A.	-	(6.4)
Other companies	(1.1)	(4.3)
	(69.9)	**(330.1)**
Capital gains on sale	**15.7**	**1.3**
	150.8	**(181.0)**

— the item **other net operating income/(expenses)** improved with respect to the previous year by Euro 7.5 million., excluding the effect of expenses for non-recurring events which in 2009 related to expenses for voluntary redundancy payments - Euro 11.0 million - (Euro 1.4 million in 2008 relating to expenses incurred on the sale of PGT Photonics S.p.A. to Cyoptics Inc

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

Individual	Office		Compensation received in 2009				Compensation refferring to 2009 to be paid in 2010	
Surname and Name	**Office held**	**Term of office**	**Fee for office held in Pirelli & C. S.p.A.**	**Non-monetary benefits**	**Bonuses and other benefits**	**Other compensation**	**Fee for office**	**Bonus, other benefits and other compensation**
Tronchetti Provera Marco *	Chairman	2011	2,508			1,585 [2]	50	1,521
Pirelli Alberto	Deputy Chairman	2011	590			374 [3]	50	82 [3]
Puri Negri Carlo Alessandro	Deputy Chairman	2011	335			11,692 [4]	50	
Acutis Carlo	Director	2011					50	
Angelici Carlo	Director	2011					50	25 [5]
Antonelli Cristiano	Director	2011					50	8 [5]
Benetton Gilberto	Director	2011					50	
Bombassei Alberto	Director	2011					50	20 [6]
Bruni Franco	Director	2011					50	25 [5]
Campiglio Luigi	Director	2011					50	
Cucchiani Enrico Tommaso [1]	Director	2011					50	
Libonati Berardino	Director	2011					50	20 [6]
Ligresti Giulia Maria	Director	2011					50	
Moratti Massimo	Director	2011					50	
Pagliaro Renato	Director	2011					50	
Paolucci Umberto	Director	2011					50	7 [6]
Perissinotto Giovanni	Director	2011					50	
Pesenti Giampiero	Director	2011					50	20 [6]
Roth Luigi	Director	2011					50	8 [5]
Secchi Carlo	Director	2011					50	40 [7]
Gori Francesco *	General Manager	from 09/16/09		7		1,250 [3]		609
De Conto Claudio	General Manager	up to 09/16/09		5		6,668 [8]		669
Guatri Luigi	Chairman Board of Stat. Aud.	up to 04/20/09	19					
Laghi Enrico	Chairman Board of Stat. Aud.	from 04/21/09					43	
Laghi Enrico	Standing Statutory Auditor	up to 04/20/09	13					
Gualtieri Paolo	Standing Statutory Auditor	from 04/21/09					29	
Sfameni Paolo Domenico	Standing Statutory Auditor	2012					42	15 [9]
Other managers with strategic responsabilities *						959		258

1 Fee paid to the company of which the individual ia a directory
2 Of which Euros 1,150 thousand from Pirelli Tyre S.p.A. and Euros 435 thousand from Pirelli & C. Real Estate S.p.A.
3 From Pirelli Tyre S.p.A.
4 From Pirelli & C. Real Estate S.p.A.
5 Member of the Internal Control, Risk and Corporate Governance Committee
6 Member of the Remuneration Committee
7 Member of the Internal Control, Risk and Corporate Governance Committee (Euros 25 thousand) and Supervisory Board (Euros 15 thousand)
8 Of which Euros 4.950 thousand from Pirelli & C. S.p.A. and Euros 187 thousand from Pirelli & C. Real Estate S.p.A.
9 Member of Supervisory Board
* The Chairman and General Manager and other managers with strategic responsabilities are included in the LTI three year incentive plan, which, using a coinvestment mechanism, envisages the payment in the 2009 and 2010 financial years of 50% of the incentive achieved while the remaining 50% accrued overall will be paid in the 2012 financial year, increase by 100% if the three year objectives specified in the LTI plan have been achieved, or reduced by 50% if these objectives have not been achieved. For more details about the operation of the incentive plan, see the "Remuneration of the directors" section of the Corporate Governance Report.

Equity interests held by Directors, Statutory Auditors, General Managers and Key Managers

Under the terms of the Article 79 of the Consob Rules approved with Resolution N° 11971 of May 14, 1999 the table below shows the equity interests held in the company Pirelli & C. S.p.A. and in its subsidiaries by Directors, Statutory Auditors, General Managers and key managers, by their spouses if not legally separated and by their minor children, directly or through controlled companies, trust companies or intermediaries, as resulting at December 31, 2009 from the Shareholders' Register, from communications received and from other information acquired from the same Directors, Statutory Auditors, General Managers and key managers.

Surname and Name	Investee company	Number of shares held at 12/31/2008	Number of shares purchased/ subscribed	Number of shares sold	Number of shares held at 12/31/2009
Tronchetti Provera Marco	Pirelli & C. S.p.A.	13,764	-	-	13,764
	Pirelli & C. S.p.A. (held indirectly)	1,369,504,398 [1]	-	-	1,369,504,398
	Pirelli & C. S.p.A. (held indirectly)	1,217,398 [2]	-	-	1,217,398
	Pirelli & C. Ambiente S.p.A. (held indirectly)	2,998,800 [2]	-	-	2,998,800
	Pirelli & C. Eco Technology S.p.A. (held indirectly)	16,228,800 [2]	-	-	16,228,800
Pirelli Alberto	Pirelli & C. S.p.A.	1,447,925	-	-	1,447,925
	Pirelli & C. Real Estate S.p.A.	1,400	-	-	1,400
Puri Negri Carlo Alessandro	Pirelli & C. S.p.A.	66,500	-	-	66,500
	Pirelli & C. Real Estate S.p.A.	1,026,500 [3]	-	1,026,500	-
Ligresti Giulia Maria	Pirelli & C. Real Estate S.p.A.	10 [4]	-	-	10
Moratti Massimo	Pirelli & C. S.p.A.	11,551,427	-	-	11,551,427
	Pirelli & C. S.p.A. (held indirectly)	37,427,732 [5]	-	-	37,427,732
	Pirelli & C. S.p.A. (held indirectly)	13,435,544 [6]	-	-	13,435,544
Roth Luigi	Pirelli & C. S.p.A.	44,000 [4]	-	-	44,000
De Conto Claudio [7]	Pirelli & C. S.p.A.	55,258	-	-	55,258
	Pirelli & C. S.p.A.	-	250,695	-	250,695
Guatri Luigi	Pirelli & C. S.p.A.	186,654 [8]	-	-	186,654
Other key managers	Pirelli & C. Real Estate S.p.A.	-	40,500	-	40,500

1 Shares held through Camfin S.p.A.
2 Shares held through Cam Partecipazioni SpA
3 Of which 627,273 held through F.lli Puri Negri S.a.p.a.
4 Shares held by spouse
5 Shares held through CMC S.p.A.
6 Shares held in trust by Istifid S.p.A.
7 Post of Operating General Manager held until September 16, 2009
8 Shares held by spouse. Post of Chairman of Board of Statutory Auditors held until April 21, 2009

Stock Option Plans

Please note that the information on stock option plans disclosed under the terms of Consob Communication N° 11508 of 15 February 2000 has been included in the Notes to the Financial Statements.

Information on ownership structure (pursuant to Art. 123 bis TUF)

The information pursuant to Article 123 bis of Legislative Decree 58 of February 24, 1998 can be found in the report on Corporate Governance included in the dossier with the financial statements and published in the Governance section of the company's website (*www.pirelli.com*).

Security Planning Document

In accordance with the provisions of Legislative Decree 196 of June 30, 2009, Appendix B, paragraph 26, we disclose that the Pirelli Group updated its Security Planning Document for the year 2009.

Foreign subsidiaries not in the European Union (Non-EU Companies)

Pirelli & C. S.p.A. controls, directly or indirectly, a number of companies with registered offices in States which are not members of the European Community (Non-EU Companies)[1] which are of significant importance under the terms of Art. 36 of Consob Regulation 16191/2007 on control of the markets ("Market Regulations").
Also under the terms of the same regulations, the Company has in place specific and appropriate "Group Operating Rules" which ensure immediate, constant and full compliance with the provisions contained in the said Consob Regulations[2]. Under the terms of the said Operating Rules, the competent corporate functions of the Parent Company, precisely and periodically identify and disclose all non-EU companies significant under the Market Regulations, and – with the necessary and timely collaboration of the companies involved – guarantee collection of the data and information and verification of the circumstances as required by Article 36, ensuring that the information and figures provided by the subsidiaries are available in the event of a request by Consob. Furthermore, a regular flow of information is provided for in order to ensure that the Board of Statutory Auditors of the Company can carry out the required and appropriate audits. Finally, the above "Operating Rules", in keeping with the regulatory provisions, prescribe how the financial statements (the balance sheet and income statement) of significant non-EU companies prepared for the purpose of the consolidated financial statements are to be made available to the public.
It can therefore be stated that the company has fully complied with the provisions of Article 36 of the aforementioned Consob Regulation 16197/2007 and that the conditions required by the same have been fulfilled.

1 Non-EU companies controlled, directly and indirectly, by Pirelli & C. S.p.A., significant under Article 36 of the Market Regulations are: **Turk Pirelli Lastikleri AS; Pirelli Tyre CO LTD; Pirelli Pneus LTDA; Pirelli Tyre (EUROPE) S.A.; Pirelli Tyre LLC; Pirelli de Venezuela C.A.**.

2 It should be noted that even before adoption of the aforementioned "Operating Rules" the administrative, accounting and reporting systems in place in the Pirelli Group already enabled the Companies to be substantially in line with the requirements of the regulatory prescriptions.

Resolution

ALLOCATION OF NET INCOME

The year to December 31, 2009 ended with net income of Euro 112,611,595.
The Board proposes that, after making the provisions required by law to the legal reserve, a dividend be distributed, before the withholdings required by law, of:
— Euro 0.0145 per ordinary share;
— Euro 0.0406 per savings share (including the 2009 dividend, of 0.0203, and the privileged dividend, of Euro 0.0203, calculated in addition for financial year 2008 in which no dividend was assigned).

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

Resolution

The Shareholders' Meeting:
— acknowledging the Report of the Board of Directors on Operations;
— acknowledging the reports of the Board of Statutory Auditors and the Independent Auditors;
— after examining the financial statements at December 31, 2009 which show net income of Euro 112,611,595

Resolves

a) to approve:
— the Report of the Board of Directors on Operations;
— the Balance Sheet, Income Statement and Notes to the Financial Statements for the year ended December 31, 2009, which show net income of Euro 112,611,595, as presented by the Board of Directors, as a whole, in their single entries and with the allocations proposed;

b) to allocate the net income for the period of Euro 112,611,595 as follows:

— 5% to the legal reserve	Euro 5,630,580
— to the shareholders:	
Euro 0.0145 to the 5,229,274,503* ordinary shares;	
for a total of	Euro 75,824,480
Euro 0.0406 to the 130,272,660* savings shares;	
for a total of	Euro 5,289,070
— the remaining net income to be retained	Euro 25,867,465

c) if, before the dividend in point b) above has been detached, transactions for the sale of treasury shares have been executed, to authorize the directors to take the amount of dividend due to these shares from the income retained, and to allocate to the same item the balance of rounding adjustments determined on payment of the dividend.

The dividend will become payable on May 27, 2010, with "detachment" of the coupon on May 24, 2010.

The Board of Directors
Milan, March 10, 2010

* net of the 3,867,500 ordinary shares and 4,491,769 savings shares currently held by the Company.

Corporate Governance Report 2009 Financial Year

GLOSSARY

Shareholders' meeting to approve the Financial Statements for 2009: Means the shareholders' meeting that will be called to approve the operating and consolidated financial statements at 31 December 2009.

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. and available on its website *www.borsaitaliana.it.* to which the company adheres.

Civil Code: means the Italian Civil Code.

Board or 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 exchange.

Date of the Report: means the meeting of the Board of Directors held on 10 March 2010 that approved this report.

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

Financial year: indicates the financial year that ended on 31 December 2009.

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, VAT number and Milan Business Registry no. 02473170153.

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

Stock Exchange Regulations: indicates the Market Regulations organised and managed by Borsa Italiana S.p.A.

Issuer Regulations: indicates the Regulations issued by CONSOB with deliberation no. 11971 of 1999 on the subject of issuers and subsequent amendments and supplements.

Market Regulations: indicates the Regulations issued by CONSOB with deliberation no. 16191 of 2007 on the subject of markets and subsequent amendments and supplements.

Report: indicates this report on corporate governance and the structure of share ownership pursuant to article 123 bis of the CFL.

Company: indicates Pirelli & C.

Company bylaws: indicates the Bylaws of Pirelli & C., available on the company internet site *www.pirelli.com* and printed at the end of this Report.

CFL: indicates Legislative Decree no. 58 of 24 February 1998 (the Testo Unico di Finanza, or Consolidated Finance Law).

1. PROFILE OF THE COMPANY ISSUING THE REPORT

Pirelli & C is the limited company, listed on the Milan Stock Exchange, that heads the multinational group specialised in the tyre sector that also has a presence in the real estate, broadband access technologies, air quality and emission control sectors. In over 130 years of business, the Group has grown thanks to its capacity to generate innovative products in a range of sectors. Tyres represent the strategic asset of the group identified as Pirelli Tyre. In the property sector, Pirelli RE manages the property-owning funds and companies and holds a leadership position in the Italian market. The Group is also active in other high technological innovation sectors, such as broadband access. Pirelli's constant attention to environmental issues, and its emphatic focus on product innovation, has led to the birth of new businesses: Pirelli Ambiente operates in the renewable energy and sustainable development sector, supplying 100% green electricity obtained from photovoltaic installations, and Pirelli Eco Technology is active in the production of the latest generation Feelpure antiparticulate filters. Pirelli Labs, a centre of technological excellence, is at the service of all these businesses, and represents the engine of innovation for all the businesses of the Group.
Awareness of the importance of an efficient Corporate Governance system represents one of the essential elements for achieving the objectives of creating sustainable value and prompts the Company to keep its corporate governance system constantly in line with national and international best practice.
Pirelli adopts the traditional administration and control system based on the central role played by the Board of Directors. The distinctive elements of the Company Corporate Governance model are: correct disclosure practices concerning the choices and processes by which company decisions are formulated, an effective internal control system, and effective regulation of potential conflicts of interest.

The system of governance is documented in the Code of Ethics, the Company Bylaws, the Regulations regarding shareholders' meetings, and a series of principles, rules and procedures, periodically updated to reflect regulatory and legal developments, that are available on the Company website at *www.pirelli.com* in the section dedicated to Governance and the approach and policies of the Board of Directors.
Moreover, the Company has been publishing its sustainability reports since 2005 – further information is available in the appropriate section in the company financial reports.
It should be noted that although not required to do so by the Self-Regulatory Code, the Company voluntarily highlights updates and additions made to its corporate governance system since the preceding annual report in its half-yearly report.

2. INFORMATION ON THE STRUCTURE OF SHARE OWNERSHIP (EX ART. 123 BIS SUBSECTION 1, CFL) AT 03/10/2010

a) Structure of the share capital

The subscribed and fully paid in share capital of the company totalled Euro 1,556,692,865.28, consisting of ordinary and savings shares of 0.29 euros par value each. The exact composition of the share capital is reported in Table 1.

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 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. They may be converted into nominal savings shares at the request and expense of the shareholder.

In addition to the rights and privileges specified by the law and the Company bylaws, savings shares have the right of 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 ordinary and savings shares are excluded from trading.
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 of up to seven percent of their par value. If in a financial year the savings shares are assigned a dividend of less than seven percent of their par value, the difference is added to the preference dividend in the two following financial years. The profits remaining after the dividend specified above has been assigned to the savings shares are allocated to all the shares in such a way that the savings shares receive a dividend that is two percentage points of their par value higher than that of 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.

The remaining profits will be distributed to all the shares, in addition to the sums assigned previously described, unless the Shareholders' Meeting should decide to approve the Board's proposal to make special allocations to extraordinary reserves or other uses, or should decide 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.

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

At the date of approval of the Report no financial instruments that attribute the right to subscribe to new issue shares were found to have been issued[1].

Stock incentive plans

See the financial report and the information prospectus drafted in September 2007 pursuant to art. 84 *bis* of the Consob Issuer Regulations and subsequent amendments, available in the Governance section of the Company website *www.pirelli.com*.
Please also refer to the heading "Stock Option Plans" in the explanatory notes to the Consolidated Financial Reports.

b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

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1 It should be noted that the right granted to Directors in a decision made by the Extraordinary Shareholders' meeting held on 11 May 2004 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, 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, expired on 10 May 2009. See the section below entitled "Powers to increase the share capital and authorisations to purchase own shares".

c) Major shareholdings

Those subjects which, according to the criteria published by Consob[2], own ordinary shares representing more than 2% of the ordinary voting capital, are listed in Table 2.

d) Securities that confer special rights

No securities that confer special monitoring rights have been issued.

e) Employee shareholdings: mechanism for exercising voting rights

In the case of employee shareholders, there are no mechanisms for the exercising of their voting rights 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, namely a certain number of votes, terms imposed on the exercise of voting rights, namely 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

The list of subjects that participate in the "Pirelli & C. S.p.A. Block Share Syndicate", the purpose of which is to ensure the stability of the Pirelli & C share structure and an excerpt of the relevant agreement is provided in annex (d) to this Report, and is available on the Company website at *www.pirelli.com*.

h) Changes to the bylaws

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

i) Change of control clauses

There are no subjects which may directly or indirectly, also by virtue of shareholder agreements, 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 could occur.

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

Powers to increase share capital

Without prejudice to the matter notified below, the powers granted to the directors to increase the share capital against payment in one or more operations, and the right to issue bonds convertible in both ordinary and savings shares, or with warrants valid for share subscription, expired during the year. In consequence, the Shareholders' Meeting to approve the 2009 Financial

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2 www.consob.it, "issuers" section.

Reports will be asked to modify article 5 of the Bylaws[3] so as to eliminate the reference to the aforementioned powers[4].
It should be noted that a resolution of the Extraordinary Shareholders' Meeting held on 7 May 2003, gave the Directors 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 executive managers and cadres employed by the company, its subsidiaries or their subsidiaries, of the latter in Italy or abroad, pursuant to articles 2441 subsection eight of the Civil Code and article 134 of the CFL. On 25 February 2005, the Board of Directors, in partial execution of the powers attributed to it, resolved 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 each, at a price of 0.996 euros each, of which 0.706 as share price premium, to be reserved for subscription by executive managers and cadres employed by the company, its subsidiaries and their subsidiaries, in Italy and abroad.

Authorisation to purchase own shares

The programme to purchase the Company's own shares, approved by the Board of directors on 9 May 2008 after authorisation by the Ordinary Shareholders' Meeting held on 29 April 2008, expired at the end of October 2009 [5]
In execution of this programme, the Company purchased 1,250,000 ordinary shares at a price of 0.2985 euros each.

At the Date of the Report, the Company held 3,867,500 of its own ordinary shares, equal to 0.07% of the whole of the share capital, and 4,491,769 of its own savings shares, equal to 3.3% of the savings share capital, and 0.084% of the whole share capital.

m) 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 the termination/cancellation of appointments without good reason or if the employment relationship ceases after a public takeover bid.

n) Direction and coordination activities (ex. art. 2497 and subsequent articles of the Civil Code)

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..
Nor is the Company subject to direction and coordination activities by any company or body pursuant to article 2497 and subsequent articles 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 subsidiary companies, having published appropriate information about these matters pursuant to article. *2497-bis* of the Civil Code.

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3 By a resolution of the Extraordinary Shareholders' Meeting held on 11May 2004, the Directors were attributed:
- Ithe 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 CFL, where the shares are offered for subscription by the employees of Pirelli & C. or its subsidiaries.
- Ithe 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.

4 For more information on this point, see the Directors' Report , available on the company website.

5 Press release of 5 November 2009.

3. COMPLIANCE

Pirelli & C. has adhered to the Self-Regulatory Code for listed companies issued by Borsa Italiana, the Italian Stock Exchange, since it was first issued (July 2002). Subsequently, in the Board meeting of 12 March 2007, it declared that it adhered to the new version of the Code (issued March 2006) published on the Borsa Italiana website *www.borsaitaliana.it*.
At the date of this Report non-Italian legal provisions that influence the corporate governance structure of the Company do not apply to Pirelli & C..

4. BOARD OF DIRECTORS

In accordance with the regulations for the traditional direction and control model, the management of the Company is assigned to the Board of Directors, which plays an active role 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.
To carry out its duties the Board of Directors relies on the support provided by specific Board Committees composed entirely of independent directors, responsible for investigations, advice and/or consultation.

4.1 Appointment And Replacement Of Directors

Since 2004, the Company bylaws[6] have provided that the Board of Directors is appointed by a slate system. This system ensures that – if at least two slates are presented – the so-called "minority" shareholders can elect one fifth of the Directors.
The slates presented by the shareholders, signed by those presenting them, must be filed at the registered offices of the Company, for inspection by anyone wishing to do so, at least fifteen days before the date the Shareholders' Meeting is first convened[7].
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 togheter with other shareholders, hold a total number of shares representing at least 2 percent of the share capital entitled to vote at ordinary shareholders' meeting or the minor percentage, according to the regulations issued by CONSOB [8], are entitled to present slates, subject to their proving ownership of the necessary number of shares not later than the date by which they must be deposited.
Declarations in which the candidates individually accept their candidacy and attest that there are no grounds for ineligibility or incompatibility, and that they meet any requirements prescribed for the offices in question, must be deposited with each slate. The declarations must be accompanied by a curriculum vitae for each candidate regarding their personal and professional characteristics, indicating (i) the administration and control appointments held by the candidate with other companies and (ii) their fitness to be considered independent, according to the legal and Company criteria.

Slates presented in violation of the rules described above are considered null.
In the Meeting, 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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6 Article 10 of the company Bylaws
7 Also in line with Criterion of application 6.C.1 of the Self Regulatory Code
8 CONSOB (CONSOB Resolution no. 17148 of 27 January 2010) 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 2010 financial year as 2% of the capital with voting rights in the ordinary shareholders' meeting.

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 of 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 none from these slates has yet elected a director, or if they have all elected the same number of directors, then within these slates the 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.
If the slate voting mechanism should not assure the minimum number of independent directors specified in the applicable regulations, the elected 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 with next highest progressive number, and so on, list by list, until the minimum number of independent directors has been achieved.

For the appointment of directors, not nominated for any reason according to the procedure described, 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.
Loss of the requisites for independence by a director does not cause their appointment to lapse if the minimum number of directors - specified by applicable regulations - in possession of the legal requisites for independence remain in office.
As per international best practice, when renewing the Board of Directors it is Company practice to allow the shareholders separate votes on: (i) the number of people on the Board of Directors; (ii) the election of Directors through a vote on the slates presented; (iii) the duration of the mandate of the Board of Directors; and (iv) the remuneration of the Directors.
It should be noted that the Company will take the necessary action to adapt to the provisions of legislative decree no. 27 of 27 January 2010, containing the "Transposal of Directive 2007/36/EC of the European Parliament and Council of 1 July 2007. on the exercise of certain rights of shareholders in listed companies, implementing the powers contained in article 31 of law no. 88 of 7 July 2009", and which shall apply for shareholders' meetings called after 31 October 2010. It should be noted that some changes to the Bylaws will be submitted to the Shareholders' Meeting to approve the 2009 Financial Reports, specifically, that the part of article 7 of the Company Bylaws that does not prescribe the right (reintroduced by the aforementioned legislative decree 27/2010) that the shareholders' meeting to approve the financial reports may be called – pursuant to article 2364 of the Italian Civil Code – within 180 days of the end of the company financial year, and the further reduction of the threshold specified in the Bylaws for the presentation of slates to renew the control bodies, be modified. For details of the aforementioned changes, see the "Shareholders' Meeting" and "Board of Statutory Auditors" sections of this report, and the directors' report on the proposed modifications, available on the Company website.

4.2 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 upon their appointment) and may be re-elected.
The Board of Directors in office on 31 December 2009 consists of twenty members and was appointed by the Shareholders' Meeting held on 29 April 2008 for three financial years to expire at the Shareholders' Meeting called to approve the financial reports for the year ending 31 December 2010. The average age of the Directors is just over 63 years.

By voting on a slate[9], the minority shareholders were able to nominate four Directors, i.e. one fifth of the total number (specifically, Carlo Angelici, Cristiano Antonelli, Franco Bruni and Umberto Paolucci).
Two slates were presented to the shareholders' meeting held on 29 April 2008: one from the participants in the Pirelli & C. Share Block Syndicate (which obtained 93% of the votes of the voting capital[10]) and one from a group of institutional investors[11] (which obtained 5.5% of the votes of the voting capital[12]). Those proposing the slates made the candidates' profiles available so that the candidates' personal and professional characteristics, as well as some candidates' qualifications as independents, were made known prior to voting.

The *curricula vitae*, containing the personal and professional characteristics of each director, 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.
The composition of the Board of Directors at the date of this Report is indicated in Table 3. It should be noted that no Director ceased to serve after the election of the Board of Directors by the Shareholders' Meeting of 29 April 2008.

4.2.1 Maximum accumulation of directorships in other companies

On 29 April 2008, as recommended by the Self Regulatory Code [13], the Board of Directors confirmed the validity and applicability of the Policy [14], adopted by the Board during the previous mandate [15], which established that 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 by said Company, is not considered compatible with serving as a director of the Company, when the companies are (i) listed companies included in the FTSE/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 (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.

When the Board of Directors is due for renewal, Shareholders who, pursuant to the Bylaws, intend to present slates for the composition of the Board of Directors, are invited to examine this document[16].
After investigation by the Committee for Internal Control, Risks and Corporate Governance, the Board of Directors, in its meeting of 10 March 2010, examined the offices held and reported by the individual Directors and determined that all Directors hold positions 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. In particularly, none of the serving Directors was found to hold a higher number of offices than the maximum specified in the Policy.

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9 The voting slate is specified in article 10 of the Bylaws.
10 Figure calculated from the Minutes of the Shareholders' Meeting of 29 April 2008, available on the Investors section of the Company website, www.pirelli.com
11 The minority slate was presented by: ARCA SGR SPA (rubrica Fondo Azioni Italia – Rubrica Fondo Arca BB), BNP PARIBAS ASSET MANAGEMENT SGR SPA (BNL Azioni Italia), MONTE PASCHI ASSET MANAGEMENT SGR SPA (Ducato Geo Italia), PIONEER INVESTMENT MANAGEMENT SGR P.A. (Pioneer Azionario Crescita), PIONEER ASSET MANAGEMENT S.A., EURIZON CAPITAL SGR SPA (San Paolo Azioni Italia – Sanpaolo Italian Equity Risk – Sanpaolo Opportunità Italia – Nextra Rendita), EURIZON CAPITAL S.A. (SPI Obiettivo Industria – SPI Obiettivo Europa – SPI Obiettivo Euro – SPI Obiettivo Italia), FIDEURAM INVESTIMENTI S.G.R. S.p.A. (IMI Italy), FIDEURAM GESTIONS S.A. (Fonditalia Global – Fonditalia Equity Italy – Fonditalia Euro Cyclical – Fideuram Fund Equity Italy – Fideuram Fund Europe Listed Industrials Equity), INTERFUND SICAV (Interfund Equity Italy – Interfund Equity Europe Industrials), AMBER MASTER FUND SPC (Managed by Amber Capital LP).
12 Figure calculated from the Minutes of the Shareholders' Meeting of 29 April 2008, available on the Investors section of the Company website, www.pirelli.com.
13 Self Regulatory Code: Criterion of application 1.C.3..
14 The aforementioned Policy is annexed to this Report, and is also available in the Governance section of the Company website, www.pirelli.com.
15 Board of Directors meeting of 7 November 2007.
16 See Call notice for Shareholders' Meeting on 27 March 2008.

Positions occupied by the Directors in major companies other than Pirelli Group companies are annexed to this Report[17].

4.3. ROLE OF THE BOARD OF DIRECTORS

The Bylaws do not specify a minimum interval between Board meetings. The Company has circulated a calendar[18] that schedules 4 meetings for 2010, specifically:
— 10 March 2010: Board of Directors' meeting to examine the budget and consolidated financial reports for the year ended on 31 December 2009
— 6 May 2010: Board of Directors' meeting to examine the half-yearly report on operations at 31 March 2010.
— 29 July 2010: Board of Directors' meeting to examine the half-yearly financial report at 30 June 2010.
— 4 November 2010: Board of Directors' meeting to examine the half-yearly report on operations at 30 September 2010.

Board meetings may take place by means of telecommunication, enabling all parties to participate in the debate, with equal information.
The Board of Directors meetings are convened by means of letter, telegram, fax or e-mail sent at least five days (or, in the event of emergencies, at least six hours) in advance of the meeting to each Director and Statutory Auditor.
Barring exceptional cases, the Directors and the Auditors have always received the necessary documentation and information with reasonable notice in order to express their informed opinion on the matters submitted to their scrutiny.
During the financial year there were 6 meetings of the Board of Directors, with an average duration of approximately one and a half hours each, with a mean percentage attendance by directors of 78%, while the percentage attendance of the independent Directors was 85%.
The Lead independent director attended all meetings of the Committee for Internal Control, Risks and Corporate Governance (which he chairs) and all meetings of the Board of Directors.
At the date of the Report, there had been one board meeting in 2010.

4.3.1 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 to direct and set the policy of the Company.
Pursuant to the Bylaw [19] 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[20]):
— 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 corporate governance guidelines;
— evaluates the adequacy of the general organisational, administrative and accounting 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 clashes of interests;
— grants powers to the Managing Directors and the Executive Committee (if established) and revokes them; defining their limits, the manner in which they are to be exercised and the frequency, at least quarterly, at which such bodies must report their activities in the exercise of the powers granted them by the Board;
— determines, after having examined the proposals of the Remuneration Committee and con-

17 Self Regulatory Code: Criterion of application 1.C.2..
18 Press release of 7 November 2008.
19 Article 11 of the company Bylaws.
20 Self Regulatory Code: Criterion of application 1.C.1, lett. a).

sulted the Board of Statutory Auditors, the remuneration of the Managing Directors and of those directors who are vested with special offices and, if the Shareholders' 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 into consideration, specifically, 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; to this end it established general criteria for identifying operations of significant impact;
- at least once a year, evaluates the size, composition and functioning of the Board itself and its Committees, expressing opinions on any professional figures whose presence in the Board it might deem advisable;
- constitutes the Supervisory Body pursuant to legislative decree no. 231/2001;
- appoints the General Managers and, subject to the opinion of the Board of Statutory Auditors, the manager responsible for drawing up the company accounting documents, determining their responsibilities and powers;
- appoints and dismisses the internal control officer and determines their duties and remuneration, after having received the opinions of the Committee for Internal Control, Risks 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 the responsibilities attributed to it by the law and the Company bylaws.

Finally, the Board is responsible for the overall supervision of the company risk assessment and management system. In this capacity, the Board of Directors resolved to adopt a new risk assessment and risk management model in its meeting of 29 July 2009. Please see the section entitled "Risk assessment system".

4.3.2 Evaluation of the general results of operations [21]

Pursuant to the current regulations[22] and the Bylaws [23], the Board of Directors has evaluated the general results and likely development of operations at least once a quarter.
Please see the paragraph headed "Information to the Board" in the "Delegated Bodies" section.

4.3.3 Internal control system and governance system [24]

The Board of Directors has assessed [25], 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 10 March 2010, adopting the considerations of the Committee for Internal Control, Risks 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 [26].

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21 Self-Regulatory Code. Criterion of application 1.C.1, lett. e)..
22 Article 150 of the CFL.
23 Article 11 of the Bylaws
24 Self-Regulatory Code. Criterion of application 1.C.1., lett.b).
25 Self-Regulatory Code. Criterion of application 1.C.1..
26 In this respect, see paragraph headed "Committee for Internal Control, Risks and Corporate governance", below, for further details.

4.3.4 Remuneration of the directors vested with special responsibilities [27]

During the financial year the Board examined and approved the Committee's proposal for the remuneration of the Chairman.
See section "Remuneration of directors" for all issues related to remuneration.

4.3.5 Transactions with significant impact on the strategy, the profitability, the assets or the financial position of the Company [28]

The "Procedure for information flows to Directors and Auditors"[29] specifies that the general information on the activities carried out should be complete with specific detailed information on, among other matters, transactions with significant impact on the strategy, profitability, assets or financial position of the company.
Moreover, the Board, without prejudice to the responsibilities and powers reserved to it by the law, Bylaws, powers structure and internal procedures, has also determined that it is the responsibility of the Board of Directors to approve in advance certain non infragroup operations and actions (determined on the basis of the latest qualitative criteria and further quantitative thresholds detailed at the end of this Report) when carried out by Pirelli & C or by unlisted foreign companies subject to the direction and coordination of Pirelli & C..

4.3.6 Transactions with related parties:

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

4.3.7 Board performance evaluation [30]

During 2006, for the first time, the Board of Directors made a self-evaluation of its performance (officially called a "*Board performance evaluation*"), for what is now the fourth time, thus adhering to international best practices and the provisions in the new Self-Regulatory Code[31].
As proposed by the Committee for Internal Control, Risks and Corporate Governance, taking the positive experience of preceding years into account, the Board decided it was appropriate to confirm the existing structure of the self-evaluation process for the 2009 financial year.
In accordance with the most widely tested practice, the self-evaluation process occurred by direct interviews with individual Board members or, alternatively, allowing Board members to provide written answers to a specific questionnaire (which was also used as a guide for the interviews). The evaluation was carried out with the assistance of a major consultancy company that worked alongside the Committee for Internal Control, Risks and Corporate Governance to develop evaluation methods and to analyse its results.
Considering the good results that emerged from the preceding self-evaluations, the Board also decided to simplify and slim down the self-evaluation in relation to some aspects that were positively assessed in previous exercises, now considered to have achieved a level such that no further improvement in these aspects can be expected.
The Board also decided to examine the opinion of the board decision training process in depth in the *board performance evaluation*, with specific reference to the activities of the Board committees and the information support provided by the management in some of the important decisions taken during the year.

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27 Self Regulatory Code: Criterion of application 1.C.1, lett. d).
28 Self Regulatory Code: Criterion of application 1.C.1, lett. f).
29 The "Procedure for Information Flows to Directors and Auditors" is printed at the end of this Report and is also available in the Governance section of the Company website www.pirelli.com.
30 Self Regulatory Code: Criterion of application 1.C.1, lett. g).
31 Self Regulatory Code: Criterion of application 1.C.1, lett. g).

Finally, to give continuity over time to the self-evaluation process, the Board decided to re-submit some issues that emerged during the 2008 self-evaluation to the attention of the Board, also with the aim of identifying and evaluating the improvements achieved.
As in previous evaluations, the Directors were invited to express their opinions on the following major aspects:
— "board performance evaluation": the evaluation by Directors that is principally concerned with the operation of the Board and its Committees in general;
— "directors' evaluation": the evaluation that involves an in-depth examination of Directors' opinions of the degree of effective participation in and knowledge of the Company by other Directors;
— "self evaluation": individual Directors' evaluation of their own participation in and knowledge of the Company.
The Directors interviewed were given the opportunity to express four degrees of opinion and to formulate their own comments.
The results were subject to in-depth analysis by the Committee for Internal Control, Risks and Corporate Governance and then submitted to the Board of Directors in its meeting on 10 March 2010. As is its standard practice, a meeting of the independent directors, namely a working meeting in which participation is extended to all the directors, will be dedicated to this topic.
It confirmed that there was a high degree of participation in the board performance evaluation by the Directors, who participated massively in the direct interview in place of the written questionnaire, and the examination of the results indicated a positive impression of the Board and its Committees, although a need to make some changes to improve some aspects also emerged.

Specifically, the Directors expressed their appreciation of the working meetings they had had with Top Management to examine in depth some specific business issues[32] confirming the importance of repeating such meetings, which now represent a consolidated practice – and in the opinion of the Directors of the Company – a profitable one, in the future.
The Board then express its special appreciation of the role played by the Lead Independent Director, considered an effective facilitator of the process of reporting to the independent directors, in the meetings of the independent directors only, and on the Committee for Internal Control. Risks and Corporate Governance as an effective part of the internal control system.
The board performance evaluation also formulated a positive opinion of the Board committees in general, and of the decision taken by the board during the financial year to extend its membership.
The Members of the Board made some suggestions for the further improvement of the debate in its meetings, considered to be the forum in which the principal strategic decisions should be analysed, debated and decided. In particular, it was suggested that all the individual directors should attend meetings more regularly.
The board performance evaluation also produced a positive evaluation of the corporate governance solutions for "risk management"[33], which, as noted in the preceding report, should play a more central role in Board discussions..
Finally, the board performance evaluation concluded that the actual development of the three year management incentive plans should be monitored over time[34]

4.3.8 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 competition prohibition contained in article 2390 of the Civil Code.

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32 Cf. Section 5.4 "Other Executive Directors".
33 For more detail, see the section entitled "Risk assessment system".
34 For more detail, see the section entitled "Remuneration of directors".

4.4. Delegated Bodies

4.4.1 Chairman

Pursuant to the Bylaws, The Board of Directors appoints its Chairman, where the Shareholders' Meeting has not done so. The Board of Directors appointed Marco Tronchetti Provera as Chairman in its meeting of 29 April 2008.
The Chairman is the legal representative of the Company, empowered to perform any action pertinent to corporate activity in its various manifestations.
Furthermore, the Chairman, Marco Tronchetti Provera, was confirmed as responsible for the following organizational functions:
— relations with shareholders and the information provided to them;
— formulation of the general strategies and development policy for the Company and the Group, and any extraordinary corporate actions, to be submitted to the Board of Directors ;
— proposals for the appointment of members of the General Managers' departments and, after consulting the Remuneration Committee, for their remuneration, to be submitted to the Board of Directors;
— chairmanship of any Management Committees with strategic functions instituted;
— coordination of the activities of Managing Directors, where appointed;
— all forms of communication with the market, with the power to delegate to Managing Directors , where appointed.
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 issue guarantees for 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 the signature of the Chairman must be accompanied by that of another legal representative with similar power (in particular of "managers with strategic business responsibilities");

4.4.2 General Managers and other Managers

In its meeting on 16 September 2009, the Board of Directors of the Company approved a new organisational structure for the Group. Coherently with the strategy and aims of the 2009-2011 industrial plan to focus on its core business, the company decided to simplify its organisational structure and group all activities that directly support the core business in the new "Tyre and Parts" Division, headed by Dr. Francesco Gori, who continues to act as Managing Director of Pirelli Tyre.
In line with the focus on industrial activities, the reorganisation absorbed the Chief Operating Officer post, held by Claudio De Conto (who also ceased to serve as Responsible Officer on that dat [35]) who is now focussed on Pirelli RE, as Managing Director of Finance, together with the other Managing Director of Pirelli RE, Giulio Malfatto.
As a result of this reorganisation plan, the Board of Directors also appointed the new Responsible Officer, Dr. Francesco Tanzi.
The following persons are classified as managers with strategic business responsibilities in that they have the power to take management decisions that can affect the evolution and future prospects of the business: Francesco Gori, General Manager Tyre & Parts, Francesco Chiappetta, Assistant to the Chairman and Group General Counsel and Francesco Tanzi, Director of Finance, and as stated, Officer responsible for the preparation of the company accounting documents.
Powers pertaining to their specific assigned functions, subject to certain quantitative limits, have been granted to the aforementioned officers with strategic business responsibilities.
Less broad powers have been granted to other Managers of the Company to be used in their individual spheres of competence.

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35 Dr. De Conto's tenure as manager ceased with effect from 31 December 2009.

As in the past, in 2009 the Chairman, 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 significant transactions to the Board of Directors.
In fact, delegation is not a way of assigning exclusive powers but is rather the solution adopted by the Company to ensure the best degree of operational flexibility in terms of the organization of the Board (and in terms of relationships with third parties).

4.4.3 Information to the Board

Pursuant to law [36] and the company Bylaws [37], the Board of Directors and the Board of Statutory Auditors are kept informed about the performance of the Company, its general management, its prospects, and the transactions with greatest impact on its profitability, financial position or assets and liabilities carried out by the Company or its subsidiaries. As appropriate, the delegated organs report any transactions in which they have an interest, on 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.
To foster the orderly organisation of the flow of information, the Company developed a specific Procedure, in use since 2002, which clearly defines the rules to follow to comply with the information reporting obligations.
In its meeting on 29 April 2008 the Board of Directors confirmed the validity and applicability for the current mandate of the procedure on information flows adopted by the Board during its previous mandate [38].

The purpose of the new procedure is to regulate and coordinate the various types of data flowing to Directors and Auditors Statutory, so that they all have the common aim of making the data needed to properly fulfil its directional, policy and control responsibilities continuously available to the Board. Finally, it should be noted that new regulations for transactions with related parties is scheduled to be issued during the 2010 financial year.
The Company will assess the content of the new regulations and the consequent need to adopt new procedures.

4.5. Other Directors

The Board of Directors considers that the Chairman of the Board of Directors, Marco Tronchetti Provera, and the two Vice Chairmen, Carlo Alessandro Puri Negri and Alberto Pirelli are executive directors.
In accordance with the recommendations of the Self Regulatory Code[39] and with what is now consolidated practice in the company, in order to increase all directors' knowledge of the reality and dynamics of the company, several working lunches with Top Management were organised during the year, to examine specific business and corporate governance issues in greater detail.

4.6. Independent Directors

The Board of Directors of the Company evaluate the requisites for independence specified in the Self-Regulatory Code and the CFL for non-executive directors qualified as independent upon their appointment and at yearly intervals.

36 Article 15, section one, of the CFL.
37 Article 11 of the company Bylaws.
38 The text of the updated procedure shown at the end of this Report, is also available on the website of the Company at www.pirelli.com, in the "Governance" section.
39 Self Regulatory Code: Criterion of application 2.C.2.

In the light of a substantial evaluation of the information provided by the Directors and that available to the Company, the Board of Directors, in its meeting on 10 March 2010,confirmed that the eleven directors who have been qualified as independent, also in terms of the requisites of the CFL, since their appointment (Carlo Acutis, Carlo Angelici, Cristiano Antonelli, Alberto Bombassei, Franco Bruni, Luigi Campiglio, Berardino Libonati, Umberto Paolucci, Giampiero Pesenti, Luigi Roth and Carlo Secchi), continue to maintain these requisites.

A further six Board members (Gilberto Benetton, Enrico Tommaso Cucchiani, Giulia Maria Ligresti, Massimo Moratti, Renato Pagliaro and Giovanni Perissinotto) could be qualified as "non-executive directors".

It follows that independent directors represent the majority (55%) of serving directors and approximately 2/3 (about 65%) of the total number of "non-executive directors". The average age of the independent directors is 68.

In line with the recommendations of the Self-Regulatory Code[40],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 assessment based on the requirements recommended by the Self-Regulatory Code[41], and thus directors may not – by law – be considered independent:

a) if they, directly or indirectly, including on behalf of subsidiaries, trust companies or through third parties, control the Pirelli & C or are able to exercise considerable influence on the company, or are a participant in a shareholder agreement through which one or more subjects can exercise control or significant influence on Pirelli & C.;

b) if they have or have been in the past three financial years a prominent exponent[42] of Pirelli & C., or one of its strategic subsidiaries or a company under joint control with Pirelli & C., or a company or a body that, alone or together with others in accordance with shareholders agreements, control Pirelli & C. or are able to exercise considerable influence on it;

c) if directly or indirectly (e.g. through subsidiaries or bodies that have a significant position, such as a partner in a law firm or consultancy company) they have, or had in the previous financial year, a close business, financial or professional relationship with:
— Pirelli & C., one of its subsidiaries, or any related prominent exponent thereof;
— a subject who, alone or together with others in a shareholder agreement, controls Pirelli & C., or – in the case of a company or body – with prominent exponents of said body; or
— is or has been an employee of one of the above-mentioned subjects within the previous three financial years ;

d) if they receive, or have received in the past three financial years, from Pirelli & C. or one of its subsidiaries or parent companies, a substantial bonus in addition to their "fixed" salary as non-executive director of Pirelli & C., including performance-based incentive plans, including share options;

e) if they have been a director of Pirelli & C. for more than nine years of the past twelve;

f) if they are an executive director in another company in which an executive director[43] of Pirelli & C. is a director;

g) if they are a partner or director of a company or body belonging to the company mandated to audit the accounts[44] of Pirelli & C.;

h) if they are a close family member of a person that finds themselves in one of the situations described above.

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40 Self-Regulatory Code. Criterion of application 3.C.5
41 Criteria of application 3.C.1 and 3.C.2
42 The following may generally 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.
43 The following persons are executive directors of the issuer: Chairman Marco Tronchetti Provera and Vice Chairmen Alberto Pirelli and Carlo Alessandro Puri Negri.
44 The company mandated to audit the accounts of Pirelli & C. is Reconta Ernst&Young S.p.A. a member of the Ernst&Young network(Cf. Section 12.4)

4.6.1 Meetings of the independent directors

In accordance with the recommendations of the Self-Regulatory Code [45], the independent Directors met four times during the financial year in the absence of the other directors, and examined topics inherent to the corporate governance system of the Company again confirming, for the 2009 financial year, the particular attention they pay to the system used for the self-evaluation of the Board of Directors and the remuneration mechanisms for the Senior Management of the company, as well as making a valuable contribution to the evaluations of the Remuneration Committee and the Board of Directors. The independent directors discussed some elements of the company reorganisation process resolved by the Board of Directors in greater detail with the Chairman (see the "Delegated Bodies" section for further information). The independent directors specifically examined the issue of "sustainability" in the Pirelli Group, and the new corporate governance solutions that led to the definition of a new governance model for business risks, and the definition of a compliance function[46].
During 2010, one meeting of the independent directors has already been held.

4.7. Lead independent director

In November 2005, to further extend 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, Risks and Corporate Governance, was chosen) coordinates and acts as a point of reference for the issues raised and contributions made by the independent Directors.
The Lead Independent Director also has the right to convene – on his own initiative or upon the request of other Directors – specific meetings of independent Directors only in order to discuss any topics felt at the time to be of interest to the functioning of the Board of Directors or to the running of the business. Last but not least, it should be noted that the Lead Independent Director works with the Chairman of the Board of Directors to improve the operation of the Board itself, and in order to cooperate to ensure that directors receive complete and prompt information.
The Lead independent director, in his mandate to the Date of the Report, attended all meetings of the Committee for Internal Control, Risks and Corporate Governance (which he chairs) and all meetings of the Board of Directors.

5. HANDLING OF COMPANY INFORMATION

5.1 Internal management and disclosure of documents and information

Market transparency, and clear, correct and complete information, are the values that are upheld by the conduct of the corporate bodies, the management and all those who work for the Pirelli Group.
In March 2006 the Board of Directors adopted a specific Procedure for the management and communication to the market of sensitive information that, taking account of the regulations on market abuse, governs the management of sensitive information on Pirelli & C, its unlisted subsidiaries and the listed financial instruments of the Group. The procedure applies to all members of corporate bodies, employees and external collaborators of Group companies that might have access to information that could evolve into sensitive information.
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.

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45 Self-Regulatory Code. Criterion of application 3.C.6
46 See the section entitled "Risk assessment system" for further information.

In accordance with the legal provisions, the Procedure specifically defines:
— the requisites and responsibilities for classifying sensitive information;
— the arrangements for tracing access to sensitive information in transit;
— the tools and rules to protect the confidentiality of sensitive information in transit
— the operational arrangements for the communication of sensitive information to the market and, in general, on communications with the public and/or analysts and investors.

The procedure also disciplines the institution of a register of persons with access to confidential information, in operation since 1 April 2006.

In its meeting on 29 April 2008 the Board of Directors confirmed the validity and applicability of the updated "Procedure for the management and communication to the pubic of sensitive information"[47].

5.2 Insider dealing

Matters regarding the transparency of transactions involving Company shares or financial instruments linked to them, made directly or by third parties by relevant persons or by persons closely related or linked to them (i.e. insider dealing) are currently fully governed by law and by the Consob implementing regulations.
Pursuant to the law, Directors and statutory auditors of the issuing Company, as well as "persons who carry out management [...] functions in a listed 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 a listed issuing company…" and others, 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 Euro 5,000 annually.
The Company opted to identify its "managers with strategic responsibilities" as these managers[48].
Within the more general auditing process for the corporate governance instruments, despite being not obliged by law, the Board of Directors decided to confirm, in accordance with the previous mandate, black-out periods[49], for the persons mentioned above who must adhere to insider dealing regulations, who must therefore abstain from making transactions on Company shares or on financial instruments linked to these shares[50] in these periods.
These periods may, moreover, be extended or suspended by the Board of Directors in exceptional cases.

6. BOARD COMMITTEES

In the meeting of the Board of Directors on 29 April 2008, after its renewal, the Board instituted two committees: the Committee for Internal Control, Risks and Corporate Governance [51] and the Remuneration Committee.
The composition of the Board committees is shown in Table 4.

7. APPOINTMENTS COMMITTEE

The Board of Directors decided not to establish a committee charged with appointing Directors, since the conditions envisaged by the Code for its establishment do not exist, also because of the current ownership structure and, above all, because of the capacity of the slate system to attribute transparency to the selection and nomination of candidates.

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47 This procedure, annexed to this Report, is also available on the website of the Company at www.pirelli.com, in the "Governance" section.
48 These are Messrs. Gori, Chiappetta and Tanzi. In this respect, please see the "Delegated Bodies" and "General Managers and other Managers" paragraphs.
49 The text of the procedure concerning black out periods is shown at the end of this Report, is also available on the website of the Company.
50 The text of this procedure is printed at the end of this Report, and available in the Governance section of the Company website, www.pirelli.com.
51 Name effective from 1 September 2009, replacing the previous name of "Committee for Internal Control and Corporate Governance".

Moreover, it has given the Committee for Internal Control, Risks and Corporate Governance the power to identify candidates to propose to the Board in the event that an independent Director be co-opted pursuant to article 2386, subsection 1 of the Civil Code.

8. REMUNERATION COMMITTEE

8.1 Composition

The Board established the “Remuneration Committee”, a subcommittee from among its members, charged with fact-finding, advising and recommending functions, in the year 2000.
Going beyond the recommendations of the Self-Regulatory Code[52], the members of the Remuneration Committee appointed by the Board of Directors in its meeting on 29 April 2008, (directors Berardino Libonati, Alberto Bombassei and Giampiero Pesenti) and in its meeting on 29 July 2009 effective from 1 September 2009 (director Umberto Paolucci), are all independent directors.
As a result, at the Date of the Report, the Remuneration Committee is composed as follows[53]:
— Berardino Libonati (Chairman);
— Alberto Bombassei;
— Giampiero Pesenti;
— Umberto Paolucci.
The Secretary to the Board of Directors, Anna Chiara Svelto, acts as Secretary to the Committee.

8.2 Tasks assigned to the Committee

In line with the recommendations of the Self-Regulatory Code, the Board of Directors confirmed the fact-finding and advisory role of the Remuneration Committee.
Specifically, the Remuneration Committee:
- formulates proposals to the Board for the remuneration of the managing directors and those persons who hold certain offices to ensure that their remuneration is aligned with the objective of shareholder value creation in the medium-long term;
- periodically evaluates the remuneration criteria for the top management of the Company and, as requested by the managing directors, formulates proposals and recommendations, with specific reference to the adoption of possible stock option plans or stock bonuses;
- monitors the application of the decisions made by the competent bodies and of the company policies regarding the remuneration of top management.

8.3 Operation

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 whole Board of Statutory Auditor[54] and, if deemed appropriate and at the invitation of the Committee, other Company and/or Group representatives, as well as representatives od the External Auditors attend the meetings of the Committee.
In line with the recommendations of the Self Regulatory Code[55] and with best practice, directors vested with special offices do not attend Remuneration Committee meetings.
The information and documents available and required for informed deliberation of the topics submitted to the committee have always been circulated to all members reasonably in advance.

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52 Self-Regulatory Code Principle 7.P.3, specifies that the remuneration committee should be composed exclusively of non-executive directors, most of whom should be independent.
53 See Table 4 for greater detail.
54 This circumstance characterises the corporate governance rules adopted by the Company, and offers the Board of Statutory Auditors, in its own interest, the possibility of directly following the activities of the Committees so as to more effectively execute the control function assigned to it.
55 Self Regulatory Code: Criterion of application 7.C.4..

The meetings of the Remuneration Committee are regularly minuted by the secretary and the minutes are transcribed into a specific register[56].
The Committee also has the right[57] to access company departments and information as necessary for the execution of the tasks assigned to it, making use of the support of the Secretary of the Board of Directors.
The Committee has adequate financial resources for the performance of its duties with independent expenses.

8.4 Activity during the financial year.

During 2009 the Remuneration Committee met twice: all its members attended and the meetings lasted on average one hour.
During the financial year, the Committee examined – and formulated its proposals to the Board – the fixed and variable remuneration package of the Chairman, and evaluated those of managers with strategic responsibilities, and specifically, of the General Director, Tyre and Parts, and of the Assistant to the Chairman and Group General Counsel, approving the criteria used to determine them. Making use of leading consultancies in the field of executive compensation, the Committee developed its analyses by benchmarking comparable jobs, and analysing by grade, independently of the specific offices held. The analysis was developed taking data published by Italian and International Groups considered comparable in terms of organisational structure and/or industrial sector and/or capitalisation into account.
The Committee noted that for 2008 no incentive policy was applied, and that there was an international block on pay policy in 2009. These actions resulted in an average fall of approximately 20% in total manager remuneration.
The Committee evaluated in advance a new incentive plan for about 80 senior managers, subsequently approved by the Board of Directors[58].
The Committee also examined and proposed to the Board its determinations concerning the termination by agreement of the management employment contract of the Chief Operating Officer, Mr. De Conto, who as Director of Finance, has concentrated his activities on Pirelli RE.
During 2010, to the date of this Report, the Committee has met once, approving the budget for the annual variable remuneration of the Chairman and managers with strategic responsibilities in the business for the results achieved in the 2009 financial year. The Board approved the proposals submitted by the Committee in its meeting on 10 March 2010.

9. Directors' Remuneration and Pay Policy

In addition to reimbursement for expenses incurred in performing their duties, Directors receive annual fees determined by the Shareholders' Meeting[59].
The meeting of 29 April 2008 decided "to establish a maximum of 1,200,000 euros as the total annual remuneration 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 29 April 2008, the Board of Directors established the distribution of the remuneration as follows:
— 50,000 euros per annum for each of the 20 members of the Board of Directors;
— 25,000 euros per annum for each of the members of the Committee for Internal Control, Risks and Corporate Governance, subsequently, after the increase in its membership determined with effect from 1 September 2009, determined at 24,000 euros per annum for each member;
— 20,000 euros per annum for each of the members of the Remuneration Committee.

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56 Also in accordance with the recommendations of the Self Regulatory Code: Criterion of application 5.C.1, lett. d).
57 Also in line with the provisions of the Self Regulatory Code. Criterion of application 5.C.1, lett. e).
58 Please see the section entitled "Remuneration", below
59 Article 14 of the company bylaws.

A fee of 15,000 euros per annum is also payable to the Board member called on to be a member of the Supervisory Body pursuant to legislative decree no. 231/2001 (Carlo Secchi).

The remuneration of directors given particular tasks is established by the Board of Directors upon consultation with the Board of Statutory Auditors as proposed by the Remuneration Committee. The current remuneration system provides[60] for payments to comprise a fixed amount and an additional bonus linked to the performance, including the long-term performance, of the Group, and to be related to the attainment of specific objectives set by the Board.

Specifically, the Company decided, based on analyses carried out with major executive compensation consultants, to attribute a 2010 annual incentive based on a mechanism that includes a financial condition (Net Financial Position) for access (an "on/off" condition), linked to a quantitative parameter of annual profitability (PBIT) developed from an in-depth comparative analysis of market positioning in terms of compensation with respect to a comparable sample of Italian and international companies.
Also in order to contribute to achieving the long term interests of the company, in line with the initial indications that seem likely to become the best practices in this field[61], the Committee proposed, and the Board approved, a three year incentive plan connected to the achievement of the aims contained in the 2009-2011 three year plan. The Three-year Incentive Plan includes an incentive mechanism that also applies for the Chairman and managers with strategic responsibilities in the business, which envisages the "investment" of 50% of the annual incentive for 2009 and 2010, with the opportunity of receiving the total sum "invested" increased by 100% in March 2012 if the results for the three years are achieved. Otherwise, the total "invested" sum will be reduced by 50%. The portion of the three year incentive supporting the industrial plan will not produce any payment until March 2012. The coinvestment mechanism described therefore also allows the company to substantially defer payment of the variable components of remuneration.
After the adoption of the new Incentive Plan, the variable portion of pay directly related to the results will exceed 40% of total management remuneration, on average, reaching 64% for top management. On the other hand, about 75% of the variable compensation will thus be linked solely to the achievement of three year objectives. The plan also envisages a mechanism correlating a portion of the incentive to Total Shareholder Return to assure even closer alignment of the work of the management with shareholder expectations.

This correlation is designed to maintain a direct link between pay and sustainable performance, in terms of medium and long term growth in value. It should be noted that the economic targets of the plan include the cost of the incentive plan.
If a mandate or management employment contract should be terminated ahead of time, the participants in the three year incentive plan will lose their entitlement to the incentive and to the share "invested" up to that time.
It should be noted that the Company has not stipulated agreements with its directors that envisage indemnities in case of resignations or the termination/cancellation of appointments without good reason or if the employment relationship ceases after a public takeover bid.
The remuneration of the directors holding specific offices (Chairman and Vice Chairman), and, in aggregate form, the remuneration of Managers with strategic responsibilities in the business paid during the 2009 financial year are reported below.

60 Also in line with the provisions of the Self Regulatory Code. Criterion of application 7.C.1. .

61 This refers to Recommendation 2009/385/EC of 30 April 2009, which supplements recommendations 2004/913/EC and 2005/162/EC relating to the regime for the remuneration of the directors of listed companies. .

For more detail, including information on the remuneration of the other directors, see the table in the notes to the financial statements.

Subject	Description of Office		Remuneration received in 2009 (in thousands of euro)				Remuneration for the 2009 financial year to be received in 2010 (in thousands of euro)	
FIRST AND LAST NAME	OFFICE HELD	TERM	FEES FOR THE OFFICE	NON-MONETAR BENEFITS	BONUSES AND OTHER INCENTIVES	OTHER REMUNERATION	FEES FOR THE OFFICE	BONUSES AND OTHER INCENTIVES
Tronchetti Provera Marco*	Chairman	2011	2,508	-	-	1,585 [1]	50	1,521
Pirelli Alberto	Deputy Chairman	2011	590	-	-	374 [2]	50	82 [2]
Puri Negri Carlo Alessandro	Deputy Chairman	2011	335	-	-	11,692 [3]	50	-
Gori Francesco*	General Manager	since 09/16/09	-	7	-	1,250 [2]	-	609
De Conto Claudio	General Manager	since 09/16/09	-	5	-	6,668 [4]	-	669
Other managers with strategic responsibilities*	-	-	-	-	-	959	-	258

1 Of which 1,150 thousand euros from Pirelli Tyre S.p.A. and 435 thousand euros from Pirelli & C. Real Estate S.p.A. (PRE)
2 From Pirelli Tyre S.p.A.
3 From Pirelli RE
4 Of which 4,950 thousand euros upon termination of employment with Pirelli & C and 187 thousand euros from PRE
* The Chairman and General Manager and the other managers with strategic responsibilities are included in the LTI three year incentive plan, which, using a coinvestment mechanism, envisages the payment in the 2009 and 2010 financial years of 50% of the incentive achieved i, while the remaining 50% accrued overall will be paid in the 2012 financial year, increased by 100% if the three year objectives specified in the LTI Plan have been achieved, or reduced by 50% if these objectives have not been achieved.
For more details about the operation of the incentive plan, see the "Remuneration of the directors" section of the Corporate Governance Report.

Lastly, it should be noted that at the date of the Report there are no stock-option plans for either the executive or the non-executive directors.
During the 2010 financial year the Committee and the Board examined the general principles of the pay policy for a representative sample of senior managers. The analysis indicated that the current pay policy in the Pirelli Group is able to attract and retain talented resources with high level professional qualities for the key roles within the Group. The pay policy for senior management, like that for the Top management, is based on a well-balanced combination of fixed and variable components. In particular, the variable component of remuneration is linked to medium and long term objectives, while the short term one contains "cash deferred" mechanisms, with a deferment (in line with the described coinvestment mechanism) of 50% of the annual incentive achieved. For "staff" positions, and control personnel in general, the variable remuneration is a lesser proportion of total remuneration than for the Top management personnel directly focussed on the *business*. The pay package of the Top management and *senior managers* is completed, as is standard, by some *benefits*, which are an integral part of it.

10. THE COMMITTEE FOR INTERNAL CONTROL, RISKS AND CORPORATE GOVERNANCE

10.1 Composition.

The Board of Directors established [62] the "Committee for Internal Control and Corporate Governance", renamed the "Committee for Internal Control, Risks and Corporate Governance" with effect from 1 September 2009, which is charged with fact-finding and advisory functions, from amongst its members in 2000.
In line with the best corporate governance practice, and going beyond the recommendations of the Self-Regulatory Code, the Committee, appointed by the Board of Directors in its meeting on 29 April 2008 (composed of Carlo Angelici, Franco Bruni and Carlo Secchi) and subsequently extended in its meeting on 29 July 2009, effective from 1 September 2009 (with the appointment of directors Cristiano Antonelli and Luigi Roth), is composed solely of independent Directors, two of whom considered by the Board of Directors to be in possession of adequate experience of accounting and finance matters [63].
At the Date of the Report, the Committee for Internal Control, Risks and Corporate Governance had the following members:
— Carlo Secchi (Chairman);
— Carlo Angelici;
— Cristiano Antonelli;
— Franco Bruni;
— Luigi Roth.
The Secretary to the Board of Directors, Anna Chiara Svelto, acts as Secretary to the Committee.

10.2 Tasks assigned to the Committee.

The Board of Directors that convened on 29 April 2008 confirmed the tasks - of a fact-finding and advisory nature – assigned to the Committee for Internal Control and Corporate Governance in line with 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.

In particular, the Committee for Internal Control and Corporate Governance:
- assists the Board of Directors::
    - in the definition of policies for the internal control system, so that the main risks for the Company and its subsidiaries are correctly identified and adequately measured, 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 a Managing Director) 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;
- with the appropriate Company managers, the officer responsible for preparing the company accounting documents and the auditors, 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;
- at the request of the executive manager 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;

62 Also in line with the provisions of the Self Regulatory Code. Principle 8.P.4.
63 Specifically, Mr Bruni and Mr Secchi.

— reviews the work plan prepared by the internal control officers and their periodic reports;
— evaluates the proposals formulated by 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;
— 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.

In line with the "Procedure for information flows to Directors and Statutory Auditors", the Committee has the right to consider, on a case by case basis, the following correlated parties:
(i) companies in which the natural persons indicated in the procedure mentioned above hold strategic management roles, and the companies controlled by these companies;
(ii) companies which share a majority of directors with Pirelli.

After the approval of a new model of risk assessment and risk management in the company, the Committee was assigned consultation and/or advisory tasks in relation to the new model of risk assessment and risk management. See the section entitled "Risk assessment system" for further details.

10.3 Operation

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 requested by another member of the committee or by a Managing Director.
The Board of Statutory Auditor [64] and, if deemed appropriate, other Company and/or Group representatives and representatives of the External Auditors, attend the meetings of the Committee.
The internal control Officer (who is functionally answerable to the Committee for Internal Control, Risks and Corporate Governance) reports on his work and on the arrangements by which risk management and compliance with plans of defined content occur;
The internal control Officer also reports, at least once a year, to the Board of Directors, either directly or through the Committee for Internal Control and Corporate Governance, and to the Board of Statutory Auditors.
The information and documents available and required for informed deliberation of the topics submitted to the committee have always been circulated to all members reasonably in advance.
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 [65].
The Committee has adequate financial resources for the performance of its duties with independent expenses.
In accordance with the provisions of the Self-Regulatory Code [66], the Committee also has the right to access company information and departments as necessary for the execution of the tasks assigned to it, making use of the support of the Secretary of the Board of Directors.

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64 Also going beyond the recommendations of the Self Regulatory Code: Criterion of application 8.C.4. This circumstance characterises the corporate governance rules adopted by the Company, and offers the Board of Statutory Auditors, in its own interest, the possibility of directly following the activities of the Committees so as to more effectively execute the control function assigned to it.
65 Also in line with the provisions of the Self Regulatory Code. Criterion of application 5.C.1, lett. d).
66 Self Regulatory Code: Criterion of application 5.C.1, lett. e).

10.4 Activity during the financial year.

During 2009, the Committee for Internal Control and Corporate Governance met 6 times (with two of these meetings held after its renewal) and all members participated in these meetings. The average duration of the meetings was about two and a half hours.
In the 2010 financial year to the Date of the Report, the Committee met twice.

Corporate Governance activities

The Committee made real contributions to the process of implementing and updating the new Company corporate governance instruments, in particular, during the year, the Committee submitted to the Board of Directors some modifications to the Group Code of Ethics, which, while the values that inspire it remain substantially unchanged, has been supplemented and enriched with new instances which were concrete expressions of the action of the Pirelli Group, and which, with the modifications approved first by the Committee and then by the Board, are expressly reflected in the Code.
During the year, the Committee approved some modifications to the procedure for managing information (which were already partially reported on in the 2008 Corporate Governance Report). In particular, the Committee considered whether or not the mechanisms that permit processing of confidential information should be extended, while at the same time guaranteeing the confidentiality of the information processed.
The Committee submitted to the Board (which consequently approved, in its meeting on 10 March 2009) a proposal to reconsider the preceding assessments carried out on the absence of direction and coordination activities on Pirelli RE (a circumstance reported on in the 2008 Corporate Governance Report).

During the financial year, the Committee examined the results of the board performance evaluation 2008 (which was previously extensively reported on in the Corporate Governance Report for the 2008 financial year), and started the self-evaluation process for the 2009 financial year, examining the results of this during 2010. In this respect, please see the section entitled "Board performance evaluation". The Committee then proposed that a new model for risk assessment and management should be adopted, and its implementation subsequently monitored. This was approved by the Board in its meeting on 29 July 2009. For a more extensive description of the new "risk management" system, see the section entitled "Risk assessment system".
The Committee then examined in depth the position of Pirelli in terms of "sustainable development" taking note of the many acknowledgements received in the international indices.
Again on the subject of "corporate governance", the Committee oversaw the investigation to ascertain the continuing possession by directors of the requisites for independence, and respect for the Policy on the maximum accumulation of offices considered compatible with serving as a director of Pirelli. The results of the examination undertaken in the 2009 Financial year are indicated in the Corporate Governance Report for the 2008 financial year, while those obtained during the 2010 financial year are reported in the sections entitled "Independent Directors" and "Maximum number of offices held in other companies".
The Committee expressed a preventive positive assessment of the reorganisation process resolved by the Board of Directors on 16 September 2009 described in the "Delegated Bodies" section. The Committee also proposed that the following be identified as "managers with strategic responsibilities in the business": Francesco Gori (General Manager Tyre & Parts), Francesco Chiappetta (Assistant to the Chairman and Group General Counsel) and Francesco Tanzi (Director of Finance, and Officer responsible for the preparation of the company accounting documents).

The Committee approved a procedure to report violations of laws, regulations and principles sanctioned in the Code of Ethics and in internal procedures to the Internal Audit Division (a so-called "*Whistleblowing*" procedure).
Finally, the Committee submitted the Half Yearly Corporate Governance Report, published in a single document with the Half-Yearly Financial Report at 30 June 2009 to the Board for approval. The Committee also took note of the flattering results on corporate governance achieved in

the GMI Governance Metrics International report, explained in the 2009 half-yearly report on Corporate Governance.

Internal Control activities

During 2009, the internal control Officer of the Company (identified as the head of the Internal Auditing Department, Mr. M Bonzi) attended the meetings of the Committee, reporting on his activities every three months.
The Committee monitored the work carried out by the Internal Audit Department, and, in particular, examined the shortcomings identified in the audits completed by the department, monitoring the implementation of the related action plans for the corrective measures needed to continuously improve the system.
At the start of the 2009 financial year, the Committee approved the final results of the activities carried out in implementation of the 2008 Audit Plan, and approved the Audit Plan for 2009. Similarly, in 2010 the Committee examined the final results of the 2009 Audit Plan and approved the Plan for the 2010 financial year.
During the year the Committee met the Responsible Officer, who reported on the suitability of the means and powers attributed to him, and on the activities he carried out in relation to the financial statements for the year to 31 December 2009; this has already been reported in the Corporate Governance Report for the 2008 financial year. After the reorganisation decided within the Company, the Committee met the new Responsible Officer, Mr. Tanzi, to confirm the information flows established in the past with Mr. De Conto.

In the meeting that preceded approval of the draft financial statements at 31 December 2009, it met the Responsible Officer to check the suitability of the means and powers attributed to him, and to receive a report on the activity he had carried out. See the section entitled “Responsible Officer” for more detail.
The Committee then examined and formulated a positive opinion of the External Audit Plan for the 2009 financial year submitted by the external auditors, Reconta Ernst&Young.
The Committee, in concert with the external auditors and the Responsible Officer, emphasised some issues inherent to the use of the accounting principles, with particular reference to the treatment of shareholdings in affiliated companies. The Company then took note of the effective implementation of the procedure adopted pursuant to article 36 of the Regulations of the Markets and examined the joint Bank of Italy/CONSOB/ISVAP document dated 6 February 2009, noting no problems of critical issues.
The Committee maintained adequate flows of information with the Committee for Internal Control of Pirelli RE.
The Committee then examined some transactions with related parties, although they were typical and usual and/or at market conditions (in particular, the sale of the holding in Vittoria Capital N.V. representing 5% of the capital) and agreed the contents of the shareholder agreement between Pirelli and the Camfin Group to regulate their relations as shareholders in the companies owned 51% by the Company and 49% by Cam Partecipazioni S.p.A., a Camfin Group company, active in the environment and sustainable mobility business. The Committee noted that the agreement grants a purchase option to the Company, and, to Cam Partecipazioni S.p.A., an option to sell, if either party should cancel the shareholder agreement on its expiry on 30 June 2012 and subsequently every three years. If the purchase or sale option should be exercised, the price will be determined based on the discounted cash flow method, and specifies the application of the market multiples of comparable companies as corrective, if necessary.

A sale option in favour of Cam Partecipazioni S.p.A. is also specified if there should be disagreement on significant issues.
In the light of the activities carried out and the checks made, and the information and documents received and examined, the Committee confirmed its positive opinion of the adequacy of the internal control system and *governance* of the Company and the Group of which it is part [67]

67 Cf. Paragraph on “Internal control system and governance system” in the section entitled “Role of the Board of Directors”.

and has provided a report on its activities through its Chairman to the first useful meeting of the Board, and reported on its activities to the Board at half-yearly intervals.

It is considered appropriate to provide 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 , 2007 and 2008 and have been the subject of an investigation by the Committee for Internal Control and Corporate Governance, the Board of Statutory Auditors and the Supervisory Body.

In particular, as already made public, during the year the Company joined the proceedings against all the persons accused of the crimes which have caused damage or offence to the company as civil part. The Company has been allowed to joint the criminal proceedings for embezzlement and money laundering as civil part.

The only civil action that has been permitted to be brought against the Company, the legal person accused pursuant to leg. Decree 231/2001, is that brought by the Avvocatura dello Stato (the pool of specialised jurists who defend state and other public bodies) in the interest of the Office of the Prime Minister and the Ministries to which the public officials involved in the corruption proceedings belong, and the suit certain parties allegedly damaged by the conduct of the company's ex-employees.

Such compensatory action is in fact founded in the legal provision by virtue of which the employer, irrespective of its culpability, is answerable financially for the illicit acts committed by its employees. So Pirelli would be called on the answer only for its objective liability.

Subsequently the Board of Directors of the Company, as proposed by the Committee for Internal Control, Risks and Corporate Governance, with the advice of highly qualified professionals, carefully assessed and then approved the decision to petition for the application of the penalty at the request of the parties, since it had in any event reached an agreement with the Government Departments involved so as to completely define all responsibilities.

The *Procura* (Criminal Court) issued a favourable opinion of the petition submitted by the Company, and the Judge reserved the right to pronounce his/her decision.

It should be noted that the Company is proceeding with the civil actions 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.

11. 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 cover of 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 the financial markets.

The cardinal rules of the internal control system of the Company are:

- the separation of roles in the performance of the principal activities involved in each operating process;
- the traceability and constant visibility of decisions;
- the management of decision-making processes according to objective criteria.

11.1 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 refers to the Committee for Internal Control, Risks and Corporate Governance, as well as to 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 func-

tions to verify the adequacy and efficiency of this system; and, if anomalies are detected, who proposes the necessary corrective solutions.
After its renewal, the Board of Directors, in its meeting of 29 April 2008, identified the Chairman of the Board of Directors as the director charged with the internal control system to whom the following tasks have been assigned, in line with the recommendations of the Self-Regulatory Code[68]:
— ensuring that the main company risks are identified, taking the characteristics of the activities performed by the issuer and its subsidiaries into account, and periodically submit them to the Board of Directors for examination;
— executing the policy lines defined by the Board of Directors, ensuring that the internal control system is planned, implemented and managed, and constantly ascertaining its overall adequacy, efficacy and efficiency;
— adapting the system to changes in business conditions and in the legal and regulatory frameworks;
— propose the appointment, revocation and remuneration of one or more internal control officers to the Board.

11.2. Internal Control Officer

The internal control Officer – who the Board of Directors, after its renewal, with the approval of the Committee for Internal Control, Risks and Corporate Governance and in accordance with best practice, as proposed by the Executive Director charged with the internal control system, confirmed as the head of the Internal Audit Department (Dr. Maurizio Bonzi) - reports his activities to the Committee for Internal Control, Risks and Corporate Governance (to which he is operationally answerable) and the Board of Statutory Auditors and is hierarchically answerable to the Chairman of the Board of Directors.
The Internal Audit Department assumes a role of great prominence in the internal control system and also, due to the activities it performs regarding subsidiaries, it has the principal task of assessing the adequacy and functionality of the 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 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.
The Company also has in place a planning and control system that focuses on individual sectors and work units, which produces a detailed monthly report for the General Managers, providing a useful tool for the supervision of specific activities.
In order to favour compliance with the strategies and guidelines adopted by the parent company, the relevant managers with strategic responsibilities in the business and competent section and function managers sit on the Boards of Directors of the largest subsidiaries.

11.3 Risk Assessment System

In July 2009 the Board of Directors of Pirelli & C. examined and approved, also in line with international best practice and the suggestions formulated during the self-evaluation process for the 2008 financial year, a new model for the assessment and management of risks liable to prejudice the achievement of the strategic objectives of the Company's Industrial Plan and Operational Plans.
In particular, the Board considered it advisable, in view of the accelerating economic changes, the complexity of management activities, and recent regulatory developments in corporate gov-

68 Also in line with the provisions of the Self Regulatory Code. Criterion of application 8.C.1, lett. b).

ernance and internal control, to adopt a structured process for the management of business risks that allows them to be promptly and fully identified, and adequate measures to be adopted to manage them proactively and in advance, instead of simply reacting to events.
The Board evaluated the importance if identifying risks before they manifest themselves, and the adoption of business choices and tools that can prevent them, reduce their impact, and, more generally, "manage them", given that the assumption of risk represents a fundamental component of business management.
In the light of this, the Board firstly redefined the attributes and composition of the Committee for Internal Control and Corporate Governance, renaming it the "Committee for Internal Control, Risks and Corporate Governance" for this purpose, and extending its composition to 5 directors.

The Board of Directors then approved the general thrust of the new risk management model (still in the process of being implemented). Specifically, the chosen model is based on a top-down and value-driven approach, based on the identification and management of those risks that might prejudice the achievement of strategic objectives and/or threaten the value-drivers of the Group. Coherently with this approach, the top management provides policy for the identification of priority risk areas, and of the specific events with potential impact on the objectives outlined in the Industrial plan, or on strategic business assets.
These events are then subjected to detailed analysis that involves the managers responsible for the business units, the central staff functions, and the regional or country managers.
In the new model, when fully operational, the Board of Directors will be responsible for "risk governance". In particular, once the project has been implemented, the Board, with the assistance of the investigations and advice provided by Board subcommittee created for this purpose (the Committee for Internal Control, Risks and Corporate Governance) will define the "threshold of acceptable risk [69]", for the year, and the approval, each year, of a "risk assessment and management plan" in which the main relevant risks, and the consequent scheduled mitigation plans will be specifically defined. Finally, the Board will issue guidelines for the definition of risk policies to manage specific existing and prospective risk events.
The Committee for Internal Control, Risks and Corporate Governance will play a fundamental role, undertaking investigations and providing support to the Board, in the development of the "Annual risk assessment and management plan", and then guaranteeing its effective dissemination throughout the company, and supervising its implementation. In line with its responsibilities, the Committee will also have the task of advising on the definition of the "threshold of acceptable risk", and on risk management strategies in general.

The effective implementation of the "Annual risk management plan" will then be attributed to the Risk Management Committee (chaired by the Assistant to the Chairman and Group General Counsel, and composed of the General Manager, Tyre & Parts, the Chief Financial Officer, the Group Control Manger, the Internal Audit Manger, the Manager of Legal and Company Affairs and Group Compliance, the Manager of Investor Relations) which will report on its activities to the Committee for Internal Control, Risks and Corporate Governance at intervals to be defined during the implementation of the project.
The Risk Management Committee, which will report its work to the board Subcommittee, will be responsible for (i) adopting and promoting a systematic and structured process for the identification and measurement of risks; (ii) examining the information on internal and external risks, external and prospective, to which the Group is exposed; (iii) proposing strategies for response to the risk depending on the overall and specific exposure to the different categories of risks; (iv) proposing the application of risk policies so as to guarantee that risk is reduced to "acceptable" levels; (v) monitoring the implementation of the risk response strategies defined and the respect of the risk policies adopted.
The activity of the Risk Management Committee is supported by a specific company department for "Sustainability and Risk Management", specially created and reporting directly to the Group General Counsel with the aim of further strengthening the Pirelli corporate govern-

69 Threshold of Acceptable Risk, or Risk Appetite, are defined in the Committee of Sponsoring Organization Enterprise Risk Management Framework as "the amount of risk, on a broad level, an entity is willing to accept in pursuit of value".

ance system integrating various aspects of sustainability, including the identification, analysis and monitoring of all company risk environments.
The Risk Officer, who will guarantee a suitable link between the Director appointed to supervise the functionality of the internal control system, will be a member of this department.
Finally, a Group Compliance department has been created, separate from the Internal Audit department, reporting to the Director of Legal and Company Affairs and Group Compliance, and specifically tasked to work with the other group departments to ensure that the internal regulations and processes, and company activities in general, are constantly aligned with the applicable regulatory framework.
In line with best practice, the task of the compliance department is to ensure that the risks of non-compliance with laws, regulations and general provisions, including those originating from self-regulation, are managed, so as to prevent legal or administrative sanctions, relevant financial losses or damage to the Company's reputation.

11.3.1 "The risk management and internal control system in relation to the financial reporting process"

The Company has implemented an articulated risk management and internal control system, supported by a dedicated IT system, for the process of creating the separate and consolidated half-yearly and annual financial report.
Generally, the internal control system set up by the Company is focussed on safeguarding the assets of the company, respect for the laws and regulations, and the efficiency and efficacy of company operations, as well as the reliability, accuracy and promptness of the financial report.
Specifically, the process of formulating the financial report occurs through adequate administrative and accounting procedures, developed in coherence with the criteria established by the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of Tradeway Commission.

The administrative/accounting procedures for the formation of the financial statements and all other financial communications are drawn up under the responsibility of the Officer responsible for drawing up the accounting and company documents (Mr. F. Tanzi), who, with the Chairman of the Board of Directors, jointly attests their adequacy and effective application in the statutory and consolidated financial statements and the half-yearly financial report.
To permit declaration by the Responsible Officer:
— the Company/relevant processes that feed and generate information of an economic-equity or financial nature have been mapped.

The relevant Processes and Group Companies are identified annually, based on quantitative and qualitative criteria; the quantitative criteria are the identification of those Group companies that, in relation to the processes selected, represent an aggregate value that exceeds a predetermined threshold of materiality.
The qualitative criteria are the examination of those processes and those companies that, in the opinion of the Chief Executive Officers and the Chief Financial Officers of the Sectors, may present potential areas of risk, although they do not fall within the quantitative parameters described above.
For each process selected, the control objectives/risks related to the formation of the financial statements and related report, and the efficacy/efficiency of the internal control system in general have been identified.
For each control objective, specific checking activities have been identified, and specific responsibilities assigned.
A system of supervision of the controls carried out by means of chain declarations has been implemented; any critical aspects that emerge from the valuation process are the object of action plans, implementation of which is verified in the next round.
Finally, a quarterly declaration of the reliability and accuracy of the date submitted for the preparation of the Group consolidated financial statements by the Chief Executive Officers and Chief Financial Officers of the subsidiary companies will now be issued.

Close to the dates of the meetings of the Boards of Directors that approve the consolidated data at 30 June and 31 December, the results of the checking activities are discussed with the Responsible Officer by the Chief Financial Officers.
To summarise, a system of continuous and systematic controls has been adopted that provide reasonable certainty about the reliability of the economic-financial reports and information.
The Internal Audit department carries out periodic audits to check the adequacy of the design and operation of the controls on a sample of processes and companies, selected using materiality criteria.
On the basis of the periodic reports, the Responsible Officer has reported on the efficacy of the System, through the Committee for Internal Control, Risks and Corporate Governance, to the Board of Directors. The same officer, with the Chairman of the Board of Directors, has also provided the declaration specified in subsection 5 of article 154-bis of the CFL.

11.4 ORGANISATIONAL MODEL ex Legislative Decree 231/2001

The internal control system described above has been further strengthened by the introduction of an organizational model 231 that the Board of Directors approved on 31 July 2003 and which has been revised and modified according to updated regulations (most recently with a resolution of the Board of Directors on 9 November 2008). This organisational model, which is intended to ensure the development of a system that meets 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:
— the Group Code of Ethics, which formulates the general principles inspiring the conduct of business. It indicates the objectives and the values informing business activity in relation to the main stakeholders with which the Group interacts on a daily basis: As stated, during the year the Board of Directors approved some modifications to the Code of Ethics which, while the values that inspire it remain unchanged, has been supplemented and enriched with new instances which were already concrete expressions of the action of the Pirelli Group, and which, with the approved modification, are expressly reflected in the Code.
— General principles of internal control, which qualify the Internal Control System, the field of application of which extends uniformly across the various levels of the organisation;
— 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 pursuant to legislative decree 231/2001, and translate the principles expressed in the Code of Ethics into operational practice.
— Internal control checklists, which set out the main phases of each high and medium risk operating process and, for instrumental processes, the specific checks to be made to reasonably prevent the risk of any criminal offence and the flows of information to the Supervisory Body to draw attention to situations of possible non-compliance with the procedures established in the organisational model.

A summary of the guiding principles of the organisational model is available on the Company website *www.pirelli.com*.

11.4.1 Supervisory Body

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, Risks and Corporate Governance, Statutory Auditor Paolo Domenico Sfameni, a member of the Board of Statutory Auditors, and Maurizio Bonzi, head of the Internal Audit Department and internal control Officer.

This assures the full autonomy and independence of this Body, and the input of the different professional skills that contribute to corporate management control.

The Supervisory Body is also charged with making ad hoc recommendations to the Board of Directors to adapt the organizational model to changes in the legal framework, and to changes in the nature of the business activities of the Company and the ways in which they are conducted. The Supervisory Body reports to the Board of Directors, the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors on the checks it has performed and their outcomes.
Each member of the Supervisory Body is paid a gross annual fee of 15,000 euros.

The mandate of the Supervisory Body appointed by the Board of Directors on 29 April 2008 expires with that of the Board that appointed it. In its meeting on 29 July 2009, the Board of Directors took note of the confirmation of the appointment of Mr. Sfameni as a statutory auditor, after expiry of his mandate due to completion of its term at the shareholders' meeting to approve the financial statements at 31 December 2009, and confirmed his appointment as a member of the Supervisory Body.
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 organisational, operational and control systems.

Finally, it should be pointed out that the Internal Audit Department of Pirelli & C. and the Compliance Department, when requested by the Supervisory Bodies of Group companies, provide 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 year, the Supervisory Body became involved in the court case that implicated two ex-heads of the Security Department of the Company, as detailed in the section entitled "Committee for Internal Control, Risks and Corporate Governance". In this respect, the Supervisory Body has taken note of the circumstances reported in the aforementioned section.

11.5 External Auditors

The audit of the company accounts is carried out by an auditing firm appointed by the Shareholders' Meeting and chosen from the firms listed in the appropriate register kept by CONSOB. Reconta Ernst&Young S.p. A. [70]. were appointed external auditors to undertake the audit of the annual statutory and consolidated financial statements and the half-yearly financial reports for the 2008 - 2016 financial years. Pursuant to the law, the appointment was made at the reasoned proposal of the Board of Statutory Auditors, which carried out an in-depth technical-economic valuation analysis. This valuation was performed based on a comparative overall analysis of the proposals received, with detailed comparison of (i) the costs and conditions of the mandate; (ii) the mix of personnel employed; (iii) the coverage of the territory and the skills and specific experience, and (iv) the fees proposed for work within the same perimeter.

Reconta Ernst&Young S.p.A. is the Italian organisation of the Ernst&Young network, which through the organisations present in the various countries in which the Group operates, has also been appointed to audit the accounts of the principal Pirelli Group companies.
After some legislative modifications of art. 123-bis of the CFL, the external auditors are called on to check the formulation of the report on corporate governance and the ownership structure, and to express an "opinion on the coherence" of some of the information reported in this Report.
The fees paid to Reconta Ernst&Young (and to 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 2009.

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70 Cf. Minutes of the Shareholders' Meeting of 29 April 2008, available on the Investors section of the Company website, www.pirelli.com.

11.6. OFFICER RESPONSIBLE FOR PREPARING THE COMPANY ACCOUNTING DOCUMENTS

The Company bylaws [71] 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 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.
After its renewal, the Board of Directors, with the favourable opinion of the Board of Statutory Auditors, confirmed Claudio De Conto, Chief Operating Officer of the Company as the responsible officer; after the meeting on 16 September 2009, with the abolition of the General Operations Department, Francesco Tanzi, Director of Finance for the Group, to whom all the administrative and tax structures of the Group report, took over as the Responsible Officer.

The Board of Directors confirmed the attribution of the following principal tasks to the Responsible Officer, pursuant to the regulations currently in force:

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 declare, with a specific report drawn up according to the model established in the CONSOB regulations, attached to the financial reports abbreviated, half-yearly report and consolidated financial statements:
- the adequacy and effective application of the procedures specified in paragraph a) above during the period to which the documents refer;
- that the documents are drawn up in compliance with the applicable international accounting standards recognised in the European Community pursuant to EC regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002;
- that the documents correspond with the ledger entries and accounts;
- that the documents are suitable to provide a true and correct representation of the economic, financial and equity situation of the Company and the set of business included in the consolidation;
- for the statutory and consolidated financial reports, that the report on operations includes a reliable analysis of their progress and operating results as well as of the situation of the Company and the set of businesses included in the consolidation, together with descriptions of the principal risks and uncertainties to which they are exposed;
- for the abbreviated half-yearly report, that the half-yearly report on operations contains a reliable analysis of the information specified in subsection 4 of article 154-ter of the CFL.

The Board of Directors has also granted to the Responsible Officer all powers of an organisational and management nature needed to perform the tasks attributed to him by the current regulations, the Company Bylaws and the Board of Directors. To exercise the powers conferred on him, he is granted full economic autonomy.
The Board of Directors ensures that the Responsible Officer has adequate means and powers to perform the duties assigned to him, and monitors that the administrative and accounting procedures are effectively respected.
For this purpose the Responsible Officer reports, at least once a year, to the Board of Directors, either directly or through the Committee for Internal Control, Risks and Corporate Governance and to the Board of Statutory Auditors for those matters within its remit.
He promptly reports to the delegated administrative body, to the Board of Directors, also through the Committee for Internal Control, and Corporate Governance, on any matters of

71 Article 11 of the company bylaws

significant relevance that he believes must be declared in the report specified in article 154-bis of the CFL if not corrected.
The Responsible Officer is invited to attend the meetings of the Board of Directors of the Company when the examination of the economic-financial data of the company is on the agenda, and has direct access to all the information necessary for the production of the accounting data, without the need of any authorisation, shares the internal flows for accounting purposes and approves all the company procedures that have an impact on the economic, financial and equity situation of the Company.
The Responsible Officer[72] 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 the attestations and declarations specified in article 154-bis of the CFL.

The Responsible Officer reported to the Committee for Internal Control, Risks and Corporate Governance and, later on during the meeting on 10 March 2010, when the draft financial statements at 31 December 2009 were being approved, reported to the Board of Directors on 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. During the year, the Responsible Officer had similarly reported to the Committee for Internal Control Risks and Corporate Governance, and subsequently to the Board of Directors on the occasion of their examination of the draft financial statements at 31 December 2008.
During the financial year the Responsible Officer has issued the declarations and attestations specified in article 154-bis of the CFL.

12. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

The Company has had rules of conduct for transactions with related parties, as defined by the IAS/IFRS accounting principles (signally IAS 24)[73]. in place since 2002. The purpose of these rules is to guarantee effective procedural and substantial correctness and transparency in transactions undertaken by the Company, directly or through subsidiaries, with parties related to itself.
On the basis of these rules, the Board is called on to approve transactions with related parties, including 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 himself 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. The Committee for Internal Control, Risks and Corporate Governance monitors the respect of the principles that the Company has formulated for execution of transactions with related parties.
Some transactions with related parties were undertaken in the 2009 financial year, and some of them, although typical and usual, and/or at market conditions, were in any event submitted to the Committee for Internal Control, Risks and Corporate Governance for approval; in this respect, see the section entitled “Committee for Internal Control Risks and Corporate Governance”.

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72 Mr. Tanzi since the meeting on 16 September, and Mr. De Conto prior to that.
73 The text of the principles of conduct is printed at the end of this Report and is also available in the Governance section of the Company website, www.pirelli.com.

Finally, it should be noted that new regulations for transactions with related parties will be issued during the 2010 financial year. The Company will assess the content of the new regulations and the consequent need to adopt new procedures.

13. 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;
- the adequacy of the instructions issued by the Company to its subsidiaries regarding the reporting of price sensitive information[74] .

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, Risks and Corporate Governance. Moreover, Paolo Domenico Sfameni, a Standing Auditor, became a member of the Supervisory Body in accordance with the legislative decree No. 231/2001.

13.1 Appointment Of Auditors

The Company Bylaws provide that the Board of Statutory Auditors consists of three Standing Auditors and two Alternate Auditors. In order to allow minority shareholders to elect one Standing Auditor and one Alternate, the Company Bylaws [75] specify that they are appointed using the so-called slate system, meaning that one Standing 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 Standing Auditors and the other Alternate Auditor) are elected from the slate that obtains the highest number of votes (the majority slate).

Pursuant to the Company Bylaws, shareholders who, alone or together with others, hold at least 2% of the share capital entitled to vote at the ordinary shareholders' meeting that is, the lowest percentage required by Consob[76]. may present slates. In this respect, it should be noted that the Company will propose reducing the threshold required by the Bylaws to 1.5% at the Shareholders' Meeting to approve the 2009 Financial Statements. It will do so to further facilitate submission of slates by minority shareholders, obviously without prejudice to any provision of Consob to apply a lower measure.
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 regulation [77], 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 submit-

74 Now referred to as "sensitive information" (article 114 of the CFL)
75 Article 16 of the company bylaws
76 CONSOB (Resolution no. 17148 of 27 January 2010) 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 2009 financial year as 2% of the capital with voting rights in the ordinary shareholders' meeting.
77 Issuer Regulation: article 144-quinquies and subsequent articles. CONSOB has also issued Communication no. DEM/9017893 of 26-2-2009, containing some recommendations on the appointment of members of administration and control bodies.

ted 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 rule 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 Standing 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 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.
The Standing Auditor at the top of the minority slate, if presented, is entitled to Chair the Board of Statutory Auditors.
In the event of death, resignation or disqualification of a Standing Auditor, he (or she) is replaced by the Alternate Auditor from the same slate. If the Chairman of the Board of Statutory Auditors is to be replaced, the other Standing 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 on the Board of Statutory Auditors by means of a resolution approved by a relative majority of the votes cast.
When the Shareholders' Meeting must appoint the Standing and/or Alternate Auditors needed to complete the Board of Statutory Auditors, the following procedure must be used: if standing 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, standing 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 standing 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.
For the appointment of Auditors for any reason not appointed according to the procedure described above, then the shareholders decide with the legal majorities.
Outgoing Auditors may be re-elected.
It should be noted that the Company will proceed, at the times and in the ways that are considered opportune, to make any necessary changes to the provisions concerning the renewal of company bodies, pursuant to legislative decree 27/2010, that might be applicable for shareholders' meetings called after 31 October 2010.

Participation in meetings of the Board of Statutory Auditors may be – if the Chairman or his substitute verifies the necessity – by means of telecommunication techniques that permit participation in the discussion and equality of information for all those taking part.

13.2 STATUTORY AUDITORS

The Shareholders' Meeting held on 21 April 2009 resolved to renew the Board of Statutory Auditors for the 2009-2011 period, appointing Enrico Laghi, Paolo Gualtieri and Paolo Domenico Sfameni as Standing Auditors, and Luigi Guerra and Franco Ghiringhelli as Alternate Auditors.

The appointments were made with the slate system. The single slate was presented by members of the Pirelli & C Block Shares Syndicate, which received 95% of the votes of the share capital with voting rights represented in the Shareholders' meeting. In the absence of members of the Board of Statutory Auditors from the minority slate, the Enrico Laghi was appointed as Chairman of the Board of Statutory Auditors.

The Shareholders' Meeting also determined that the annual gross fee for each of the Standing 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 determined that the Standing Auditor called on to became a member of the Supervisory Body in accordance with the legislative decree No. 231/2001 (Paolo Domenico Sfameni) should receive an additional gross annual fee of 15,000 euros.
The composition of the Board of Statutory Auditors at the date of this Report is indicated in Table 5.
It should be noted that during the financial year Mr. Luigi Guatri served as Chairman of the Board of Statutory Auditors, and ceased to serve due to expiry of his mandate. Given his age, after 33 years' work with the Group, he decided not to put himself forward as a candidate at the shareholders' meeting of 21 April 2009.
The list of offices held by Auditors in public or private limited companies, and in partnerships limited by shares, is reported in the document attached to the report on supervisory activity drawn up pursuant to article 153 subsection 1 of the CFL and contained in the financial report.
It should be noted that, on the Date of the Report, the Company had not been informed that any serving Auditor had exceeded the limit of accumulated administration and control offices specified in article 144-terdecies of the Issuer Regulations.
In line with the provisions of the Self Regulatory Code[78] and as expressly ascertained by the Board of Statutory Auditors, based on the information provided by the Auditors and the information available to the Board of Statutory Auditors, all Auditors may be defined as independent based on criteria contained in the Code regarding director, and also in relation to Consob communication no. 8067632 of 17 July 2008[79].
Pirelli & C. qualifies its Auditors as related parties for the Company, and thus 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[80], the Board receives an adequate report on the nature of the relation and the ways in which the transaction will be executed.

Activities

During the year the Board of Statutory Auditors held 6 meetings (4 after its renewal) with a percentage attendance of 89% of the Auditors (92% in the meetings after its renewal). However, it should be noted that the members of this Board also attended the Shareholders' Meetings and the meetings of the Board of Directors, all of the meetings of the Committee for Internal Control, Risks and Corporate Governance and the Remuneration Committee held during the year, as required by the corporate governance rules adopted by the Company, which offer the Board of Statutory Auditors, in its entirety, the possibility of directly following the activities of the Committees and performing their control functions more efficaciously.
During the year, the Board of Statutory Auditors has monitored the observance of the law and the Bylaws, the respect of the principles of correct administration and the adequacy of the organisational structure of the Company, the internal control system and administrative-accounting system, as well as the reliability of the latter to correctly represent the operating results.
It also monitored 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

78 Self-Regulatory Code. Criterion of application 10.C.2
79 CONSOB communication no. DEM/DCL/DSG/8067632 of 17-7-2008 concerning situations of incompatibility for members of control organs pursuant to art. 148, subsection 3, lett. C) of the FSA.
80 Self-Regulatory Code. Criterion of application 10.C.4

the company declares to follow, are actually implemented, and on the adequacy of the instructions given by the Company to its subsidiaries regarding the reporting of price sensitive information[81].
The Board of Statutory Auditors reported the activities it had carried out, and expressed its opinion on those aspects of the Directors' proposal to cover in full the operating losses formulated by the directors to the Shareholders' Meeting held on 21 April 2009.
The Board of Statutory Auditors has monitored[82] the independence of the external auditors, checking that the 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 external auditors and their network are respected.
The Board of Statutory Auditors has also checked that the criteria and ascertainment procedures adopted by the Board of Directors to assess the independence of its members are correctly applied.
The Board of Statutory Auditors[83] 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, Risks and Corporate Governance..

14. 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 with representatives from the Italian and international financial communities.
The Investor Relations division was founded in March 1999 to promote continuous dialogue with the financial markets; Valeria Leone was appointed to run this division in October 2008.

To enable open, immediate and transparent dialogue with all those needing information of a financial nature about Pirelli, there is a dedicated Investors section on the Company website (www.pirelli.com), where information for an initial evaluation of Pirelli is available: from the identifying characteristics of the Company to economic-financial data, from the drivers of the various businesses in which the Pirelli Group is engaged to the opinions of financial analysts, from all the documentation made available to meetings with the financial community to accounting and legal information.
To facilitate contact with the Company, Investor Relations has an e-mail address (investorrelations@pirelli.com) through which all queries received are normally answered within 24 hours, while the Investors-Contacts section shows the contact details for each member of the IR team, for specific requests from analysts and investors, both individual and institutional.
To facilitate understanding of the strategy and evolution of the business and results produced, the top management of Pirelli &C and Investor Relations use other tools of financial communications, such as roadshows, conference calls, one to one meetings and industry conferences for Group businesses. The Company also has a culture based on the combination of profitability and business sustainability, and takes part in many world indicators assessing the social responsibility of business, and has been acknowledged a leader in this field.

15. 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 election and the revocation of directors, statutory auditors, and external auditors and their fees, 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.

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81 Now referred to as "sensitive information" (article 114 of the CFL)
82 Also in accordance with the recommendations of the Self Regulatory Code: Criterion of application 10.C.5.
83 Self-Regulatory Code: Criteria of application 10.C.6 and 10.C.7.

An ordinary Shareholders' Meeting – which may be held in Italy, not necessarily in the registered office – must be convened within 120 days of the end of the financial year. In this respect it should be noted that the modification to article 7 of the Company Bylaws, in the part in which the faculty to call the meeting to approve the financial statements may be called – pursuant to article 2364 of the Italian Civil Code – within 180 days of the end of the financial year, will be put to the Shareholders' Meeting to approve the 2009 Financial Statements. It should be noted that legislative decree 27/2010, in response to requests from various parties, modifies article 154-ter of the CFL, and again permits the meetings of shareholders of listed companies to approve the financial statements to be called within 180 days of the end of the financial year. It should be recalled that article 2364 of the Italian Civil Code no longer applied to listed companies after the introduction of article 154-ter of the Consolidated Finance Law by legislative decree no. 195/2007, which required these companies to have their statutory and consolidated financial statements approved within 120 days of the end of their financial year.
The proposed modification will again allow Companies to avail themselves, if they wish, of the faculty offered in article 2364 of the Italian Civil Code.
The Board of Directors reserves the right to proceed at a later date, at the time and in the ways that might be opportune, to take further necessary measures to adapt to the provisions of legislative decree 27/2010, while any inclusion of additional faculties that this legislative decree permits, when envisaged in the Company Bylaws, will be evaluated once the regulatory framework to implement the legislative decree has been fully defined. For more detail, see the Directors' Report, which will be made available on the Company website.
In line with the calendar circulated by the Company, the date of first call of the Shareholders' Meeting is 20 April 2010, and in second call for 21 April 2010.
In addition to the law and the Bylaws, Shareholders' Meetings are governed by the Rules of Proceedings approved by the Shareholders' Meeting held on 11 May 2004 and subsequently modified by the Shareholders' Meeting held on 23 April 2007[84].
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, they are 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 listed in the agenda 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.
Pursuant to the bylaws, shareholders for whom the communication specified in subsection two of article 2370 of the Italian Civil Code is received by the Company within the two days preceding the date of the single meeting may speak in the Shareholders' meeting [85].
The Bylaws do not provide for the shares for which the communications mentioned in the aforementioned article 2370, subsection 2 of the Italian Civil Code to be unavailable until the meeting 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 of Proceedings 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.

84 The Rules of Proceedings are printed at the end of this Report, and also available in the Governance section of the website at www.pirelli.com.
85 Article 7 of the company bylaws.

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.
The Rules assign to the Chairman of the meeting the right to grant those shareholders who have requested it, pursuant to the law and the Company Bylaws, a period of no longer than 15 minutes to illustrate proposals and explain the reasons for them to be added to the items to be discussed in the Shareholders' Meeting.
As far as the meeting of holders of savings shares is concerned, this is called by the Common Representative of the savings shareholders of the Company or by the Board of Directors every time they believe it to be opportune or when its convening is required by the law.
The special meeting of savings shareholders is chaired by the Common Representative of the savings shareholders or, in his absence, by the person elected by a majority of the capital represented at the meeting.
Pursuant to the Company Bylaws [86] the Company is responsible for the expenses of organising the special shareholders' meeting and for the remuneration of the Common Representative.
The savings shareholders' meeting – which took place on 28 January 2009, to appoint a Common Representative, since the mandate had expired - confirmed Giovanni Pecorella as Common Representative of savings shareholders for the years 2009-2011, determined his remuneration, and approved the creation of a fund for the expenses necessary for the protection of the common interests of the group. When renewing the Common Representative, the savings shareholders' voted separately on the appointment of the Common Representative and on the determination of his fee and of the common fund.

16. 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.

TABLES

Table 1: Structure of the share capital

The exact composition of the share capital is reported below.

	No. shares	% of share capital	Listing
Ordinary shares*	5,233,142,003	97.49	Listed on the MTA (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

Table 2: Major shareholdings

Those subjects who, according to the information published by Consob (Updated situation on the basis of the communications received pursuant to law and processed up to the Date of the Report), possess shares with voting rights in the Ordinary Shareholders' Meeting representing more than 2% of the ordinary share capital are reported.

86 Article 6 of the company bylaws.

Declaring Subject	**Direct Shareholder**		**% share of voting capital**				**% share of ordinary capital**			
	Name:	Title of possession	% share	of which without vote			% share	of which without vote		
				% share	voting rights			% share	voting rights	
					Subject	% share			Subject	% share
EDIZIONE SRL	Edizione S.r.l.	Ownership	4.773	0.000			4.773	0.000		
		Total	4.773	0.000			4.773	0.000		
			4.773	**0.000**			**4.773**	**0.000**		
PREMAFIN FINANZIARIA SPA HOLDING DI PARTECIPAZIONI	Milano Assicurazioni S.p.A.	Ownership	0.025	0.000			0.025	0.000		
		Total	0.025	0.000			0.025	0.000		
	Popolare Vita S.p.A.	Ownership	0.003	0.000			0.003	0.000		
		Total	0.003	0.000			0.003	0.000		
	Fondiaria - Sai S.p.A.	Ownership	4.454	0.000			4.454	0.000		
		Total	4.454	0.000			4.454	0.000		
			4.482	**0.000**			**4.482**	**0.000**		
ASSICURAZIONI GENERALI SPA	Alleanza Toro S.p.A.	Ownership	0.189	0.000			0.189	0.000		
		Total	0.189	0.000			0.189	0.000		
	Intesa Vita S.p.A.	Ownership	0.016	0.000			0.016	0.000		
		Total	0.016	0.000			0.016	0.000		
	Generali Vie Sa	Ownership	1.097	0.000			1.097	0.000		
		Total	1.097	0.000			1.097	0.000		
	Genertel Life	Ownership	0.001	0.000			0.001	0.000		
		Total	0.001	0.000			0.001	0.000		
	Ina Assitalia S.p.A.	Ownership	2.005	0.000			2.005	0.000		
		Total	2.005	0.000			2.005	0.000		
	Assicurazioni Generali S.p.A.	Ownership	2.177	0.000			2.177	0.000		
			2.177	0.000			2.177	0.000		
			5.485	**0.000**			**5.485**	**0.000**		
ALLIANZ SE	Antoniana Veneta Popolare Vita S.p.A.	Ownership	0.001	0.000			0.001	0.000		
		Total	0.001	0.000			0.001	0.000		
	Creditras Vita S.p.A.	Ownership	0.001	0.000			0.001	0.000		
		Total	0.001	0.000			0.001	0.000		
	Allianz S.p.A.	Ownership	4.518	0.000			4.518	0.000		
			4.518	0.000			4.518	0.000		
			4.520	**0.000**			**4.520**	**0.000**		
TRONCHETTI PROVERA MARCO	Cam Partecipazioni S.p.A.	Ownership	0.023	0.000			0.023	0.000		
		Total	0.023	0.000			0.023	0.000		
	Camfin Cam Finanziaria S.p.A.	Ownership	25.542	0.000			25.542	0.000		
			25.542	0.000			25.542	0.000		
			25.565	**0.000**			**25.565**	**0.000**		
MEDIOBANCA SPA	Mediobanca S.p.A.	Ownership	3.954	0.000			3.954	0.000		
		Total	3.954	0.000			3.954	0.000		
			3.954	**0.000**			**3.954**	**0.000**		

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 shareholders' meetings of the Company is taken from the CONSOB website. 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 CFL and the Issuer Regulation, 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%, and subsequent multiples of 5% up to the threshold of 50%, and beyond this threshold, 66.6%, 75%, 90% and 95%). 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 his/her holding to up to 4.9% without any obligation to communicate this to CONSOB pursuant to art. 120 of the CFL.

Table 3: Composition of the Board of Directors

The composition of the Board of Directors at the date of this Report is indicated below. It should be noted that no Director ceased to serve after the election of the Board of Directors by the Shareholders' Meeting of 29 April 2008.

Name	Office	Appointed on	Slate	Exec.	Non-exec.	Indep.	Indep. CFL	% BOD
Marco Tronchetti Provera	Chairman	04/29/2008	Maj	X				100
Alberto Pirelli	Deputy Chairman	04/29/2008	Maj	X				100
Carlo Alessandro Puri Negri	Deputy Chairman	04/29/2008	Maj	X				100
Carlo Acutis	Director	04/29/2008	Maj		X	X	X	50
Carlo Angelici	Director	04/29/2008	Min		X	X	X	83
Cristiano Antonelli	Director	04/29/2008	Min		X	X	X	100
Gilberto Benetton	Director	04/29/2008	Maj		X			50
Alberto Bombassei	Director	04/29/2008	Maj		X	X	X	100
Franco Bruni	Director	04/29/2008	Min		X	X	X	100
Luigi Campiglio	Director	04/29/2008	Maj		X	X	X	100
Enrico Tommaso Cucchiani	Director	04/29/2008	Maj		X			33
Berardino Libonati	Director	04/29/2008	Maj		X	X	X	67
Giulia Maria Ligresti	Director	04/29/2008	Maj		X			83
Massimo Moratti	Director	04/29/2008	Maj		X			83
Renato Pagliaro	Director	04/29/2008	Maj		X			50
Umberto Paolucci	Director	04/29/2008	Min		X	X	X	100
Giovanni Perissinotto	Director	04/29/2008	Maj		X			17
Giampiero Pesenti	Director	04/29/2008	Maj		X	X	X	33
Luigi Roth	Director	04/29/2008	Maj		X	X	X	100
Carlo Secchi	Director	04/29/2008	Maj		X	X	X	100

Slate: Maj/Min according to whether the director was elected from the majority or minority slates

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. CFL: if checked indicates that the director possesses the attributes of independence specified in art. 148, subsection 3 of the CFL

% BOD: indicates the percentage of Board meetings attended by the director

Table 4: Composition of the Board Committees

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

Name	Office	R.C.	CICRCG	% Committee
Carlo Angelici	Member		X	100%
Cristiano Antonelli*	Member		X	100%*
Alberto Bombassei	Member	X		100%
Franco Bruni	Member		X	100%
Berardino Libonati	Chairman	X		100%
Umberto Paolucci*	Member	X		100%*
Giampiero Pesenti	Member	X		100%
Luigi Roth*	Member		X	100%*
Carlo Secchi	Chairman		X	100%

R.C.: indicates the Remuneration Committee

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

%. Committee: indicates the percentage of meetings of the Committee in question attended by the director

** The Director was appointed a member of the Board Committee by the Board of Directors' Meeting of 29 July 2009, effective from 1 September 2009. The percentage thus only takes account of the meetings held after that date.

Table 5: Composition of the Board of Statutory Auditors.

The composition of the Board of Statutory Auditors at the date of this Report is indicated below:

Name	Office	Appointed on	Slate	Indep. Self. Reg. Code	% att. B.S.A.	% att. CICRCG	% att. R.C.
Enrico Laghi	Chairman	04/21/2009	Maj	X	100%	100%	100%
Paolo Gualtieri	Standing Auditor	04/21/2009	Maj	X	75%*	67%*	100%*
Paolo Domenico Sfameni	Standing Auditor	04/21/2009	Maj	X	100%	100%	100%
Luigi Guerra	Alternate Auditor		Maj	-	-	-	-
Franco Ghiringhelli	Alternate Auditor		Maj	-	-	-	-

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

R.C.: indicates the Remuneration Committee

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

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

% att. B.S.A.: indicates the percentage of meetings of the board of auditors attended by the auditor

** The Auditor was appointed for the first time by the Shareholders' Meeting of 21 April 2009. The percentage thus only takes account of the meetings held after that date.

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

Name	Office	Served from / since	Slate	Indep. ex. Code	% att. B.S.A.	% att. CICRCG	% att. R.C.
Luigi Guatri	Chairman	From 04/21/2006 to 04/21/2009	Maj	X	50%*	67%	100%

Refer to the legend for the preceding table.

* This percentage was calculated taking into account the number of those meetings of the Board of Statutory Auditors that he attended before ceasing to serve compared with respect to those meetings held in the year up to the date his office ceased.

Annex A — COMPANY BYLAWS[1]
Name – purpose – registered office - term

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.*.

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.

Article 3

The registered office of the Company shall be in Milan.

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.

Share capital

Article 5

The Company shall have a subscribed and paid-in share capital of EUR 1,556,692,865.28 (onebillionfivehundredandfiftysixmillionssixhundred-andninetytwothousandsheighthundredsixtyfivepointtwentyeight) divided into no. 5,367,906,432 (fivebillionsthreehundredsixtysevenmillionsninehundred-andsixthousandsfourhundredandthirtytwo) shares with a par value of EUR 0.29 (twentynine cents) each, consisting of 5,233,142,003 (fivebillions-twohundredandthirtythreemillionsonehundredandfourtytwothousandsand-three) ordinary shares and 134,764,429 (onehundredandthirtyfourmillions-sevenhundredandsixtyfourthousandsfourhundredandtwentynine) 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 appointed to audit the accounts.
If so resolved by the shareholders' meeting, the share capital may also be increased by means of contributions in kind or of receivables.

1 Some modifications to the bylaws will be submitted to the Shareholders' Meeting called to approve the financial statements at 31 December 2009. For details, see the Directors' report in the financial statements, which gives the text of the current bylaws and the proposed modifications, for comparison. In particular, the proposals concern articles 5, 7 and 16 of the Company Bylaws, and the numbering of the subsections of the individual articles.

By resolution of the extraordinary shareholders' 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 implementation 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 EUR 15,725,496.50 by issuing up to 54,225,850 ordinary shares with a par value of EUR 0.29 each, at a price of EUR 0.996 per share, inclusive of a EUR 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 EUR 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 EUR 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.

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 By-laws 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

Shareholders' Meetings

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.

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.

Articolo 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 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.

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, 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) tfour-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.

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.
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.
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.

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 Executive 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.

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, 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 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.
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:
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 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 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.

Financial Statements – Allocation Of Profits

Article 17

The company's financial year shall close on December 31 of each year.

Articolo 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 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.

General Provisions

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.

Article 20

All matters not specifically regulated in these By-laws shall be governed by the applicable provisions of the law.

ANNEX B — 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.	Deputy Chairman
	F.C. Internazionale Milano S.p.A.	Director
	Alitalia - Compagnia Aerea Italiana S.p.A.	Director
Alberto Pirelli	Camfin S.p.A.	Director
	Gruppo Partecipazioni industriali S.p.A.	Deputy Chairman
	KME S.p.A.	Director
Carlo Alessandro Puri Negri	Camfin S.p.A.	Deputy Chairman
	Gruppo Partecipazioni industriali S.p.A.	Deputy Chairman
	AON Italia S.p.A.	Director
	Artemide Group S.p.A.	Director
	Banca Profilo S.p.A.	Director
Carlo Acutis	Vittoria Assicurazioni S.p.A.	Deputy Chairman
	Banca Passadore S.p.A.	Deputy Chairman
	Ergo Italia S.p.A.	Director
	Ergo Previdenza S.p.A.	Director
	Ergo Assicurazioni S.p.A.	Director
	Scor S.A.	Director
	Yura International B.V.	Director
Carlo Angelici	SACE BT S.p.A.	Director
Cristiano Antonelli	Reply S.p.A.	Chairman of the Board
	TDE S.p.A.	Of Statutory Auditors
Gilberto Benetton	Edizione S.r.l.	Chairman
	Atlantia S.p.A.	Director
	Autogrill S.p.A.	Chairman
	Benetton Group S.p.A.	Director
	Mediobanca S.p.A.	Director
	Allianz S.p.A.	Director
Alberto Bombassei	Brembo S.p.A.	Chairman
	Italcementi S.p.A.	Director
	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
Luigi Campiglio	Allianz Bank Financial Advisor	Director
Enrico Tommaso Cucchiani	Allianz SE	Member of Management Board
	Allianz S.p.A.	Chairman
	Unicredit S.p.A.	Director
	Lloyd Adriatico Holding S.p.A.	Director
	Illy Caffè S.p.A.	Director

Berardino Libonati	Unidroit-Institut International pour l'Unification du Droit Privè	Chairman
	Telecom Italia S.p.A.	Director
	Telecom Italia Media S.p.A.	Chairman
	RCS MediaGroup S.p.A.	Director
	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
	Gilli S.r.l.	Chairman
	SAI HOLDING S.p.A.	Managing Director
	SAIFIN S.p.A.	Chairman
Massimo Moratti	F.C. Internazionale Milano S.p.A.	Chairman
	SARINT S.A.	Chairman
	SARAS S.p.A. Raffinerie Sarde	Managing Director
	Angelo Moratti di Gian Marco Moratti e Massimo Moratti & C. S.a.p.A.	Chairman
Renato Pagliaro	Mediobanca S.p.A.	General Manager/ Director
	SelmaBPM Leasing S.p.A.	Director
	Cofactor S.p.A.	Director
	Telecom Italia S.p.A.	Director
	RCS MediaGroup S.p.A.	Director
	Burgo Group S.p.A.	Director
Umberto Paolucci	Microsoft S.r.l.	Chairman
	Geox S.p.A.	Director
	Banca Profilo S.p.A.	Director
Giovanni Perissinotto	Assicurazioni Generali S.p.A.	Managing Director
	IntesaSanpaolo S.p.A.	Member of Management Board
	Banca Generali S.p.A.	Chairman
	Alleanza Toro Assicurazioni S.p.A.	Director
	Ina Assitalia S.p.A.	Director
Giampiero Pesenti	Italcementi S.p.A.	Chairman
	Italmobiliare S.p.A.	Chairman
	Ciments Francais S.A.	Director
	Compagnie Moneguasque de Banque	Director
	Allianz S.p.A.	Director
	Mittel S.p.A.	Director
Luigi Roth	Terna S.p.A.	Chairman
	Banca Popolare di Roma S.p.A.	Chairman
	Cassa di Risparmio di Ferrara	Director
	Meliorbanca	Director
Carlo Secchi	Allianz S.p.A.	Director
	Italcementi S.p.A.	Director
	Mediaset S.p.A.	Director
	Parmalat S.p.A.	Director
	EXPO 2015 S.p.A.	Director

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

In the following paragraphs the whole of the contents of the Pirelli & C. Società per Azioni Shareholders Agreement is summarize highlighting the point 9 about the extention of the Agreement duration, happened the 15 January 2010, from 15 April 2010 to 15 April 2013.

1. *Type and objective of the agreement*
   The purpose of the Pirelli & C. shareholders agreement is to ensure a stable shareholder base and 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 S.r.l.	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
Assicurazione 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
Totale	**2,418,590,510**	**100.00**	**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, 2013 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, 19 January 2010

ANNEX D — General Criteria set by the Board of Directors regarding the maximum number of offices considered compatible with an effective performance of a directors' duties

As a principle, it is not considered compatible with the role of Director of the Company to hold the office of director or statutory auditor in more than five companies, different from those subject to the direction and coordination of Pirelli & C. S.p.A. or that are affiliates of or are controlled by Pirelli & C. S.p.A., as far as it concerns (i) listed companies included in the FTSE/ MIB index (or in an equivalent foreign index), or (ii) in financial companies operating towards the public (registered in the registry set forth under article 107 of d.lgs. 1° September 1993, n 385), or (iii) banks and insurance companies; no more than three executive offices may be held by the same director in the companies described under (i), (ii) and (iii) above.
The offices held in more companies belonging to the same group are considered as unique office with prevalence of the executive office over the non executive one.
The Board of Directors has the faculty to make a different evaluation, which will be made public and properly motivated in the annual report on Corporate Governance.

ANNEX E — General Criteria for the identification of the most important: strategic, economic, or financial capital transactions

Without prejudice to the responsibilities and powers reserved to the Board of Directors by the law, the bylaws, the overall powers and the internal procedures, it pertains to the Board's the prior approval of the following acts and no intragroup transactions when performed by Pirelli & C. S.p.A. (hereinafter also "Pirelli & C.") or even by foreign companies not listed and subject to the management and coordination of Pirelli & C.:

a) the taking or granting of any loan or loans having an aggregate value in excess of Euros 200 million and a duration in excess of 12 months;
b) the issuing of any financial instruments intended to be listed in regulated European or extra-European markets (and their delisting) which have an aggregate value in excess of Euros 100 million;
c) the granting of any guarantees in favour of or on behalf of any third parties for an amount in excess of Euros 100 million;
d) the signing of derivatives contracts which (i) have a notional value in excess of Euros 250 million and (ii) do not have as their exclusive purpose or effect the covering of risks assumed by the Company (such as, for example, covering interest rates, exchange rates or raw material costs);
e) the acquisition or sale of controlling stakes in third parties for values in excess of Euros 150 million that would allow the entry into (or the exit from) geographic and/or commodities markets;
f) the acquisition or sale of any participations other than those mentioned in paragraph (e) above for amounts in excess of Euros 250 million;
g) the acquisition or sale of any companies or divisions having either a strategic significance or a value in excess of Euros 150 million;
h) the acquisition or sale of any assets or other activities that either have a strategic significance or an aggregate value in excess of Euros 150 million;

Are subject to prior approval even those transactions which, although individually below the quantitative thresholds specified, are linked within the same strategic or executive program, and therefore, as a whole, exceed the relevant thresholds.

ANNEX F — 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 timeless 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 in charge of the preparation of the accounting documents of the Company, as per his competence.

2.5 – In any case, Directors and Auditors are the receivers of the information published by Pirelli as provided by legal provisions regarding Company reports (such as press releases and reports) and investment solicitation (reports that are denominated, anyhow).

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 income, 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 – Information 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 duties.

5.2 – General information about the business activities are completed with a specific report of details regarding:
- transactions involving significant economic, financial and equity income;
- operations with related parties;
- atypical or unusual transactions.

6. Significant transactions

6.1 – In the present procedure, 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 income when Pirelli or subsidiaries carry out:
- the issues of financial tools for a total value higher than €100 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:
  - the total assets of the merged company or of the activities submitted to division/the total assets of the Company (figures taken from the consolidated balance sheet, if reported);
  - the pre-tax results and the extraordinary parts of the merged company, or of the activities to be divided/the pre-tax results and extraordinary parts of the Company (figures taken from consolidated balance sheet, if reported);
  - the total equity capital of the merged 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 involving significant economic, financial and equity income shall highlight the strategic aims, the budget and the industrial plan coherence, the executive procedures (including economic terms and conditions for their fulfilment), the business 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 value.

7. Operations with related parties

7.1 – The following definitions must be made regarding the current procedure relating to “related parties”; these are defined according to international accounting standards concerning financial statements for transactions with related parties, adopted in accordance with art. 6 of EC Regulation n. 1606/2002 as indicated in the “Data collection procedure”.

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

7.3 – Besides the transactions with related parties subject to the board approval according to the above-mentioned procedure (atypical, unusual or non-standard 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 euro 50 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 of targeting of the contract(s) below or those linked anyway with the transactions;
— the identities of the counterparties (specifying the nature of their relationship with Pirelli).

7.4 – As to every quarter of statement, an overall figure of the transactions concluded with the individual parties related to Pirelli must be supplied, separating the transactions directly carried out with Pirelli and the transactions achieved 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 the dealing cycle of the Company. On the contrary, transactions are considered usual when intended for the fulfillment of ordinary requirements, i.e. requirements that normally belong to the business of the Company.

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

8.3 – Information about atypical or unusual transactions highlight the interest below and illustrate the executive procedures (including the economic terms and conditions of their fulfillment), with specific reference to the estimative procedures followed.

9. Direction and coordination activities

9.1 – Information about the execution of direction and coordination activities illustrate:
- the strategic aims, with specific reference to the entrepreneurial interest justifying them and the results that are followed;
- the executive procedures (including the economic terms and conditions of their fulfilment), with specific reference to the estimative procedures followed;
- the possible changes and implications on the execution of the company, also with reference to the budget and the industrial plan.

9.2 – Further updating on the affected transactions shall be supplied in order to estimate overall results of the direction and the coordination activities.

Data collection procedure

In order to allow an adequate information flow to non-executive Directors and to the Board of Statutory Auditors, information must be obtained by the Chairman and CEOs according to the procedure listed below.

1. Information about business activities, about transactions involving significant economic, financial and equity income, about infra-group 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 CEOs (the so-called "Front Line") through the Financial Department transmit, on a quarterly basis, to the Chairman and the CEOs, with an apposite note, the activities that the competent structure carried out in the period, highlighting specifically the transactions involving significant economic, financial and equity income; 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 duties 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 value, are associated within the same strategic plan or executive programme and therefore, considered altogether, exceed the threshold value.

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

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

The purpose of the current procedure are the transactions with related parties carried out by Pirelli or by companies owned by Pirelli, with parties directly or indirectly related to Pirelli i.e.:

a) the persons who, directly or indirectly, control Pirelli, also in virtue of shareholder agreement, individually or jointly with other persons included in these agreements;
b) the persons who, directly or indirectly, exercise a significant influence over Pirelli. This influence is presumed in case of shareholdings equal to or higher than 10% of the authorized capital in the form of ordinary Pirelli shares;
c) the members of the Board of Directors and Acting Auditors of Pirelli;
d) the managers with strategic responsibilities in the Company, identified by the Board of Directors of Pirelli, or in its possible subsidiaries (i.e. "*key managers*");
e) close family members of the persons indicated above in letters a) to d), meaning spouses not legally separate and the dependents, as indicated in civic records the children, the children of domestic partner and other dependents of the concerned persons, independently of the family relationship and/or affinity and other relatives that the concerned person considers might influence or be influenced by him/her in their relationship with Pirelli ;
f) an associate of Pirelli.
g) the companies upon which the persons indicated above in letters a) to e) exert control, directly or indirectly, also in virtue of shareholders agreement, individually or jointly with other persons included in these agreements;
h) the companies on which the persons indicated above in letters a) to e) exert, directly or indirectly, significant influence, if they are physical persons. This influence is presumed in case of shareholdings equal to or higher than 10% (in the case of listed companies) or 20% (in the case of unlisted companies) of the authorized capital in the form of voting shares at the general meetings;
i) the joint ventures in which Pirelli participates;
j) the pension funds for the employees of Pirelli or of related parties;
k) The Internal Control Committee of Pirelli may consider related party, on a case by case basis:
    (i) the companies in which the persons indicated above in letters a) to e) hold strategic management roles and the companies controlled by these companies;
    (ii) the companies that share a majority of their Directors with Pirelli.

With the same regularity as mentioned under point 1 above, the Financial Department collects and transmits to the Chairman and to the CEOs declarations from the persons mentioned under letters a) to d) above pointing out the transactions involving amounts higher than euro 500.000, or those with lower amounts but non-standard, achieved directly by or through one of the persons indicated in letters g) to k) above, also through third parties, with Pirelli or its subsidiaries, by themselves or, in the case of physical persons, by spouses or dependents, as indicated in civic records.

Amongst these information, must be pointed out transactions that, even if they are individually smaller than the above-mentioned threshold value, are associated within the same relation and therefore, considered altogether, exceed the threshold value.

The Financial Department also collects the declarations whereby the persons in letters a) to d) above: (i) list the companies for which they perform the cases in letters g) to j) above, as well as companies in which they hold the role of directors; (ii) update this list.

The Financial Department transmits the list to the parties related to Pirelli as specified above to the General Managers and to the Front Line.

The Front Line communicates on a quarterly basis to the Chairman and the CEOs the transactions completed with Pirelli – or companies controlled by Pirelli – also through third parties or indirectly related parties as specified in the list given by the Financial Department, involving amounts higher than euro 500,000 and, also if involving lower amounts, made under non-standard conditions.

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.

ANNEX H — Procedure for the management and public disclosure of inside information

Indice

Annexes

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 (hereinafter 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 (hereinafter 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, also with reference as to what is provided for by Legislative Decree no. 231/2001 and by the Organizational Model 231 adopted by Pirelli & C. (hereinafter "Pirelli"). 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, Risks 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 and Organizational Model 231 of Pirelli;
- General principles of internal control;
- The Pirelli Group's policy "OP SE G" June 15, 2006 "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 competent Departments within following department: Human resources, Industrial Legal Affairs, Legal, Corporate Affairs and Group Compliance, Finance, Controlling, Media Communications, Investor Relations, and coordinated by the addressee of the information request as referred to in article 2.6.1 of the Rules of the organized Markets and managed by Borsa Italiana S.p.A. .The Information Officer.of the Company.

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 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, with the Group General Counsel 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 – The 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 in detail 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 Department 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. It will be the responsibility of the employee that in accordance to his specific role should verify in advance and ensure the successful signing of the 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) treated as to ensure the confidentiality.

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 Communications Department and coordinates all the persons entered in the Register for the informational context in question who possess information that the Media Communications Department 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 Communications Department 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 Communications Department - after verifying the presence of the declaration by the Director 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 Department 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 Communications Department 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 Departments 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 Departments 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 Department, together with the other Departments 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 Finance Department and the Controlling Department 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 Department.

12.3 – On the occasion of meetings with the financial community (road shows, conference calls, conventions, etc.), the Investor Relations Department 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 Communications Department 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 Communications Department or otherwise. This Department clears the content of interviews and press conferences with the interested parties and keeps the Market Sensitivity Support Group constantly informed were appropriate 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 Communications Department - if the participation of the press is likely at such events – and to the Human Resources Department. 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 Communications Department (and/or the Human Resources Department) and where appropriate 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 Institutional and Cultural Affairs Department, 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 Departments, 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 Departments sent such material to the Information Officer so that he may fulfil the obligations imposed by applicable laws and regulations.

Annex: deliberate omissis

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 modification[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:

Per Strumenti Finanziari ai fini di quanto sopra, s'intendono:

(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..

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.

ANNEX J — 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.

Consolidated financial statements

CONSOLIDATED BALANCE SHEET (in thousands of euro)

		12/31/2009		12/31/2008	
			of which related parties		of which related parties
8	Property, plant and equipment	1,727,391		1,598,046	
9	Intangible assets	1,047,474		1,046,108	
10	Investments in associates and joint ventures	593,237		515,300	
11	Other financial assets	228,106		527,229	
12	Deferred tax assets	91,164		72,426	
14	Other receivables	557,230	395,220	701,674	565,152
15	Tax receivables	9,578		10,264	
27	Derivative financial instruments	-		3,161	
	Non-current assets	**4,254,180**		**4,474,208**	
16	Inventories	678,977		921,110	
13	Trade receivables	735,792	91,484	787,951	77,096
14	Other receivables	197,144	19,094	239,956	23,917
17	Securities held for trading	161,024		115,800	
18	Cash and cash equivalents	632,113		253,905	
15	Tax receivables	41,464		46,246	
27	Derivative financial instruments	26,567		94,042	
	Current assets	**2,473,081**		**2,459,010**	
	Total Assets	**6,727,261**		**6,933,218**	
19.1	Equity attributable to equity holders of the Group:	2,175,023		2,171,804	
	- Share capital	1,554,269		1,554,269	
	- Reserves	598,009		965,037	
	- Net income	22,745		(347,502)	
19.2	Equity attributable to minority interests:	319,648		202,558	
	- Reserves	364,979		267,582	
	- Net income	(45,331)		(65,024)	
	Total net equity	**2,494,671**		**2,374,362**	
24	Borrowings from banks and other financial institutions	1,505,805		1,375,747	
26	Other payables	34,008	2,608	48,472	
22	Provisions for liabilities and charges	167,793		141,191	
12	Deferred tax liabilities	44,000		38,372	
23	Employees benefit obbligations	451,880		366,535	
21	Tax payables	10,037		9,706	
27	Derivative financial instruments	-		2,139	
	Non-current liabilities	**2,213,523**		**1,982,162**	
24	Borrowings from banks and other financial institutions	289,305	2,473	695,561	5,209
25	Trade payables	987,873	24,067	1,108,573	23,843
26	Other payables	491,035	10,798	482,401	7,699
22	Provisions for liabilities and charges	130,783	3,279	135,650	48,670
21	Tax payables	43,918	1,080	44,036	1,051
27	Derivative financial instruments	76,153		110,473	
	Current liabilities	**2,019,067**		**2,576,694**	
	Total Liabilities and Net equity	**6,727,261**		**6,933,218**	

Related party transactions in respect of the individual line items in the financial statements are presented in Note 42 of the Explanatory Notes to which the reader is referred.

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

		2009		2008	
			of which related parties		of which related parties
29	Revenues from sales and services	4,462,207	154,609	4,660,175	138,093
30	Other income	174,915		175,928	
	- of which non-recurring events	*5,900*		*17,000*	
	Change in inventories of work in process, semi-finished and finished products	(116,921)		115,372	
	Raw materials and consumables (net of change in inventories)	(1,399,399)		(1,832,699)	
31	Personnel expenses	(1,053,732)	(12,699)	(1,174,851)	(3,097)
	- of which non-recurring events	*(58,673)*		*(132,352)*	
32	Amortization, depreciation and impairments	(231,455)		(218,555)	
	- of which non-recurring events	*(8,000)*		*(7,100)*	
33	Other expenses	(1,620,896)	(37,129)	(1,687,569)	(42,862)
	- of which non-recurring events	*(18,826)*		*(4,764)*	
	Increase in property, plant and equipment from internal work	2,681		5,454	
	Operating income	**217,400**		**43,255**	
34	Net income from equity investments	(56,735)		(366,493)	
	34,1 - share of net income of associates and joint ventures	*(61,160)*	*(61,160)*	*(175,677)*	*(175,677)*
	34,2 - gains on equity investments	33,424	23	55,546	
	34,3 - losses on equity investments	(36,700)		(281,687)	
	34,4 - dividends	7,701		35,325	
35	Financial income	372,950	30,355	524,609	34,064
36	Financial expenses	(458,304)	(10,940)	(604,698)	(164)
	Net income before income taxes	**75,311**		**(403,327)**	
37	Income taxes	(97,897)		(72,620)	
	Net income from continuing operations	**(22,586)**		**(475,947)**	
38	Net income from discontinued operations	-		63,421	
	Net income for the period	**(22,586)**		**(412,526)**	
	Attributable to:				
	Equity holders of the parent company	22,745		(347,502)	
	Minority interests	(45,331)		(65,024)	
39	**Earnings/(losses) per share (euro per thousand shares)**				
	basic earnings per share				
	- continuing operations	4.24		(70.65)	
	- discontinued operations	-		5.74	
		4.24		**(64.91)**	

Related party transactions in respect of the individual line items in the financial statements are presented in Note 42 of the Explanatory Notes to which the reader is referred.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		12/31/2009		
		Gross	Income taxes	Net
A	**Net income for the period**			**(22,586)**
	Other components recognised in equity:			
	Portion of (Gains)/losses on associates and joint ventures transferred to income statement, previously recognised directly in equity	11,406	-	11,406
	(Gains)/losses on other financial assets transferred to income statement, previously recognised in equity	(792)	-	(792)
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised directly in equity	(1,934)	-	(1,934)
B	**(Gains)/losses transferred to income statement previously recognised directly in equity**	**8,680**	**-**	**8,680**
	Exchange differences from translation of foreign financial statements	37,589	-	37,589
	Adjustment to fair value of other financial assets	34,739	(226)	34,513
	Net actuarial Gains/(losses) on employee benefits	(86,643)	9,157	(77,486)
	Adjustment to fair value of derivatives designated as cash flow hedges	(18,639)	5,223	(13,416)
	Reversal of reserve for reclassification of equity investments from other financial assets to associates	12,281	(506)	11,775
	Share of other components recognised in equity related to associates and joint ventures	(13,566)	463	(13,103)
C	**Income/(losses) recognised directly in equity in the period**	**(34,239)**	**14,111**	**(20,128)**
B+C	**Total other components recognised in equity**	**(25,559)**	**14,111**	**(11,448)**
A+B+C	**Total Comprehensive income/(losses)**			**(34,034)**
	Attributable to:			
	- Equity holders of the company			10,307
	- Minority interests			(44,341)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		12/31/2008		
		Gross	Income taxes	Net
A	**Net income for the period**			**(412,526)**
	Other components recognised in equity:			
	Portion of (gains)/losses on associates and joint ventures transferred to income statement, previously recognised directly in equity	1,848	-	1,848
	(Gains)/losses on other financial assets transferred to income statement, previously recognised in equity	1,995	934	2,929
B	**(Gains)/losses transferred to income statement previously recognised directly in equity**	**3,843**	**934**	**4,777**
	Exchange differences from translation of foreign financial statements	(136,630)	-	(136,630)
	Adjustment to fair value of other financial assets	(136,408)	2,700	(133,708)
	Net actuarial Gains/(losses) on employee benefits	(84,653)	4,444	(80,209)
	Adjustment to fair value of derivatives designated as cash flow hedges	(2,120)	1,240	(880)
	Reversal of reserve for reclassification of equity investments from other financial assets to associates	15,419	-	15,419
	Share of other components recognised in equity related to associates and joint ventures	(58,148)	1,963	(56,185)
C	**Income/(losses) recognised directly in equity in the period**	**(402,540)**	**10,347**	**(392,193)**
B+C	**Total other components recognised in equity**	**(398,697)**	**11,281**	**(387,416)**
A+B+C	**Total Comprehensive income/(losses)**			**(799,942)**
	Attributable to:			
	- Equity holders of the company			(703,993)
	- Minority interests			(95,949)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in thousands of euro)

	Attributable to the Parent Company						
	Share capital	Translation reserve	Total IAS Reserves (*)	Other reserves/ Retained earnings	Total attributable to the Parent Company	Minorities	Total
Total at 12/31/2007	**1,555,934**	**119,135**	**(70,899)**	**1,376,061**	**2,980,231**	**823,840**	**3,804,071**
Total other components recognised in equity	-	(134,557)	(221,933)	-	(356,490)	(30,926)	(387,416)
Net income for the period				(347,502)	(347,502)	(65,024)	(412,526)
Total gains/(losses)	**-**	**(134,557)**	**(221,933)**	**(347,502)**	**(703,992)**	**(95,950)**	**(799,942)**
Allocation of income as per resolution of 28/4/2008:							
- payment of dividends				(93,172)	(93,172)	-	(93,172)
Other dividends paid to minorities					-	(74,717)	(74,717)
Purchase of Pirelli & C. Real Estate S.p.A. shares					-	(19,657)	(19,657)
Acquisition of Speed S.p.A.					-	(385,525)	(385,525)
Purchase of Tyres minorities					-	(64,403)	(64,403)
Capital subscription by minorities					-	7,105	7,105
Other	(1,665)		618	(10,216)	(11,263)	11,865	602
Total at 12/31/2008	**1,554,269**	**(15,422)**	**(292,214)**	**925,171**	**2,171,804**	**202,558**	**2,374,362**
Total other components recognised in equity	-	40,656	(53,094)	-	(12,438)	990	(11,448)
Net income for the period				22,745	22,745	(45,331)	(22,586)
Total gains/(losses)	**-**	**40,656**	**(53,094)**	**22,745**	**10,307**	**(44,341)**	**(34,034)**
Pirelli Real Estate S.p.A. capital increase			986	(3,588)	(2,602)	165,527	162,925
Other dividends paid to minorities					-	(2,313)	(2,313)
Movements of minorities					-	(4,349)	(4,349)
Other			(1,905)	(2,581)	(4,486)	2,566	(1,920)
Total at 12/31/2009	**1,554,269**	**25,234**	**(346,227)**	**941,747**	**2,175,023**	**319,648**	**2,494,671**

DETAILS OF IAS RESERVES (in thousands of euro)

	Reserve for adjustment to FV of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Reserve for equity settled stock options	Reserve for deferred taxes	Total IAS reserves
Balance at 12/31/2007	**127,578**	**(2,482)**	**(211,326)**	**3,638**	**11,693**	**(70,899)**
Total other components recognised in equity	(110,373)	(35,838)	(84,938)	-	9,216	(221,933)
Other movements	118	337	(1,075)	(138)	1,376	618
Balance at 12/31/2008	**17,323**	**(37,983)**	**(297,339)**	**3,500**	**22,285**	**(292,214)**
Total other components recognised in equity	40,886	(21,746)	(86,323)	-	14,089	(53,094)
Other movements	(454)	(1,049)	(231)	-	815	(919)
Balance at 12/31/2009	**57,755**	**(60,778)**	**(383,893)**	**3,500**	**37,189**	**(346,227)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		2009		2008	
			of which related parties		of which related parties
	Net income from continuing operations before taxes	75,311		(403,327)	
	Net income from assets sold	-		63,421	
	Amortization, depreciation, impairment losses and reversals of PPE and intangible assets	231,455		221,535	
	Capital gain realized on assets sold	-		(72,543)	
	Reversal of Financial expenses	458,304		604,698	
	Reversal of Financial income	(372,950)		(524,609)	
	Reversal of Dividends	(7,701)		(35,325)	
	Gains/(losses) on equity investments	3,276		226,141	
	Share of net income from associates and joint ventures (net of dividends received)	70,016		204,745	
	Income taxes	(97,897)		(72,620)	
	Change in inventories	242,133		(144,636)	
	Change in Trade receivables/payables	(68,541)		95,961	
	Change in Other receivables/payables	(11,890)		(79,065)	
	Change in Provisions for employee benefits and Other provisions	64,047		(28,650)	
	Other changes	(46,890)		19,954	
A	**Net cash flows provided by/(used in) operating activities**	**538,673**		**75,680**	
	Investments in Property, plant and equipment	(225,231)		(310,724)	
	Disposals of Property, plant and equipment including capital gains/losses	41,531		33,800	
	Investments in Intangible assets	(19,715)		(25,783)	
	Disposals of Intangible assets including capital gains/losses	10,125		94,533	
	Acquisition of Equity investments in associates and joint ventures	(40,247)		(171,220)	
	Disposal of Equity investments in associates and joint ventures	166		30,841	
	Net cash flow provided by discontinued operations	-		69,600	
	Acquisition of Other financial assets	(3,031)		(96,052)	
	Disposal of Other financial assets	241,984		32,285	
	Acquisition of minority interests	(4,166)		(434,361)	
	Disposal of minority interests	26,600		-	
	Dividends received	7,701		31,268	
	Net investment in business combinations	(7,273)		(1,338)	
B	**Net cash flows provided by/(used in) investing activities**	**28,444**		**(747,151)**	
	Increase/(reduction) in equity	167,411		13,400	
	Change in Financial payables	(288,997)		(408,747)	(218,922)
	Change in Financial receivables	53,706		(65,625)	
	Change in Financial payables/receivables for acquisitions	(30,065)		(401,100)	
	Financial income/(expenses)	(85,354)		(53,606)	
	Dividends paid	(2,313)		(167,889)	(22,746)
C	**Net cash flows provided by/(used in) financing activities**	**(185,612)**		**(1,083,567)**	
D	**Total cash flows provided/(used) during the year (A+B+C)**	**381,505**		**(1,755,038)**	
E	**Cash and cash equivalents at beginning of year**	**227,077**		**2,010,475**	
F	Exchange differences on translation of cash and cash equivalents	2,197		(28,360)	
G	**Cash and cash equivalents at end of year (D+E+F) (°)**	**610,779**		**227,077**	

(°) of which:

cash and cash equivalents	632.113		253.905	
bank overdrafts	(21.334)		(26.828)	

The Statement of Cash Flows shows transactions with related parties only if they cannot be directly deduced from the other statements.
Related party transactions in respect of the individual line items in the financial statements are presented in Note 42 of the Explanatory Notes to which the reader is referred

Explanatory notes

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 Group's operations are principally represented by investments in:

— Pirelli Tyre S.p.A. – a company operating in the tyre sector – 100 per cent stake in share capital;
— Pirelli & C. Eco Technology S.p.A. – a company active in the field of technologies for reducing emissions –51 per cent stake in share capital;
— Pirelli & C. Real Estate S.p.A. – a listed company operating in the real estate sector –58 per cent stake in share capital;
— Pirelli Broadband Solutions S.p.A. – a company operating in the field of telecommunications components, equipment and systems – 100 per cent stake in share capital;
— Pirelli & C. Ambiente S.p.A. – a company operating in the field of renewable sources of energy –51 per cent stake in share capital.

The head office of the company is located in Milan, Italy.

In conformity with the provisions of Art. 5, clause 2 of Italian Legislative Decree 38 of February 28, 2005, the present financial statements has been prepared using the Euro as the accounting currency.

The consolidated financial statements are audited by Reconta Ernst & Young S.p.A., pursuant to Art. 159 of Legislative Decree 58 dated February 24, 1998 and taking account the CONSOB recommendation dated February 20, 1997, in execution of the resolution passed by the shareholders on April 29, 2008 which engaged the audit firm for the period 2008-2016.

The consolidated financial statements were approved by the Board of Directors held on March 10, 2010.

2. Basis of presentation

The restructuring actions launched in 2008 and carried on in 2009 to cope with the effects of the international crises allowed the Group to achieve in the period results on the upgrade, thanks to the effectiveness of the measures adopted to safeguard efficiency and competitiveness and of the strategy outlined in the 2009-2011 Industrial Plan.
Therefore Group's result of the period is in line or even higher than the targets 2009, which were moreover increased last November.
The consolidated financial statements were prepared on the assumption that the company is a going concern.
The information on the main uncertainties has been summarized in the Directors' report.

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 International Financial Reporting Standards ("IFRS") in force issued by the International Accounting Standards Board (IASB) and endorsed by the European Union as at December 31, 2009, as well as the measures emanated for the implementation of art. 9 of Legislative Decree 38/2005. The designation IFRS also includes all effective revised International Accounting Standards ("IAS") and all Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), formerly named the Standing Interpretations Committee ("SIC").
The consolidated financial statements have been prepared under the historical cost convention except for:
— investment property (held by companies in the Real Estate sector, accounted for by the equity method), derivative financial instruments, securities held for trading and available-for-sale financial assets, which are measured at fair value;
— financial statements of companies operating in high inflationary economies, which are drawn up under the current cost convention.

ACCOUNTING STANDARDS AND INTERPRETATIONS ENDORSED AND IN FORCE AS FROM JANUARY 1, 2009

IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions

This interpretation governs the application of IFRS 2 "Share-based payment" to certain kinds of plan that involve several units of the Group. There are no significant quantitative impacts on the financial statements deriving from application of this interpretation. In June 2009 the IASB issued amendments to IFRS 2 – Share-based payment, which have not yet been endorsed by the European Union, incorporating the guidelines previously included in IFRIC 11; IFRIC 11 will therefore be withdrawn.

IFRIC 13 – Customer Loyalty Programmes

IFRIC 13 defines the accounting treatment that must be adopted by entities that grant loyalty award credits to customers who buy goods or services. It establishes that the fair value of the obligations connected with the loyalty awards must be separated from sales revenues and deferred until the entity has fulfilled its obligation to the customers. There are no significant quantitative impacts on the financial statements deriving from application of this interpretation.

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 deriving from the existence of minimum contractual or statutory funding requirements. This interpretation is not applicable to the Group.

IFRS 8 – Operating Segments

This standard aligns segment disclosure with the requisites of US GAAP (ASC 280-10 Disclosures about Segments of an Enterprise and Related Information), introducing the approach whereby segments are identified in the same way as they are identified in internal reports for top management. The disclosure required is provided in Note 7 below.

Amendments to IAS 23 "Borrowing costs"

These amendments, which are part of the project for convergence with US GAAP (ASC 835-20 Capitalization of Interest Cost), remove the option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Borrowing costs must therefore be capitalized as part of the cost of that asset. The application of these amended standards has no impact on the financial statements since the Group never availed itself of the option eliminated.

Revision of IAS 1 "Presentation of Financial Statements"

IAS 1 has undergone a revision which required 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 to be presented in this statement had previously been disclosed in the explanatory notes. The standard also made it compulsory to draw up an accounting statement entitled "statement of comprehensive income" which must present all costs and revenue items recognized in a year. This presentation may be prepared in a single statement of comprehensive income or in two statements: the first showing the income (loss) components of the period (separate income statement) and a second statement which starts from the net income (loss) of the period and shows the items of the other comprehensive income.
The changes required by the new IAS 1 also apply to comparative figures presented together with the financial statements for the period. For the impact on the consolidated financial statements and the options taken by the Group, see the next paragraph "Financial statement formats".

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 include only service conditions (whereby a party must complete a specific period of service) and performance conditions (whereby it is necessary to reach specific targets). Other conditions, on which the current standard sets no explicit rules, 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.

There are no significant quantitative impacts on the financial statements from application of the amendments to this Standard.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements": Puttable Instruments and Obligations Arising on Liquidation.

These amendments concern the accounting treatment of certain specific types of financial instruments which have features similar to ordinary shares, but are currently classified as financial liabilities, since 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 provided that they have particular features and meet certain conditions:
— puttable financial instruments (financial instruments redeemable at the request of the holder), for example certain types of shares issued by cooperatives;
— 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.

There are no impacts on the financial statements from application of the above amendments.

"Improvements" to the IFRSs (issued by the IASB in May 2008)

Under the project begun in 2007, the IASB has issued a series of amendments to the current standards. The amendments bring about changes for the presentation, recognition and measurement of certain items and also terminology changes.

The following table summarises the standards and issues dealt with by these amendments:

IFRS	Subject of the amendment
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	Sale plan involving loss of control of a subsidiary
IAS 1 – Presentation of Financial Statements	Classification of derivative instruments as current / non-current
IAS 16 – Property, Plant and Equipment	Sale of property, plant and equipment held for rental
IAS 19 – Employee Benefits	- Distinction between curtailments and negative past service costs
	- Change in the definition of return on plan assets
	- Contingent liabilities
IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance	Government loans at a below-market rate of interest
IAS 23 – Borrowing Costs	Components of borrowing costs
IAS 27 – Consolidated and Separate Financial Statements	Measurement of a subsidiary held for sale in separate financial statements
IAS 28 – Investments in Associates	- Required disclosures when investments in associates are accounted for at fair value through profit or loss
	- Impairment of investments in associates
IAS 31 – Interests in Joint Ventures	Required disclosures when interests in joint ventures are accounted for at fair value through profit or loss
IAS 29 - Financial Reporting in Hyperinflationary Economies	Introduction of examples of assets and liabilities measured at historical cost and at current value
IAS 36 – Impairment of Assets	Additional disclosures on the discount rate if the recoverable value is based on the fair value, on the basis of the discounted cash flows, after deducting the selling costs
IAS 38 – Intangible Assets	- Advertising and promotional activities
	- Amortisation period and method – unit of production method
IAS 39 – Financial Instruments: recognition and measurement	- Reclassification of derivatives into or out of the fair value through profit or loss category
	- Designation and documentation of a hedge at the operating segment level
	- Effective interest rate applicable if hedge accounting is no longer adopted
IAS 40 – Investment Property	- Property under construction or development for future use as investment property
	- Investment property held under a lease
IAS 41 – Agriculture	Definition of agricultural activity and other definitions
IFRS 7 – Financial Instruments: Disclosures	Disclosure of borrowing costs
IAS 10 - Events After the Reporting Period	Dividends declared after the end of the reporting period
IAS 34 – Interim Financial Reporting	Disclosure of earnings per share in interim financial reports

There are no significant quantitative effects on the financial statements from the application of the above amendments.

Amendments to IFRS 1 "First-time Adoption of the IFRSs" and IAS 27 "Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"

The amendment establishes that on first-time adoption of the IFRSs in its separate financial statements, an entity may choose to use the deemed cost option to account for the cost of an investment in a subsidiary, jointly controlled entity or associate.
At the date of transition to the IFRSs, the deemed cost may be the fair value – determined on the basis of IAS 39 – or the carrying value determined on the basis of the standards in force previously.
Also permitted is recognition as revenue in the separate financial statements of any distribution carried out by subsidiaries, jointly controlled entities or associates, whether this be of reserves formed before or after acquisition.
There are no significant effects on the financial statements from application of the above amendments.

Amendments to IFRS 7 – "Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments"

This amendment focuses on disclosures relating to measurement of fair value and liquidity risk. As regards measurement of fair value, enhanced disclosures are now required by the standard and the amendment also introduced a fair value hierarchy with 3 levels, for each of which specific quantitative information is required. As regards disclosures relating to liquidity risk, the changes clarify the items to be included in the analysis by maturities and require greater integration between quantitative disclosures and qualitative disclosures.
The additional disclosures provided by the Group are presented in Note 4.

Amendments to IFRIC 9 and to IAS 39 – Embedded Derivatives

These amendments clarify the accounting treatment for embedded derivatives when they are reclassified out of the category of financial assets carried at fair value through profit or loss, as permitted by the amendments made in October 2008 to "IAS 39 Financial Instruments: Recognition and Measurement". On the basis of these amendments, in the event of reclassification, embedded derivatives must be assessed and separately accounted for in financial statements.
There are no effects on the financial statements deriving from the application of the above amendments.

INTERNATIONAL ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT NOT YET IN FORCE AND/OR NOT YET ENDORSED

As required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", new Standards or Interpretations already issued, but which have not yet come into force or been endorsed by the European Union, and which are therefore not applicable, are indicated and described briefly below.
None of these Standards and Interpretations has been early adopted by the Group.

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 granted are not necessarily controlled by the private operators which are, however, responsible for constructing, operating or maintaining the public infrastructure. Assets under these arrangements are not necessarily recognised 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, which was endorsed by the European Union in March 2009 (EC Regulation 254/2009), applies to the Group starting from January 1, 2010 but no effects are expected on the consolidated financial statements.

IFRIC 15 - Agreements for the Construction of Real Estate

This interpretation provides guidance on how to determine whether an agreement for the construction of real estate units is within the scope of IAS 11 "Construction Contracts" or of IAS 18 "Revenue", defining the moment when the revenue must be recognised.
In the light of this interpretation residential development comes within the scope of application of IAS 18 "Revenue" entailing recognition of the revenue on completion of sale; construction service work, if carried out on the basis of the client's technical specifications, comes within the scope of application of IAS 11 "Construction Contracts".
IFRIC 15, which was endorsed by the European Union in June 2009 (EC Regulation 636/2009), applies to the Group starting from January 1, 2010. No significant effects are expected on the financial statements from the future application of this interpretation because the accounting treatment already applied today by the Group is in line with the above amendments.

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation

This interpretation clarifies certain issues relating to the accounting treatment, in consolidated financial statements, of hedges of net investments in foreign operations, specifying which types of risks have the requisites for application of hedge accounting. In particular, it states that hedge accounting is only applicable to exchange rate differences arising between the functional currency of the foreign entity and the functional currency of the parent, and not between the functional currency of the foreign entity and the presentation currency of the consolidated financial statements.
This interpretation, which was endorsed by the European Union in June 2009 (EC Regulation 460/2009), applies to the Group starting from January 1, 2010. No effects are expected on the Group's financial statements following the future application of this interpretation.

IFRIC 17 – Distributions of Non-cash Assets to Owners

This interpretation clarifies that:

- dividend payables should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- dividend payables should be measured at the fair value of the net assets to be distributed;
- the difference between the dividends paid and the carrying amount of the net assets distributed should be recognised in the income statement.

This interpretation, which was endorsed by the European Union in November 2009 (EC Regulation 1142/2009), applies to the Group starting from January 1, 2010. The effects on the Group's financial statements following the future application of this interpretation are still not quantifiable.

IFRIC 18 – Transfers of assets from customers

This interpretation, which was issued in January 2009, is particularly significant for companies operating in the utilities sector and clarifies the requisites that must be observed if agreements are entered into on the basis of which an entity receives from a customer an asset that the entity itself uses to connect the customer to a network or to ensure the customer ongoing access to the provision of goods and services (for example, the supply of electricity, water or gas).
This interpretation, which was endorsed by the European Union in November 2009 (EC Regulation 1164/2009), applies to the Group starting from January 1, 2010. No effects are expected on the Group's financial statements following the future application of the interpretation.

Revision of IFRS 3 "Business Combinations"

This revision is part of the project for convergence with US GAAP and has the purpose of aligning the accounting treatment of business combinations. The main changes from the previous version relate to:

— recognition in the income statement - when incurred - of 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 chosen for each individual business combination;
— 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 investment held previously must be measured at fair value through profit and loss;
— contingent consideration, that is, the obligations of the purchaser to transfer additional assets or shares to the seller if certain future events occur or specific conditions are fulfilled, should 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 changes, which were endorsed by the European Union in June 2009 (EC Regulation 495/2009), apply to the Group starting from January 1, 2010. As of today the effects of the new standard on the financial statements in the year of first adoption are unforeseeable.

Amendments to IAS 27 "Consolidated and Separate Financial Statements"

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 equity interests in 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 net assets acquired/sold must be recognised in equity;
— in the event of the loss of control, but where an interest is retained, this interest must be measured at fair value at the date on which the loss of control occurs.

These changes, which were endorsed by the European Union in June 2009 (EC Regulation 494/2009), apply to the Group starting from January 1, 2010. As of today the effects of the new standard on the financial statements in the year of first adoption are unforeseeable.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement – eligible hedged items"

This amendment illustrates and clarifies what can be designated as a hedged item in certain specific situations:

— designation of a one-sided risk in a hedged item, that is, when only changes in the cash flows or fair value above or below a specified value, instead of the total change, are designated as a hedged item;
— designation of inflation as a hedged item.

These amendments, which were endorsed by the European Union in September 2009 (Regulation EC 839/2009), apply to the Group starting from January 1, 2010. No material effects are expected on the Group's financial statements following the future application of the above amendments.

Revised IFRS 1 – First-time Adoption of IFRSs

IFRS 1 has been revised several times over the years, following the issue of new standards or amendments to existing standards which made it less clear. The latest revision of IFRS 1 did not lead to any substantial changes with respect to the previous version, but did modify its structure. This standard, which was endorsed by the European Union in November 2009 (Regulation EC 1136/2009), applies starting from January 1, 2010, and will have no effect on the Group's financial statements.

Amendments to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues

These changes relate to the issue of rights – such as options and warrants – denominated in a currency other than the issuer's functional currency. Previously, these rights issues were recognized as derivative financial liabilities. Now, if certain conditions are met, these rights issues can be classified as equity instruments regardless of the currency in which the exercise price is denominated. These amendments were endorsed by the European Union in December 2009 (Regulation EC 1293/2009), and apply with effect from January 1, 2011. No significant quantitative effects are expected on the Group's financial statements following the future application of the above amendments.

"Improvements" to the IFRSs (issued by the IASB in April 2009)

Under the project begun in 2007, the IASB has issued a series of amendments to the 12 standards in force.
The following table summarises the standards and the issues affected by these amendments:

IFRS	Subject of the amendment
IFRS 2 – Share-based Payment	Scope of IFRS 2 and revised IFRS 3
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
IFRS 8 – Operating segments	Disclosure of information about segment assets
IAS 1 – Presentation of Financial Statements	Current/non-current classification of convertible instruments
IAS 7 – Statement of Cash Flows	Classification of expenditures on unrecognised assets
IAS 17 – Leases	Classification of leases of land and buildings
IAS 18 – Revenue	Determining whether an entity is acting as an agent (for example, it is not exposed to significant risks and benefits associated with the transaction) or as a principal (for example, it is exposed to significant risks and benefits associated with the transaction)
IAS 36 – Impairment of Assets	Dimension of the cash generating unit for performing goodwill impairment test
IAS 36 – Impairment of Assets	- Additional consequential amendments arising from revised IFRS 3
	- Measuring the fair value of an intangible asset acquired in a business combination
IAS 39 – Financial Instruments: Recognition and Measurement	- Treating loan prepayment penalties as closely related embedded derivatives
	- Scope exemption for business combination contracts
	- Cash flow hedge accounting
IFRIC 9 – Reassessment of Embedded Derivatives	Scope of IFIC 9 and revised IFRS 3
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	Amendment to the restriction on the entity that can hold hedging instruments.

These revisions have not yet been endorsed by the European Union and apply with effect from January 1, 2010. No significant quantitative effects on the Group's financial statements are expected following the future application of the above amendments.

Amendments to IFRS 2 – Share-based Payment

These amendments aim to clarify the accounting treatment of cash-settled stock option plans in the financial statements of a subsidiary, if benefits are paid to employees by the parent company or another Group entity other than that in which the employee works. These amendments include guidelines set forth previously in IFRIC 8 "Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", which have therefore been withdrawn.
The amendments to IFRS 2, which will come into force on January 1, 2010, have not yet been endorsed by the European Union and are not applicable to the Group.

Amendments to IFRIC 14 – Prepayments of minimum funding requirements

The amendments to IFRIC 14 govern the rare case in which an entity, subject to minimum funding requirements in relation to defined benefit plans, makes prepayments to guarantee these limits. The benefits deriving from prepayments may be recognized as assets.
The amendments to IFRS 14, which will come into force on January 1, 2011, have not yet been endorsed by the European Union and are not applicable to the Group.

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

This interpretation provides guidelines on how to account for the extinguishing of a financial liability through the issue of equity instruments (debt for equity swap), that is when an entity renegotiates the terms of a debt with its lender which agrees to receive shares of the entity or other equity instruments to settle the debt in full or in part.
This interpretation clarifies that:
— the shares issued are part of the consideration paid to extinguish the financial liability;
— the shares issued are carried at *fair value*. If the *fair value* cannot be determined reliably, the equity instruments issued must be measured in such a way as to reflect the *fair value* of the liability extinguished;
— the difference between the carrying amount of the financial liability being extinguished and the initial value of the shares issued must be recognized by the entity in the income statement of the period.
This interpretation, which will come into force on July 1, 2010, has not yet been endorsed by the European Union and no effects on the Group's financial statements are expected following its application.

IFRS 9 – Financial Instruments

IFRS 9 represents the completion of the first of three stages of the planned replacement of IAS 39 Financial Instruments: Recognition and Measurement, with the main aim of reducing its complexity. The second stage of the project is concerned with impairment of financial instruments and culminated in the issue of an Exposure Draft in November 2009. The issue of the final standard is planned for the end of 2010. The third stage is concerned with hedge accounting and will culminate in an Exposure Draft which will be issued in the first quarter of 2010.
The scope of IFRS 9 was restricted to only financial assets: for the classification and measurement of financial liabilities the reference remains for the moment IAS 39.
The main changes introduced by IFRS 9 can be summarized as follows:
— financial assets can be classified in only two categories - at fair value or at amortized cost. The categories of loans and receivables, available-for-sale financial assets and financial assets held to maturity are therefore eliminated. Classification within the two categories is made on the basis of the entity's business model and on the basis of the features of the cash flows generated by the assets themselves. Financial assets are measured at amortized cost if both the following requisites are met: the entity's business model envisages that financial assets are held to collect their cash flows (thus, substantially, not to make trading profits) and the characteristics of the cash flows of the assets correspond only to payment of principal and interests. Otherwise financial assets must be measured at fair value;
— the accounting rules for embedded derivatives have been simplified: separate accounting for the embedded derivative and the "host" financial asset is no longer required;
— all equity instruments – both listed and unlisted - must be measured at fair value. IAS 39 stated instead that, if fair value could not be determined reliably, unlisted equity instruments had to be measured at cost;
— the entity has the option of presenting in net equity any change in the fair value of equity instruments not held for trading, while for those held for trading this option is forbidden. This designation is permitted at the moment of initial recognition, may be adopted for a single security and is irrevocable. If this option is taken, the fair value changes of such

instruments can never be reclassified from equity to income statement. Dividends instead continue to be recognized in the income statement;
- IFRS 9 does not allow reclassifications between the two categories of financial assets except in rare cases in which there is a change in the entity's business model. In this case the effects of the reclassification are applied prospectively;
- the disclosure required in the notes has been adapted to the classification and to the measurement rules introduced by IFRS 9.

The process of endorsement of IFRS 9, which will come into force on January 1, 2013, has been suspended for now. At the moment the effects deriving from future application of the standard are not quantifiable.

Revised IAS 24 – Disclosure of related party transactions

The revised IAS 24 simplifies the disclosure requirements regarding related parties when state-controlled entities are involved and provides a new, simplified and more coherent definition of related parties.
This standard, which will come into force on 1 January 2011, has not yet been endorsed by the European Union. No significant impact is expected on the disclosures provided by the Group following the future application of the standard.

Amendments to the revised IFRS 1 – First-time adoption of the IFRSs - additional exemptions in the case of first-time adoption

These changes govern the retrospective application of the IFRSs in some particular cases and their aim is to avoid excessive costs and efforts in the process of transition to the IFRSs.
These changes, which will come into force on January 1, 2010, have not yet been endorsed by the European Union and will have no effect on the Group's consolidated financial statements.

Amendments to the revised IFRS 1 – First-time Adoption of the IFRSs - exemptions limited to the comparative disclosure provided for in IFRS 7 in the case of first-time adoption

This change exempts from providing - on first-time adoption of the IFRSs - comparative data for the additional *disclosures* required by IFRS 7 in relation to the measurement of *fair value* and liquidity risk.
These changes, which will come into force on July 1, 2010, have not yet been endorsed by the European Union and will have no effect on the Group's consolidated financial statements.

FINANCIAL STATEMENT FORMATS

The Company has applied the provisions of Consob Resolution 15519 dated July 27, 2006 with regard to the formats of the financial statements and Consob Communication 6064293 of July 28, 2006 in respect of corporate disclosure.
In accordance with the provisions of IAS 1 revised "Presentation of Financial Statements", the consolidated financial statements at December 31, 2009 consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the explanatory notes, and are accompanied by the Directors' Report on operations.

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 Group opted for a separate income statement instead of a single comprehensive income statement.

The statement of comprehensive income includes the result for the period and, for homogeneous categories, the revenues and costs which, on the basis of the IFRSs, are accounted for directly in equity. The Group has decided to present both the tax effects and the reclassifications to the income statement of profits/losses recognized directly in equity in previous periods directly in the statement of comprehensive income and not in the explanatory notes.

The statement of changes in equity includes the amounts of transactions with the equity holders and the movements that occurred during the period in retained earnings.

In the cash flow statement, the cash flows deriving from operating activities are presented using the indirect method, by means of which the profit or loss of the period is adjusted by the effects of non-monetary transactions, by any deferment or setting aside of past or future operating collections or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

With respect to the consolidated financial statements published at December 31, 2008, the statement of recognised income and expense was renamed statement of comprehensive income and the statement of changes in equity, previously presented in the explanatory notes, was included among the primary financial statements.

It should also be noted that a new item has been created in the income statement “earnings (losses) from investments”, made up of the following sub-items:
— share of earnings (losses) of associates and joint ventures;
— gains on equity investments: the sub-item includes gains on the sale of financial assets available for sale, subsidiaries, associates, joint ventures and gains on business combinations, previously classified among financial income, and the positive valuation of equity investments designated at fair value through profit or loss, previously included under the item “Gains (losses) on financial assets carried at fair value”;
— losses on equity investments: the sub-item includes losses on the sale of financial assets available for sale, subsidiaries, associates and joint ventures and impairments of financial assets available for sale, associates and joint ventures, previously classified among financial expenses, and the negative valuation of equity investments designated at fair value through profit or loss, previously included under the item “Gains (losses) on financial assets carried at fair value”;
— dividends: besides dividends received from equity investments other than subsidiaries/associates/joint ventures, the sub-item includes revenues received from property funds, previously classified as financial income.

Moreover, the fair value measurements of securities held for trading and derivatives were reclassified from the item “gains (losses) on financial assets carried at fair value” to the items “financial expenses” or “financial income” depending on the sign.
The item “gains (losses) on financial assets carried at fair value” was therefore eliminated.
The income statement at December 31, 2008, presented for comparative purposes, was reclassified accordingly.
Finally, “receivables for junior notes” of the Real Estate Sector, previously classified in the item “other non current receivables” have been reclassified to the item “other financial assets”. In the balance sheet at December 31, 2008, presented for comparative purposes, an amount of Euros 21.330 thousand has been therefore reclassified.

In these financial statements the Integrated Facility Management business of Pirelli Real Estate and the Photonics business, which were both sold during 2008, are considered discontinued operations and therefore are included only in net income. For a true representation, therefore, the economic data for 2008 have been restated to allow a like-with-like comparison.

SCOPE OF CONSOLIDATION

The scope of consolidation includes the subsidiaries, associates and the investments in joint ventures.
All companies and entities of which the Group has the power to control the financial and operating policies are considered subsidiaries; this condition is normally understood as fulfilled when more than half the voting rights are held. The financial statements of subsidiaries are included in the consolidated financial statements starting from the date on which control is assumed up to the moment in which such control ceases to exist. The portions of equity and net income attributable to minority interests are indicated separately in the consolidated balance sheet and income statement respectively.
All companies over which the Group is capable of exercising significant influence (as defined by IAS 28 – Investments in Associates) are considered associates. This influence is normally assumed to exist if the Group holds a proportion of voting rights of between 20% and 50%, or – even with a smaller proportion of voting rights – it has the power to take part in determining the financial and operating policies in virtue of particular legal relationships such as, by way of example, shareholders' agreements together with other forms of significant exercise of rights of governance.
Companies in which, on the basis of a contractual or statutory agreement, two or more parties carry on a business subject to joint control are considered joint ventures.

The main changes in the scope of consolidation compared with December 31, 2008 are as follows:
- on April 2, 2009 the shareholders of Orione Immobiliare Prima S.p.A. – a company in which Pirelli & C. Real Estate S.p.A. has a 40.1 per cent interest and Gruppo Partecipazioni Industriali S.p.A. (a related party) a 29.3 per cent interest – signed an agreement for assigning to the shareholders themselves, other than Pirelli & C. Real Estate S.p.A., the real estate property assets held by the company in proportion to their respective equity interests. Again on the basis of this agreement the shareholders also proceeded to transfer their respective stakes in Orione Immobiliare Prima S.p.A. to Pirelli & C. Real Estate S.p.A. which therefore, after the above transaction, holds 100 per cent of the share capital of this company;
- on May 13, 2009 the company Mistral Real Estate B.V., in which the Group already held a 35 per cent interest, implemented an operation to change its share capital, as the result of which the existing shares were transformed into "tracking shares", numbered and assigned so as to create a direct correlation between these shares and the underlying development companies in terms of both participation in the results and exercise of control. Following this transaction Pirelli & C. Real Estate S.p.A. acquired the remaining 65 per cent of certain classes of tracking share thus also acquiring control over the company to which these shares refer;

— on November 13, 2009, the company Pirelli & C. Ambiente S.p.A, in which Pirelli & C. S.pA. had a 51 per cent stake, acquired from third parties 50 per cent of the share capital of the joint venture Solar Utility S.p.A.. Therefore, after the above operation, Pirelli & C. Ambiente S.p.A. holds 100 per cent of the share capital of this company. From an accounting point of view, such operation, which has to be regarded as a business combination, led to the recognition of acquired assets and liabilities at their respective fair value. Goodwill of Euros 4.475 thousand arose (recognised in the financial statements only for the part attributable to the equity holders of the company, equal to Euros 2.282 thousand). Such goodwill represents the excess of the cost of acquisition over the fair value of the assets and liabilities acquired, as described in the table below:

(in thousands of euro)

		Fair value
A	**Purchase price (inclusive of costs directly attributable to the business combination)**	**8,100**
	Property, plant and equipment	34,762
	Intangible assets	90
	Trade receivables and trade payables	(445)
	Other receivables and payables	1,716
	Provisions for liabilities and charges and provisions for employee benefits	(65)
	Cash and cash equivalents	827
	Financial payables	(30,065)
B	**Assets and liabilities acquired**	**6,820**
C	Equity attributable to minority interests	(430)
D	**Net assets and liabilities acquired (B - C)**	**7,250**
E	Portion acquired (50% x D)	3,625
F	**Goodwill (A - E)**	**4,475**
G	**Goodwill - share attributable (51% x F)**	**2,282**

The increase of goodwill is due to the know-how in the photovoltaic system sector.
The joint venture Solar Utility has negatively contributed to the net income for Euro 1,427 thousands through the evaluation at net assets. If the corporate gathering had started at the beginning of the period, the contribution to the Group's income would have been negative for Euro 3,408 thousands and gains would have been Euro 150 thousands.

CONSOLIDATION

For consolidation purposes the financial statements used are those of the companies included in the consolidation scope, prepared at the reporting date and adjusted, where necessary, to conform to IAS/IFRS standards 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, with the exception of the financial statements of companies operating in high-inflation countries, whose income statement is translated at the year-end exchange rates.
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 the year-end rate compared to the average rate. The reserve for translation differences is recognized in the income statement upon the disposal of the company that generated the reserve.

The consolidation principles can be summarized as follows:
— Subsidiaries are consolidated on a line-by-line basis according to which:
- the assets and liabilities and revenues and costs of the financial statements of the subsidiaries are assumed in full, regardless of the percentage of ownership;
- the carrying 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 or 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 on the basis of which 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 or joint venture;
  - when the group's share, if any, of the losses of the associate exceeds the carrying amount of the investment in the financial statements, the carrying amount of the investment is reduced to nil and the share of any further losses is recognized in the "Provisions for other risks and charges" to the extent that the Group has a binding contractual or implicit obligation to cover the losses;
- gains arising on sales made by subsidiaries to joint ventures or associates are eliminated, up to the limit of the proportion of the interest in the purchaser company;
- gains arising on sale transactions 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 subsidiaries, associates or joint ventures, the price paid is allocated according to the purchase method in the manner described below:
  - determining the cost of acquisition in accordance with IFRS 3;
  - determining the fair value of the assets and liabilities acquired (both actual and contingent);
  - allocating the price paid to the fair value of the assets acquired and liabilities assumed;
  - 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;
  - 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. Accounting policies

INTANGIBLE ASSETS

Intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.
Amortization begins when the asset is intends is that it is capable of operating, and ceases on the date on which the asset is classified as held for sale or is derecognized. Gains and losses deriving from the sale or disposal of an intangible asset are determined as the difference between the net proceeds from the sale and the carrying amount of the asset.

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.
Any negative difference (negative goodwill) is instead recognized in the income statement at the date of acquisition. In the absence of a standard or a specific interpretation on the subject, in the event of the acquisition of minority interests in companies already controlled, the difference between the acquisition cost and the carrying amount of the assets and liabilities

acquired is recognized as goodwill, according to the "Parent entity extension method". Any negative difference is recognized in the income statement.
Goodwill is tested for impairment in order to identify any impairment losses at least annually or whenever there are indications of an impairment loss, and is allocated to cash generating units for this purpose.
Upon disposal of a part or the whole of a previously acquired company to which goodwill has been allocated, the corresponding residual amount of goodwill is taken into account in the determination of the gain or loss on sale.

Trademarks and licences

Trademarks and licences 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 licence 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 with meet the conditions for capitalization under IAS 38.

The useful lives of intangible assets are the following:

Trademarks and licences	5 years
Software	from 2 to 3 years

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized at the cost of acquisition or production, including direct attributable incidental expenses.
Subsequent expenditures and the cost of replacing some parts of property, plant and equipment are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred. When the cost of replacing some parts is capitalized, the carrying amount of the part replaced is recognized in the income statement.
Property, plant and equipment items 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 of providing 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% - 20%
Machinery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Government investment grants which relate to property, plant and equipment are recorded as deferred income and credited to the income statement over the period of depreciation of the relevant assets.
Borrowing costs directly attributable to the purchase, construction or production of a qualifying asset are capitalized as part of the cost of the asset. A qualifying asset is one that takes a substantial period of time to get ready for use. The capitalization of borrowing costs ceases when substantially all the activities necessary to render the qualifying asset available for use have been completed.
Leasehold improvements are classified as property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period corresponds to 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.
Assets acquired under finance lease contracts, in which substantially all the risks and rewards of ownership are transferred to the Group, are recorded in property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, with a corresponding entry to the relevant financial payable. The lease payment is allocated between interest expense, recorded in the income statement, and principal repayment, recorded as a reduction of the financial payable.
Leases in which the lessor maintains substantially all the risks and rewards associated with ownership are classified as operating leases. The costs referring to an operating lease are recognized as an expense in the income statement over the lease term on a straight-line basis.
Property, plant and equipment are derecognized at the moment of disposal or upon retirement of the asset from use and, consequently, no future economic benefits are expected to derive from their sale or use.
Gains and losses from the sale or disposal of property, plant and equipment are determined as the difference between the recoverable amount and the carrying amount of the asset.

INVESTMENT PROPERTY (HELD BY COMPANIES IN THE REAL ESTATE SECTOR ACCOUNTED FOR BY THE EQUITY METHOD)

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 re-measured at fair value. The changes in the fair value 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 in 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 impairment, and at least annually for intangible assets with indefinite life, including goodwill, the property, plant and equipment and intangible assets are tested for impairment.
The test consists of an estimate of the recoverable amount of the asset and a comparison with its 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 the latter is the present value of the expected future cash flows arising from the use of the asset and those deriving from its disposal at the end of its useful life, excluding income taxes and applying a discount rate, which should be the pre-tax rate which reflects the current market assessments of the time value of money and the risks specific to the asset.
If the recoverable amount is lower than the asset's carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss, which is recognized in the income statement.
In order to assess impairment, assets are allocated to the lowest level at which independent cash flows are separately identifiable (cash generating units). Specifically, goodwill must be allocated to the cash generating unit or group of cash generating units, complying with the maximum level of aggregation allowed, which must never be greater than the operating segment.
When there is evidence that an impairment loss recognized in previous 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 write downs and depreciation or amortization) had no impairment loss been recognized in previous years.
The reversal of an impairment loss, other than goodwill, is recognized in the income statement.
An impairment loss recognized on goodwill may not be reversed in subsequent years.
An impairment loss recognized in the interim financial statements on goodwill may not be reversed in the subsequent annual period.

Investments in associates and joint ventures

For the purpose of impairment testing, the value of investments in associates and joint ventures, measured using 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. There is no need to estimate both amounts because it is sufficient to verify that one of the two amounts is higher than the carrying amount In order to establish the absence of impairment.
For the 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, irrespective of the percentage of ownership.

For the purpose of determining the value in use of an associate or joint venture accounted for by the equity method, the following estimates should be made alternatively:

a) the share of the present value of estimated future cash flows that are expected to be generated by the associate or joint venture, including cash flows deriving from the operating activities of the associate or joint venture and the consideration that will be received on the final disposal of the investment, taking into account also the higher implicit values relating to the real estate portfolios held (know as the Discounted Cash Flow criterion – asset side);
b) the present value of estimated future cash flows that are expected to arise from dividends to be received and from the final disposal of the investment (know as the Dividend Discount Model – equity side).

If there is evidence that an impairment loss recognized in previous years may no longer exist 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 up to the recoverable amount.
The reversal may not exceed the amount of the investment than would have been recorded (net of write downs) had no impairment loss had been recognized in previous 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

The measurement category of available-for-sale financial assets includes investments in other companies and other securities not held for trading. They are recognized in the balance sheet item "Other financial assets".
They are measured at fair value, if it can be reliably determined. Gains and losses deriving from fair value changes are recognized in a specific equity reserve.
When a reduction in fair value has been recognized directly in equity and there is objective evidence that the asset was impaired, the losses recognized up to that time in equity are reversed to the income statement. A prolonged (meaning more than 12 months) or significant (meaning more than one third) reduction in the fair value of equity securities compared to their cost is considered an indicator of impairment.
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 statement cannot be reversed through the income statement.
Impairment losses recognized in the interim financial statements on equity securities classified as available-for-sale cannot be reversed to the income statement in the subsequent annual period.
Available-for-sale financial assets, whether debt or equity securities, for which fair value is not available, are accounted for at cost, reduced by any impairment losses based on the best market information available at the balance sheet date.
Purchases and sales of available-for-sale financial assets are accounted for at the settlement date.

INVENTORIES

Tyre Segment

Inventories are measured at the lower of cost, determined with the FIFO method, and estimated realizable value.
The measurement of inventories includes direct costs of materials and labour and indirect overheads. Provisions are calculated for obsolete and slow moving inventories, taking into account their expected future use and estimated realizable value. The realizable value is the estimated selling price, net of all costs estimated to complete the asset and selling and distribution costs that will be incurred.

Cost includes incremental expenses and borrowing costs qualifying for capitalization, similarly to what is described for property, plant and equipment.

Real Estate Segment

Inventories consist of land to be developed, properties to be renovated, properties under construction / renovation, completed properties for sale, trading properties and consumable stores. Land to be developed is measured at the lower of cost and estimated realizable value, net of direct selling costs. Cost includes incremental expenses and borrowing costs qualifying for capitalization, similarly to what is described for property, plant and equipment.
Properties under construction and/or renovation are valued at the lower of cost, including incremental expenses and borrowing costs qualifying for capitalization, and estimated realizable value, net of direct selling costs.
Trading properties are valued at the lower of cost and estimated realizable value, which normally corresponds to market value, inferred from sales of comparable properties in terms of location and type.
Cost is increased by any incremental expenses incurred up to the time of sale.

Classification of real estate portfolio: inventories (IAS 2) - investment property (IAS 40)

Of the real estate portfolio of the Group held by consolidated companies, approximately half the carrying amount attributable to equity holders of the Group relates to investment property measured at fair value (IAS 40). In particular, these refer to residential property in Germany and selected prime assets in Italy which, after formalizing the "hold" strategy, have been valued in accordance with IAS 40. This allows fair value, as determined by independent experts, to be used as the basis for measuring investment property that is not going to be sold in the near term, but is held to earn rentals or for capital appreciation.

CONSTRUCTION CONTRACTS

A construction contract is a contract specifically negotiated for the construction of an asset, based on the instructions of a principal who, as a preliminary step, designs the plans and the technical characteristics.
Contract revenues include the consideration initially agreed with the customer, as well as changes in the construction work and price variations envisaged by the contract that can be determined reliably.
When the outcome of a contract can be estimated reliably, the contract is measured using the percentage of completion method. The stage of completion is determined with reference to the costs incurred up to the balance sheet date as a percentage of the total estimated costs for each contract.
Costs incurred in connection with future activities on the contract are excluded from contract costs when determining the stage of completion and are recognized as inventories.
When total contract costs are expected to exceed total contract revenues, the expected loss is immediately recognized as an expense.
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 of recognized losses) exceed progress billings is recognized as a receivable, under the item "trade receivables".
The gross amount due to customers for contract work for all the contracts in progress and for which the progress billings exceed the costs incurred plus recognized profit (or less of recognized losses) is recognized as a payable, under the item "trade payables".

RECEIVABLES

Receivables are initially recorded at their *fair value*, which normally corresponds to the consideration agreed or to 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.
Impairment losses on receivables are calculated on the basis of the risk of non-fulfilment by the counterpart determined by considering the information available on the solvency of the counterpart and historical experience. The carrying amount of receivables is reduced indirectly by recognition of 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 the fair value of the guarantees, if any.
The positions that are not written down individually are including in groups with similar characteristics from the standpoint of credit risks, and are 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 write-down percentages are determined on the basis of historical experience and statistical data.
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 crediting 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 substantially all the risks and rewards connected with holding the receivable have been transferred or in case the receivable is considered definitely 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 segment), classified under the item "Other Financial Assets", as well as non-performing loans acquired at prices significantly below their carrying amounts (deep discount receivables), classified under the item "Other receivables", belong to the loans and receivables measurement category as defined by IAS 39 and are initially recorded at fair value, which normally corresponds to 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 of junior notes and non-performing loans is adjusted, whenever there is a change in the estimate of the expected discounted 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. In case of negative differences (impairment), the carrying amount is reduced by building up a specific provision. In some cases customers are asked to furnish guarantees; these are mainly bank guarantees, issued by high-credit standing banks, personal or mortgage guarantees.

Shareholders' loans granted to associates and joint ventures

Financial receivables represented by loans to associates and joint ventures are classified under the item "Other receivables" and are initially recognized at their fair value, corresponding to the present value of the future cash flows.
In particular, shareholder loans granted at non market conditions are discounted over the estimated term of the loan at a rate that represents a loan having similar characteristics.
Any difference between the nominal amount of the loan and the fair value remeasured as described above 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 by the equity method, recognizes the same difference as a reduction of its financial payables and as an increase, net of the tax effect, of equity.
After initial recognition, shareholder loans are measured at amortized cost.
For the purposes of measurement of impairment, receivables for shareholders' loans are evaluated together with the interest invested in the capital of the investment holding, using an analysis of cash flows generated by the relative underlying real estate projects.

PAYABLES

Payables are initially recorded at fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be paid.
They are subsequently measured at amortized cost.
The 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 CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

This measurement category includes securities purchased mainly for resale in the short term and classified in current assets under the item "securities held for trading", financial assets which at the time of initial recognition are designated at fair value through profit and loss, classified under the item "other financial assets", and derivatives (except those designated as effective hedging instruments), classified under the item "derivative financial instruments".
They are measured at fair value with a corresponding entry to the income statement. Transaction costs are expensed to the income statement.
Purchases and sales of these financial assets are accounted for at settlement date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank deposits, postal deposits, cash and valuables on hand.

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 fulfilment of which an outflow of resources will probably be necessary, the amount of which can be estimated reliably.
Changes in estimates are recognized in the income statement of the period in which the change occurs.
If the effect of discounting is material, provisions are presented at their present value.

EMPLOYEE BENEFIT OBLIGATIONS

Employee benefits paid after termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial valuations. The liability recognized in the financial statements is the present value of the Group's obligation, net of the fair value 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, actuarial gains and losses are recognized immediately in the income statement.
The interest expense and the expected return on plan assets are classified in personnel costs.
The costs relating to defined contribution plans are recognized in the income statement when incurred.
Up to December 31, 2006, the provision for the employees' leaving indemnity of the Italian companies (TFR) was considered a defined benefit plan. The rules governing this provision were amended by Law 296 dated December 27, 2006 ("Italia Budget Law 2007") and subsequent Decrees and Regulations issued in the early months of 2007. In light of these changes, and in particular with reference to Group companies with more than 50 employees, the provision is now be considered a defined benefit plan for the portion accrued prior to January 1, 2007 (and not yet paid out at the balance sheet date), whereas subsequent to that date, it is considered a defined contribution plan.

STOCK OPTIONS

The Group offers additional benefits to some of its senior executives and employees in the form of equity compensation plans (stock option plans).
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 is given 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 in the income statement over the period of the plan, with a corresponding entry increasing 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 deriving from the exercise of the stock option. The fair value of the option, remeasured at the end of every reporting period, is recognized in the income statement over the vesting period of the plan, with a corresponding entry to a liability in the balance sheet. The changes in the fair value of the liability subsequent to the vesting period are recognized in the income statement.

The Group has applied the transitional provision of IFRS 2 and has therefore applied the standard to all stock option plans granted after November 7, 2002 and not yet vested at the date IFRS 2 came into force (January 1, 2005).
Detailed disclosure is also provided on the plans granted prior to that date.

DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS EFFECTIVE CASH FLOW HEDGES

These derivative instruments are measured at fair value, in line with the provision of IAS 39.
In relation to these instruments 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.
It should be noted that, for the purposes of application of cash flow hedges, in the companies accounted for by the equity method, the Real Estate segment has implemented dynamic type hedging relationships between the derivatives portfolio and existing loans; this approach makes it possible to review and redefine, on a quarterly basis, the hedging strategy in relation to loan

reimbursement forecasts in strict correlation with the business plan of the various initiatives.
The Group also assesses of effectiveness of the hedging instrument in offsetting the changes in 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 part 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 no longer meets the criteria to be designated as a hedge, or whenever the Group revokes the designation, the relevant fair value adjustments accumulated in equity remain in equity until the hedged item produces an effect in the income statement. Subsequently they are reclassified to the income statement over the periods in which the financial asset acquired or financial liability assumed has an effect on the income statement.
When the hedged item is no longer expected to generate an effect on the income statement, the fair value adjustments accumulated in equity are immediately recognized in the income statement.
Purchases and sales of such derivative financial instruments are accounted for at the settlement date.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments traded in an active market is based on listed market prices at the balance sheet date. The listed market price used for financial assets is the bid price, while for financial liabilities is the ask price. The fair value of 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 the balance sheet date.
The fair value of interest-rate swaps is calculated as the present value of expected future cash flows.
The fair value of forward exchange contracts is determined using the forward rate at the balance sheet date.

INCOME TAX

Current taxes are determined on the basis of a realistic forecast of the taxes payable under the current tax law of the country.
Deferred taxes are calculated on the temporary differences existing between the asset and the 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 on tax loss carry forwards, as well as on temporary differences, are only recognized when there is a probability of future recovery.
Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and when there is a legally enforceable right to offset. Deferred tax assets and liabilities are determined based on enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, with reference to the jurisdictions where the Group operates.
Deferred taxes are not discounted.
Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly to equity in the period or in previous periods.

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 recognized in equity.

Costs of equity transactions

Costs directly attributable to equity transactions of the parent company 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 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 reliably;
- 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 reliably.

With specific reference to sales of real estate 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 extent 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 the date on which this transfer can be considered to have taken place.

Rendering of services

Revenues from rendering of services are recognized only when the results of the transaction can be measured reliably, by reference to the stage of completion of the transaction at the balance sheet date. The results of a transaction can be measured reliably only when all the following conditions are met:
- the amount of the revenues can be determined reliably;
- it is probable that the company will enjoy the economic benefits from the transaction;
- the stage of completion of the transaction at the balance sheet date can be measured reliably;
- the costs incurred for the transaction and the costs to be incurred to complete it can be determined reliably.

Interest income

Interest income is recognized on a time proportion basis which considers the effective return of the asset.

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.

EARNINGS PER SHARE

Basic earning per share is calculated by dividing the income attributable to the equity holders of the company by the weighted average number of outstanding shares during the year. To calculate diluted earning per share, the weighted average number of outstanding shares is adjusted by assuming the conversion of all shares with a potentially dilutive effect.

OPERATING SEGMENTS

The operating segment is a part of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

ACCOUNTING PRINCIPLES FOR HYPER-INFLATIONARY COUNTRIES

Group companies operating in high-inflation countries redetermine the amounts of their non monetary assets and liabilities in their original respective financial statements to eliminate the distorting effects due to the loss of purchasing power of the currency. The inflation rate used for the purposes of adoption of inflation accounting corresponds to the consumer price index. Companies operating in countries in which the cumulative inflation rate over a three-year period approximates or exceeds 100 per cent adopt inflation accounting and discontinue it in the event the cumulative inflation rate over a three-year period falls below 100 per cent.
Gains and losses on the net monetary position are recognized in the income statement.

4. Financial risk management policies

The management of financial risks is an integral part of the management of the Group's business. It is carried out centrally on the basis of the guidelines defined by the Finance Department. These guidelines define the risk categories and for each type of transaction and/or instrument they specify procedures and operational limits. In accordance with these instructions, the Group uses derivative contracts in relation to underlying financial assets or liabilities or to future transactions. Within the Finance Department, the financial risk management is centralized at the Segment Treasuries, which have the task of assessing the risks and putting in place the appropriate hedges. The Segment Treasuries act directly on the market on behalf of the Business Units and, when they cannot operate directly owing to external constraints, they coordinate the work of the Local Treasury Units.

TYPES OF FINANCIAL RISKS

Exchange rate risk

Exchange rate risk is the risk that the fair value or the future cash flows of a financial asset or liability change following fluctuations of exchange rates. The Group's exposure to the risk of interest rate fluctuations mainly concerns the operating activities of the Group (foreign exchange rate risk) and the Group's net investments in foreign subsidiaries (currency translation risk).

a) Foreign exchange rate risk

The Group does business at an international level and is exposed to foreign exchange rate risk. This risk is managed by the Segment Treasuries.
The Business Units are responsible for the collection of all information on positions subject to transactional exchange rate risk, for the hedging of which they enter into futures contracts with the Segment Treasuries. Positions subject to transactional exchange rate risk consist essentially of invoices receivable and payable.
The Segment Treasuries are responsible for assessing and managing the net position for each currency and, in accordance with the guidelines and constraints set, in their turn close all the risk positions by trading on the market in derivative hedging contracts, normally futures contracts.
Changes in exchange rates thus produce no significant effects on the income statement.
Futures contracts entered into between the Business Units and the Segment Treasuries, and those between the Segment Treasuries and the market, are not designated as hedging instruments under the terms of IAS 39, even though they are put in place in order to manage risks.

b) Currency translation risk

The Group has controlling interests in companies which prepare their financial statements in a currency other than the euro, which is the Group's presentation currency. This exposes the Group to currency translation risk, generated by fluctuations in certain exchange rates against the presentation currency (Euro) which may produce changes in the value of consolidated equity.
The main exposures to currency translation risk are monitored, but it is not the Group's policy to hedge itself against such exposure.
Of the consolidated total net equity at December 31, 2009, 54% is expressed in euro (approximately 61% at December 31, 2008). The currencies other than the euro most significant for the Group are the Brazilian Real (19%; 14% at December 31, 2008) and the Turkish Lira (8%; 8% at December 31, 2008).
The table below shows the effects on total consolidated net equity deriving from a hypothetical appreciation/depreciation of the above currencies against the euro – all other conditions being equal:

(in thousands of euro)

	Appreciation of 10%		Depreciation of 10%	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Brazilian real	50,922	36,633	(41,664)	(29,973)
Turkish lira	21,878	20,578	(17,900)	(16,836)
Total out of consolidated equity	**72,800**	**57,211**	**(59,564)**	**(46,809)**

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial asset or liability will change following fluctuations of market interest rates. The Group's exposure to

the risk of changes in market interest rates is associated primarily with long-term indebtedness at floating interest rates.
The Group's policy is to attempt to maintain a correct proportion between exposure at fixed and variable interest rates.
The Group manages the risk of rate increases associated with variable-rate indebtedness by offsetting with variable-rate receivables and through recourse to derivative contracts. The designation of such derivatives as hedging instruments for the purposes of IAS 39 is decided case by case and authorized by the Finance Department.
The table below shows the effects on net income and direct effects on total net equity deriving from an increase or decrease of 0.50% in the level of interest rates of all currencies to which the Group is exposed – all other conditions being equal:

(in thousands of euro)

	+0,50%		-0,50%	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Impact on Net income:				
- companies consolidated line-by-line	(1,355)	(3,850)	1,339	2,634
- companies measured with the net equity method	(2,682)	(1,484)	3,273	3,045
Total	**(4,037)**	**(5,334)**	**4,612**	**5,679**
Direct impact on equity:				
- companies consolidated line-by-line	9,027	1,195	(16,552)	(1,970)
- companies measured with the net equity method	5,844	8,472	(6,037)	(8,749)
Total	**14,871**	**9,667**	**(22,589)**	**(10,719)**

The impact on net income includes:
— financial expenses and income relating to variable-rate payables and receivables;
— financial expenses and income realized in relation to interest rate derivatives;
— the change in the fair value of interest rate derivatives not in cash flow hedges;
— the reclassification from equity to income statement of the portion of fair value of derivatives in cash flow hedges associated with the manifestation of the hedged liability;
— the ineffective portion of the measurement at fair value of derivatives in cash flow hedges.

The direct effect on equity is dependent on the change in the fair value of derivatives in cash flow hedges.

The above effects relate not only to companies consolidated line-by-line but also to those accounted for using the net equity method, considered for the percentage equity interest held.

Price risk associated with financial assets

The Group is exposed to price risk due only to the volatility of financial assets such as listed and unlisted equities and bonds, listed real estate funds and closed-end real estate trusts for an amount of approximately 5.8% of total consolidated assets at December 31, 2009 (9% at December 31, 2008); for measurement purposes, such assets are classified as available for sale financial assets or financial assets at fair value through profit & loss on the basis of the provisions of IAS 39.
Listed equities and listed real estate funds classified as available for sale financial assets represent 43.1% of total financial assets subject to price risk (59% at December 31, 2008); a 1% change in the above listed securities, all else being equal, would entail a change of Euro 1,619 thousand (Euro 3,641 thousand at December 31, 2008) in the Group's net equity.

Credit risk

Credit risk rapresents the Group's exposure to potential losses deriving from failure by either trade or financial counterparties to fulfil the obligations they have assumed.
The Group is exposed to credit risk in the course of its operating activities and its financing activities.
In order to limit this risk, where trade counterparties are concerned, the Group has put in place procedures for assessing its customers' potential and financial solidity, for monitoring expected incoming cash flows and for recovering credit.
The aim of this procedure is to establish customer credit limits, which if exceeded result in a suspension of further sales.
In some cases customers are asked to provide guarantees; these are mainly bank guarantees, issued by subjects of the highest credit *standing*, or personal guarantees. Less frequently mortgage guarantees may be requested.
Another instrument used for the management of commercial credit risk is the purchase of insurance policies with the aim of preventing the risk of non-payment through a careful selection of the customer portfolio carried out together with the insurance company, which undertakes to guarantee compensation in the event of insolvency.
As regards financial counterparties used for managing temporary surplus cash or for trading in derivatives, the Group uses only operators with high credit standing.
The Group does not show significant concentrations of credit risk.

Liquidity Risk

Liquidity risk rapresents the risk that the financial resources available will not be sufficient to fulfil the financial and commercial obligations at the terms and within the deadlines set. The main instruments used by the Group to manage liquidity risk are the three-year and annual financial plans and the treasury plans, to allow for complete and correct detection and assessment of cash in-flows and out-flows. The differences between the plans and the final balances are constantly analysed.
Prudent management of liquidity risk requires the maintenance of an adequate level of cash equivalents and/or easily-cashable short-term securities, the availability of funds obtainable through an adequate amount of committed credit facilities and/or the ability to close positions open on the market. Owing to the dynamic nature of the business in which it operates, the Group prefers flexibility in sourcing funds resorting to committed credit facilities.

In order to optimize the management of financial resources and thus limit liquidity risk, the Group has implemented a centralized system for the management of collection and payment flows in accordance with the various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short- and medium-term financial needs at the lowest possible cost. The procurement of medium/long-term resources on the capital market is also optimized through centralized management.

At December 31, 2009, besides cash and securities held for trading of Euro 793,137 thousand, the Group has available unused committed credit lines of Euro 819,000 thousand (Euro 785,000 thousand at December 31, 2008), with the following maturities:

(in thousands of euro)

	12/31/2009	12/31/2008
2010	-	10,000
2011	155,000	136,000
2012	664,000	639,000
Total	**819,000**	**785,000**

The maturities of financial liabilities at December 31, 2009 can be broken down as follows:

(in thousands of euro)

	up to 1 year	from 1 to 2 years	from 2 to 5 years	more than 5 years	Total
Trade payables	987,873	-	-	-	987,873
Other payables	491,035	19,141	8,939	5,928	525,043
Financial instruments	76,153	-	-	-	76,153
Borrowings from banks and other lenders	289,305	149,972	1,248,383	107,450	1,795,110
	1,844,366	**169,113**	**1,257,322**	**113,378**	**3,384,179**

The maturities of financial liabilities at December 31, 2008 could be broken down as follows:

(in thousands of euro)

	up to 1 year	from 1 to 2 years	from 2 to 5 years	more than 5 years	Total
Trade payables	1,108,573	-	-	-	1,108,573
Other payables	482,401	29,706	15,006	3,760	530,873
Financial instruments	110,473	2,139	-	-	112,612
Borrowings from banks and other lenders	695,561	312,427	1,057,320	6,000	2,071,308
	2,397,008	**344,272**	**1,072,326**	**9,760**	**3,823,366**

Additional information: categories of financial assets and liabilities

The table below shows the carrying amounts for each class of financial asset and liability identified by IAS 39:

(in thousands of euro)

	Note	Carrying amount at 12/31/2009	Carrying amount at 12/31/2008
FINANCIAL ASSETS			
Financial assets carried at fair value through profit or loss			
designated at the moment of initial recognition			
Non-current other financial assets	11	-	29,599
held for trading			
Securities held for trading	17	161,024	115,800
Non-current derivative financial instruments	27	-	3,161
Current derivative financial instruments	27	26,567	92,108
Loans and receivables			
Non-current other financial assets	11	6,755	21,330
Non-current other receivables	14	557,230	701,674
Current trade receivables	13	735,792	787,951
Current other receivables	14	197,144	239,956
Cash and cash equivalents	18	632,113	253,905
Available-for-sale financial assets			
Non-current other financial assets	11	221,351	476,300
Hedging financial instruments			
Current derivative financial instruments	27	-	1,934
		2,537,976	**2,723,718**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through profit or loss			
held for trading			
Non-current derivative financial instruments	27	-	2,139
Current derivative financial instruments	27	52,408	105,217
Financial liabilities carried at amortized cost			
Non-current borrowings from banks and other lenders	24	1,505,805	1,375,747
Non-current other payables	26	34,008	48,472
Current borrowings from banks and other lenders	24	289,305	695,561
Current trade payables	25	987,873	1,108,573
Current other payables	26	491,035	482,401
Hedging financial instruments			
Current derivative financial instruments	27	23,745	5,256
		3,384,179	**3,823,366**

Additional information: hierarchical levels of measurement of fair value

In relation to financial instruments carried at fair value, the recent amendments introduced into IFRS 7 require these instruments to be classified on the basis of a hierarchy of levels which reflects the significance of the inputs used in determining the fair value. The following levels are distinguished:

- Level 1 – unadjusted quotations recorded on an active market for the assets or liabilities to be measured;
- Level 2 – inputs different from the quoted prices as per the above point, which are observable on the market, directly (as in the case of prices) or indirectly (because they are derived from prices);
- Level 3 – inputs that are not based on observable market data.

The following table shows assets and liabilities carried at fair value at December 31, 2009, divided into the three levels defined above:

(in thousands of euro)

	Note	Carrying amount at 12/31/2009	Level 1	Level 2	Level 3
FINANCIAL ASSETS:					
Financial assets carried at fair value through profit or loss:					
held for trading					
Securities held for trading	17	161,024	53,709	107,315	
Current derivative financial instruments	27	26,567		26,567	
Available-for-sale financial assets:					
Other financial assets					
Equities		213,576	143,426	18,983	51,167
Closed-end real estate funds		7,775	5,461	2,314	
	11	**221,351**	**148,887**	**21,297**	**51,167**
FINANCIAL LIABILITIES:					
Financial liabilities carried at fair value through profit or loss:					
held for trading					
Current derivative financial instruments	27	52,408		52,408	
Hedging financial instruments:					
Current derivative financial instruments	27	23,745		23,745	

During financial year 2009 there were no transfers from level 1 to level 2 or vice versa.

The table below shows the changes that occurred in level 3 during 2009:

(in thousands of euro)

Opening balance	**104,235**
Change in consolidation scope	(3,665)
Subscription of capital	2,758
Disposals	(47,593)
Impairments	(761)
Adjustment to fair value through equity	(2,287)
Other decreases	(1,520)
Closing balance	**51,167**

During the year there were no transfers from Level 3 to other levels or vice versa.

5. Capital management policies

The Group's objective is to maximize the return on net invested capital maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other stakeholders, with a sustainable financial structure.

In order to achieve these objectives, as well as pursuing satisfactory economic results and generating cash flows, the Group may adjust its dividend policy and the configuration of the company's capital.
The main indicators used by the Group to manage its capital are:

1. Ratio between operating income, including net income from equity investments, and average net invested capital: the indicator represents the capacity of the results of the business to remunerate the net invested capital understood as the sum of fixed assets and net working capital. Net income from equity investments is included in the calculation as it is the main measure representing performance in the Real Estate Segment. The Group's objective is for this ratio to be greater than the weighted average cost of capital (WACC);
2. Gearing: this is calculated as the ratio between the net financial position and net equity. It is an indicator of the sustainability of the ratio between debt and equity, which takes into account in the different moments, of the market situation and the trend in the cost of capital and debt;
3. R.O.E (Return on Equity): this is calculated as the ratio between the net financial position and average book value of net equity. It is an indicator representing the Group's ability to remunerate its shareholders. The objective is for the indicator to be higher than the rate of return of a risk-free investment, related to the nature of the businesses managed.

The figures for the years 2009, 2008 and 2007 are shown below:

		2009	2008	2007
1	Ratio between operating income, including net income from equity investments, and average net invested capital	4,07%	(7,89%)	8,92%
2	Gearing	0,21	0,43	n/a *
3	R.O.E (Return on Equity):	(0,93%)	(13,35%)	7,63%

* Not applicable as the net financial position is positive

6. Estimates and assumptions

The preparation of the consolidated financial statements entails for the management the need to make estimates and assumptions which, in some circumstances, are based on difficult and subjective assessments and estimates which are themselves based on historical experience, and assumptions which are, each time, considered reasonable and realistic in the light of the circumstances. The results that actually emerge could therefore differ from such estimates. Estimates and assumptions are reviewed regularly and the effects of each change made to them are recognised in the income statement in the year in which the estimate is revised if the revision itself has effects only on that year, or also in subsequent periods if the revision has effects both on the current period, and on future ones.
In this context it is important to note that the situation caused by the current economic and financial crisis has entailed a need to make assumptions regarding future performance characterised by significant uncertainty, so it cannot be ruled out that, in the next year, the results

will be different from those estimated and that adjustments, including significant ones, which today can obviously be neither estimated nor foreseen, could therefore be required to the carrying value of the relevant items. Such estimates affect the carrying amounts of certain assets and liabilities, costs and revenues, and also disclosures relating to contingent assets/liabilities at the reporting date.
The estimates and assumptions relate mainly to assessments of the recoverability of intangible fixed assets, to the definition of the useful lives of property, plant and equipment, to the recoverability of receivables and to the recognition/measurement of funds, pension schemes and other post-employment benefits and are based on data that reflect the current state of available knowledge.

AREAS OF ESTIMATION OF PARTICULAR RELEVANCE AND GREATER SUBJECTIVITY

There follows a brief description of the accounting policies that more than others require greater subjectivity on the part of management in the calculation of estimates, and for which a change in the conditions underlying the assumptions used could have a significant impact on the Consolidated Financial Statements or for which there is a risk that significant adjustments to the carrying amount of assets and liabilities may emerge in the year subsequent to the reference period.

Goodwill

In accordance with the accounting standards adopted for preparation of the financial statements, goodwill is assessed annually in order to ascertain the existence of any impairment losses to be recognised in the income statement. In particular, the test in question entails allocation of the goodwill to cash flow generating units and subsequent determination of their recoverable value, understood as the greater of fair value and value in use.
If the recoverable amount proves to be less than the carrying amount of the cash flow generating units, the goodwill allocated to them must be written down. The determination of the recoverable value of the cash flow generating units entails the assumption of estimates that depend on subjective assessments and on factors that can change over time, with consequent and possibly significant effects on the assessments made by the management.

Impairment of property, plan and equipment and intangible assets

In accordance with the accounting standards of reference, fixed assets are tested in order to ascertain whether there has been an impairment loss, which must be recognised through a write-down, when there are signs that difficulties are to be expected for the recovery of their net carrying amount through their use. The verification of the existence of the above symptoms requires on the part of the directors the use of subjective assessments based on the information available from both internal and external sources, and on historical experience. Moreover, if it is determined that a potential impairment loss may be generated, this loss is calculated using valuation techniques considered appropriate. The correct identification of elements indicating the existence of a potential impairment loss, and the estimates for calculating the amount of such losses, depend on subjective assessments and on factors that may vary over time affecting the assessments and estimates carried out by the directors.

Pension plans and other post-employment benefits

The Group companies have set up pension plans and healthcare plans in different countries for their employees, mainly in the United States, the United Kingdom and Italy.
The management uses different actuarial assumptions to calculate the liabilities and the future returns on assets serving these welfare plans. The actuarial assumptions of a financial nature regard the discount rate, the expected return on plan assets, the rates of future salary increases, and trends in the healthcare costs.

The actuarial assumptions of a demographic nature regard essentially the rates of mortality, disability and resignations.
The Group identified discounting rates which it considered balanced, in view of the context.

Deferred taxes

Deferred tax assets are accounted for on the basis of the earnings prospects expected in future years. The assessment of prospective earnings for the purpose of accounting for deferred taxes depends on factors that may change over time and determine significant effects on the assessment of deferred tax assets.
The determination of adjustment items took into consideration the figures in budgets and plans consistent with those used for the purposes of the impairment tests and described in the previous paragraph in relation to the recoverable amount of non-current assets. It is also believed that the adjustment items are sufficient to cover the risk of a further worsening of the assumptions of the plan, taking into account the fact that the net deferred tax assets thus provided for relate to temporary differences/tax losses, a significant amount of which can be recovered over a very long period of time. This is therefore compatible with a scenario in which emergence from the situation of crisis and economic recovery are delayed with respect to the time horizon implicit in the plans mentioned above.

Provisions for liabilities and charges

Provisions are set aside against contingent legal and fiscal liabilities, representing the risk of losing lawsuits. The amount of reserves recognised in relation to these liabilities represents the best estimate at the reporting date made by management for lawsuits and tax claims regarding a vast range of issues which are subject to the jurisdiction of various countries. This estimate entails the adoption of assumptions that depend on factors that may change over time and which could therefore have significant effects with respect to the current estimates made by the directors for preparation of the Consolidated Financial Statements.

7. Operating segments

The operating segments defined by the Pirelli & C. Group on the basis of the rules of IFRS 8, which came into force on January 1, 2009, are the following:
— Tyre
— Eco Technology
— Real Estate
— Broadband Access

The remaining part of financial companies (including the Parent Company) and other service companies. None of these is an autonomous operating segment.
With respect to the business segments defined at December 31, 2008, the Eco Technology segment was identified separately, in line with the recent preparation of the Group's industrial plan, presented to the financial community, in which the Eco Technology segment was identified as a core activity.
The structure of the operating segments reflects the organization of the Group's internal reporting, which is prepared in conformity with the IFRSs adopted for preparation of the consolidated financial statements.

Segment results for financial year 2009 are as follows:

(in thousands of euro)

	Tyres	Eco Technology	Real Estate	Broadband Access	Other operating companies	Eliminations and adjustments	TOTAL 2009
Sales to Third Parties	3,992,869	56,590	271,714	132,133	8,901	-	4,462,207
Sales to the Group	3	-	-	-	29,830	(29,833)	-
Total net sales	**3,992,872**	**56,590**	**271,714**	**132,133**	**38,731**	**(29,833)**	**4,462,207**
Gross operating margin	500,977	(9,051)	(28,875)	4,849	(38,985)	(400)	428,515
Depreciation of property, plant and equipment/intangible assets	(192,444)	(1,727)	(7,393)	(860)	(8,691)	-	(211,115)
Operating income	**308,533**	**(10,778)**	**(36,268)**	**3,989**	**(47,676)**	**(400)**	**217,400**
Net income from equity investments	4,240	-	(45,138)	2	42,902	(58,741)	(56,735)
Financial income/(expenses)	(76,177)	(2,470)	(15,580)	340	8,533	-	(85,354)
Net income before income taxes	**236,596**	**(13,248)**	**(96,986)**	**4,331**	**3,759**	**(59,141)**	**75,311**
Income taxes	(89,960)	(484)	(7,858)	311	94	-	(97,897)
Net income from continuing operations	**146,636**	**(13,732)**	**(104,844)**	**4,642**	**3,853**	**(59,141)**	**(22,586)**
Net income from discontinued operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net income for the period	**146,636**	**(13,732)**	**(104,844)**	**4,642**	**3,853**	**(59,141)**	**(22,586)**

Segment results for financial year 2008 were as follows:

(in thousands of euro)

	Tyres	Eco Technology	Real Estate	Broadband Access	Other operating companies	Eliminations and adjustments	TOTAL 2008
Sales to Minorities	4,099,717	62,236	364,358	124,555	11,610	(2,301)	4,660,175
Sales to the Group	481	647	740	-	28,936	(30,804)	-
Total net sales	**4,100,198**	**62,883**	**365,098**	**124,555**	**40,546**	**(33,105)**	**4,660,175**
Gross operating margin	341,188	(10,956)	(61,822)	4,767	(25,610)	4,368	251,935
Depreciation/amortization of property, plant and equipment/ intangible assets	(190,452)	(845)	(9,415)	(896)	(7,072)	-	(208,680)
Operating income	**150,736**	**(11,801)**	**(71,237)**	**3,871**	**(32,682)**	**4,368**	**43,255**
Net income from equity invest-ments	27,822	-	(168,486)	-	(129,299)	(96,530)	(366,493)
Financial income/(expenses)	(82,796)	(1,607)	(25,958)	(2,591)	24,211	8,652	(80,089)
Net income before income taxes	**95,762**	**(13,408)**	**(265,681)**	**1,280**	**(137,770)**	**(83,510)**	**(403,327)**
Income taxes	(70,188)	181	(1,913)	764	(1,464)	-	(72,620)
Net income from continuing operations	**25,574**	**(13,227)**	**(267,594)**	**2,044**	**(139,234)**	**(83,510)**	**(475,947)**
Net income from discontinued operations	**-**		**74,628**	**-**	**-**	**(11,207)**	**63,421**
Net income for the period	**25,574**	**(13,227)**	**(192,966)**	**2,044**	**(139,234)**	**(94,717)**	**(412,526)**

The **assets, liabilities and investments divided by segment at December 31, 2009** are as follows:

(in thousands of euro)

	Tyre	Eco Technology	Real Estate	Broadband access	Other operating companies	Eliminations and adjustments	TOTAL 12/31/2009
Segment assets	3,599,538	72,436	517,394	30,373	221,888	(60,011)	4,381,618
Equity investments in associates and joint ventures	1,200	-	458,256	-	129,191	4,590	593,237
Total allocated assets	**3,600,738**	**72,436**	**975,650**	**30,373**	**351,079**	**(55,421)**	**4,974,855**
Total unallocated assets							1,752,406
Total assets							**6,727,261**
Segment liabilities	1,620,040	20,466	292,998	48,281	247,808	(34,350)	2,195,243
Unallocated liabilities							2,037,347
Total liabilities							**4,232,590**
Property, plant and equipment	217,059	2,787	2,459	428	2,498	-	225,231
Intangible assets	367	885	15,152	215	3,096	-	19,715

The **assets, liabilities and investments divided by segment at December 31, 2008** were as follows:

(in thousands of euro)

	Tyre	Eco Technology	Real Estate	Broadband access	Other operating companies	Eliminations and adjustments	TOTAL 12/31/2008
Segment assets	3,727,998	54,125	568,827	57,895	184,668	(49,685)	4,543,828
Equity investments in associates and joint ventures	911	-	357,868	-	155,609	912	515,300
Total allocated assets	**3,728,909**	**54,125**	**926,695**	**57,895**	**340,277**	**(48,773)**	**5,059,128**
Total unallocated assets							1,874,090
Total assets							**6,933,218**
Segment liabilities	1,628,707	22,515	355,252	58,864	189,450	(26,875)	2,227,913
Unallocated liabilities							2,330,943
Total liabilities							**4,558,856**
Property, plant and equipment	285,415	16,905	6,101	1,892	411	-	310,724
Intangible assets	459,777	120	13,702	164	2,941	-	476,704

Segment assets consist mainly of property, plant and equipment and intangible assets, leased assets, inventories, trade receivables and other receivables. Financial receivables, cash equivalents, other financial assets, securities held for trading and both current and deferred tax assets are excluded.
Segment liabilities comprise mainly trade payables and other payables, advances from customers and provisions for contingent liabilities and employee benefits. Financial payables and both current and deferred tax liabilities are excluded.

Investments relate chiefly to the purchase of plant and machinery.

Net sales by geographical area are shown below. They are allocated on the basis of the country in which the customer is resident.

(in thousands of euro)

	2009		2008	
Europe:				
- Italy	757,426	16.96%	810,322	17.38%
- Rest of Europe	1,406,749	31.53%	1,586,126	34.04%
North America	308,854	6.92%	287,542	6.17%
Central and South America	1,348,885	30.23%	1,323,922	28.41%
Oceania, Africa and Asia	640,293	14.36%	652,263	14.00%
	4,462,207	**100.00%**	**4,660,175**	**100.00%**

Non-current assets by geographical area are shown below. They are allocated on the basis of the country in which such assets are located.

(in thousands of euro)

	12/31/2009		12/31/2008	
Europe:				
- Italy	1,302,170	46.92%	1,264,579	47.82%
- Rest of Europe	617,297	22.25%	622,942	23.56%
North America	57,994	2.09%	48,326	1.83%
Central and South America	471,713	17.00%	384,469	14.54%
Oceania, Africa and Asia	325,691	11.74%	323,838	12.25%
	2,774,865	**100.00%**	**2,644,154**	**100.00%**

The non-current assets shown in the table above consist of property, plant and equipment and intangible assets.

8. Property, plant and equipment

At December 31, 2009 the breakdown and changes are as follows:

(in thousands of euro)

	12/31/2009			12/31/2008		
	Gross Amount	Depreciation	Net Amount	Gross Amount	Depreciation	Net Amount
Land	87,458	-	87,458	83,456	-	83,456
Buildings	735,295	(337,542)	397,753	625,712	(296,474)	329,238
Plant and Machinery	2,791,177	(1,731,094)	1,060,083	2,549,392	(1,537,876)	1,011,516
Industr. and comm. equipment	598,038	(471,172)	126,866	525,374	(410,590)	114,784
Other assets	230,698	(175,467)	55,231	226,136	(167,084)	59,052
	4,442,666	**(2,715,275)**	**1,727,391**	**4,010,070**	**(2,412,024)**	**1,598,046**

GROSS AMOUNT (in thousands of euro)

	12/31/2008	Change in scope	Hyperinflation effect	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2009
Land	83,456	-	-	2,967	837	(1,570)	33	1,735	87,458
Buildings	625,712	19,080	16,353	19,775	50,901	(15,100)	9,484	9,090	735,295
Plant and Machinery	2,549,392	15,863	15,545	147,970	125,000	(32,232)	(14,102)	(16,259)	2,791,177
Industr. and comm. equipment	525,374	-	3,970	33,756	25,416	(12,855)	11,886	10,491	598,038
Other assets	226,136	-	661	4,328	23,077	(16,941)	(7,301)	738	230,698
	4,010,070	**34,943**	**36,529**	**208,796**	**225,231**	**(78,698)**	**-**	**5,795**	**4,442,666**

DEPRECIATION (in thousands of euro)

	12/31/2008	Change in scope	Hyperinflation effect	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2009
Buildings	(296,474)	-	(13,760)	(10,779)	(10)	5,358	(21,248)	(629)	(337,542)
Plant and Machinery	(1,537,876)	-	(10,809)	(83,741)	172	26,230	(125,013)	(57)	(1,731,094)
Industr. and comm. equipment	(410,590)	-	(3,214)	(27,907)	3,329	10,450	(43,273)	33	(471,172)
Other assets	(167,084)	-	(466)	(5,860)	(3,491)	15,545	(12,153)	(1,958)	(175,467)
	(2,412,024)	**-**	**(28,249)**	**(128,287)**	**-**	**57,583**	**(201,687)**	**(2,611)**	**(2,715,275)**

NET AMOUNT (in thousands of euro)

	12/31/2008	Change in scope	Hyperinflation effect	Exchange differences	Increase	Decrease	Reclass.	Depr.	Other	12/31/2009
Land	83,456	-	-	2,967	837	(1,570)	33	-	1,735	87,458
Buildings	329,238	19,080	2,593	8,996	50,901	(9,742)	9,474	(21,248)	8,461	397,753
Plant and Machinery	1,011,516	15,863	4,736	64,229	125,000	(6,002)	(13,930)	(125,013)	(16,316)	1,060,083
Industr. and comm. equipment	114,784	-	756	5,849	25,416	(2,405)	15,215	(43,273)	10,524	126,866
Other assets	59,052	-	195	(1,532)	23,077	(1,396)	(10,792)	(12,153)	(1,220)	55,231
	1,598,046	**34,943**	**8,280**	**80,509**	**225,231**	**(21,115)**	**-**	**(201,687)**	**3,184**	**1,727,391**

At December 31, 2008 the movements were as follows:

GROSS AMOUNT (in thousands of euro)

	12/31/2007	Assets sold	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2008
Land	83,511	-	(7,077)	8,910	(4,496)	2,608	-	83,456
Buildings	658,310	(7,679)	(42,084)	26,014	(11,975)	3,119	7	625,712
Plant and Machinery	2,652,755	(28,166)	(237,116)	205,862	(29,232)	(12,706)	(2,005)	2,549,392
Industr. and comm. equipment	574,675	(25,151)	(54,071)	37,938	(17,501)	9,180	304	525,374
Other assets	236,540	(12,031)	(16,265)	32,000	(13,135)	(2,201)	1,228	226,136
	4,205,791	**(73,027)**	**(356,613)**	**310,724**	**(76,339)**	**-**	**(466)**	**4,010,070**

DEPRECIATION (in thousands of euro)

	12/31/2007	Assets sold	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2008
Buildings	(301,584)	4,324	20,123	-	2,497	(21,041)	(793)	(296,474)
Plant and Machinery	(1,624,730)	10,952	170,495	7,430	19,798	(122,152)	332	(1,537,875)
Industr. and comm. equipment	(448,876)	18,233	46,490	37	16,236	(41,187)	(1,523)	(410,590)
Other assets	(180,116)	9,235	13,925	(7,467)	11,344	(14,362)	356	(167,085)
	(2,555,306)	**42,744**	**251,033**	**-**	**49,875**	**(198,742)**	**(1,628)**	**(2,412,024)**

NET AMOUNT (in thousands of euro)

	12/31/2007	Assets sold	Exchange differences	Increase	Decrease	Reclass.	Depr.	Other	12/31/2008
Land	83,511	-	(7,077)	8,910	(4,496)	2,608	-	-	83,456
Buildings	356,726	(3,355)	(21,961)	26,014	(9,478)	3,119	(21,041)	(786)	329,238
Plant and Machinery	1,028,025	(17,214)	(66,621)	205,862	(9,434)	(5,276)	(122,152)	(1,673)	1,011,517
Industr. and comm. equipment	125,799	(6,918)	(7,581)	37,938	(1,265)	9,217	(41,187)	(1,219)	114,784
Other assets	56,424	(2,796)	(2,340)	32,000	(1,791)	(9,668)	(14,362)	1,584	59,051
	1,650,485	**(30,283)**	**(105,580)**	**310,724**	**(26,464)**	**-**	**(198,742)**	**(2,094)**	**1,598,046**

The **increases** in financial year 2009 mainly involved the Tyre segment where investments were aimed at increasing manufacturing capacity in "low cost" and emerging countries, increasing high-range production, developing innovative processes, launching new "Green Performance" products and at improvements in the fields of the health and safety of workers and environmental management of factories.

The ratio of investments in financial year 2009 to depreciation is 1.12.

The **change in the scope** relates mainly to acquisition of the Solar Utility Group.

The **hyperinflation effect** is associated with the adoption of inflation accounting in the subsidiary Pirelli de Venezuela C.A. in financial year 2009 (on this point see also note 41 below).

Investments in property, plant and equipment in progress at December 31, 2009 amounted to Euro 142,629 thousand (Euro 115,454 thousand at December 31, 2008).

Impairment losses in 2009, which are included in the "decreases" column in the above table, amounted to Euro 13,970 thousand (Euro 9,770 thousand at December 31, 2008). They were recognized in the Tyre sector and related mainly to units based in Italy: of the total amount, Euro 8,500 thousand was due to machinery no longer used and Euro 3,300 thousand to the impairment of a building linked to the creation of the "New Technological Hub" project. They are accounted for in the income statement under the item "Amortization, depreciation and impairments" (note 32).

As regards restrictions on ownership of assets, it should be noted that:
— the subsidiary Pirelli Tyres Alexandria Co. gave a guarantee for the countervalue of plant and machinery for a total of Euro 9,039 thousand (Euro 10,844 thousand at December 31, 2008);
— the subsidiary Pirelli Pneus S.A. pledged its machinery and land as collateral for a total of Euro 52,788 thousand (Euro 50,248 thousand at December 31, 2008).

No borrowing costs were capitalized on plant, property and equipment.

8.1. FINANCIAL LEASES

The value of land, buildings, plant, machinery and other assets for which the Group has entered into a financial leasing agreement is included in the respective categories of plant, property and equipment.
The details are as follows:

(in thousands of euro)

	12/31/2009			12/31/2008		
	Cost	Accumulated depreciation	Net Amount	Capitalized cost	Accumulated depreciation	Net Amount
Leased land	10,470	-	10,470	11,187	-	11,187
Leased buildings	66,320	(8,082)	58,238	61,842	(13,832)	48,010
Other leased assets	17,311	(9,606)	7,705	17,389	(7,623)	9,766
Leased plant and machinery	92	(92)	-	86	(86)	-
	94,193	**(17,780)**	**76,413**	**90,504**	**(21,541)**	**68,963**

As regards leased land and buildings, information on the most significant agreements is provided below:
— Pirelli & C. S.p.A. has entered into a leasing agreement with a pool of banks (SG LEASING S.p.A. and UniCredit Leasing S.p.A.) for the building that hosts the R&D structures and activities of the Tyre Segment.
The agreement, in place since May 2000, has a term of 13 years and provides for a buy option on expiry. The leasing instalments are subject to indexing at the 3-month EURIBOR parameter.
The net carrying amount of the building is Euro 38,585 thousand (Euro 40,244 thousand at December 31, 2008) and the one of the land is Euro 10,184 thousand (unchanged from December 31, 2008);
— the subsidiary Pneumobil GmbH has entered into three leasing agreements with the company DAL-Florenta in relation to the buildings of three sales outlets in Germany. The term of two agreements is between 20 and 25 years and expiry is scheduled before the end of 2010. The third contract was renewed in 2009 for a term of 15 years. One of the three contracts provides for a buy option on expiry. The third contract has been renewed in 2009, has a duration of 15 years and provides for a buy option on expiry. The leasing instalments of the three contracts are not subject to indexing.
The net carrying amount of the buildings of the German affiliate is a total of Euro 412 thousand (Euro 179 thousand at December 31, 2008) and that of the associated land is Euro 286 thousand (Euro 1,003 thousand at December 31, 2008);
— the subsidiaries Solar Utility S.p.A and Solar Prometheus S.r.l. have entered into three leasing agreements with the company SelmaBipiemme Leasing S.p.A. in relation to photovoltaic systems for the production of solar electricity classified as leased buildings. The

agreements, in place since March 2009, have a term of 18 years and provide for a buy option on expiry. The leasing instalments are not subject to indexing. The net carrying amount at December 31, 2009 is Euro 18,688 thousand.

Other leased assets mainly include an aircraft covered by a leaseback agreement entered into by the subsidiary Perseo S.r.l. with Leasint S.p.A. (formerly Intesa Leasing S.p.A.). The agreement, in place since April 2005, has a term of 7 years and provides for a redemption option on expiry. The leasing instalments are subject to indexing at the 3-month EURIBOR parameter. The net carrying amount is Euro 7,480 thousand (Euro 9,520 thousand at December 31, 2008).

Payables for financial leases are included under financial payables (Note 24).

The minimum payments due (or the payments required of the lessee during the remaining term of the lease) can be broken down as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
up to 1 year	9,744	12,447
from 1 to 5 years	33,659	34,117
more than 5 years	18,429	-
Total	**61,832**	**46,564**
Future financial expenses	(13,904)	(5,465)
Amount of leasing payables (Note 24)	**47,928**	**41,099**

The table below shows the amount of financial lease payables divided according to expiry dates:

(in thousands of euro)

	12/31/2009	12/31/2008
up to 1 year	7,005	10,759
from 1 to 5 years	27,858	30,340
more than 5 years	13,065	-
Total (Note 24)	**47,928**	**41,099**

9. Intangible assets

The breakdown and changes were as follows:

(in thousands of euro)

	12/31/2008	Exchange differences	Change in consolida-tion scope	Increase	Decrease	Amort.	Other	12/31/2009
Patents and intellectual property rights	424	-	-	-	-	(132)	-	292
Concessions/licenses /trademarks	25,070	(203)	-	253	(3,854)	(1,614)	(51)	19,601
Goodwill	1,007,685	(10)	-	16,414	(6,262)	-	28	1,017,855
Application software	12,129	7	(243)	2,242	(10)	(6,458)	112	7,779
Other intangible assets	800	13	90	806	-	(1,222)	1,460	1,947
	1,046,108	**(193)**	**(153)**	**19,715**	**(10,126)**	**(9,426)**	**1,549**	**1,047,474**

(in thousands of euro)

	12/31/2007	Exchange differences	Discontinued operations	Change in consolidation scope	Increase	Decrease	Amort.	Other	12/31/2008
Patents and intellectual property rights	574	-	(10)	553	-	-	(145)	(548)	424
Concessions/li-censes/trademarks	22,356	(5)	(80)	(846)	6,470	(883)	(2,817)	875	25,070
Goodwill	634,953	20	(86,752)	(410)	462,025	(2,624)	-	473	1,007,685
Application software	10,442	14	(288)	599	7,615	(79)	(6,841)	667	12,129
Other intangible assets	4,215	(8)	(3,508)	(1,533)	594	(231)	(135)	1,406	800
	672,540	**21**	**(90,638)**	**(1,637)**	**476,704**	**(3,817)**	**(9,938)**	**2,873**	**1,046,108**

The increase in the item "goodwill" related mainly to:
— acquisition of control of the Solar Utility Group (Euro 2.282 thousand), as described in the paragraph "Consolidation scope";
— purchase, completed on 20 November 2009 by Pirelli Real Estate Deutschland GmbH, of the remaining interest, of 20%, in the share capital of the company Pirelli RE Asset Management Deutschland GmbH (Euro 11,928 thousand).

The decrease in the item "goodwill" was mainly due to:
— Euro 840 thousand, from the sale of 20% of Pirelli RE Credit Servicing S.p.A;
— Euro 2,903 thousand, from the sale of 10% of Pirelli & C Real Estate Società di Gestione del Risparmio S.p.A.; the portion of goodwill sold was measured in proportion to the percentages sold compared with the acquisitions that generated the goodwill.

At December 31, 2009, the distribution of goodwill by operating segment and the cash generating units (or groups of cash generating units) to which it was allocated for the purposes of the impairment test and the method used to assess the recoverable amount are shown in the following table:

(in thousands of euro)

Operating segment	Cash generating unit/Groups of CGUs	Value	Recoverable value
Tyre	Consumer	517,165	Value in use
Tyre	Industrial	312,419	Value in use
Eco Technology	Eco Technology	4,860	Value in use
Other	Environment	2,372	Fair value
Real Estate	Real Estate	32,910	Value in use
Real Estate	Agency	5,814	Value in use
Real Estate	Credit Servicing	4,226	Value in use
Real Estate	Property	13,356	Value in use
Real Estate	Poland	3,257	Value in use
Real Estate	Fund management	26,139	Value in use
Real Estate	Germany	95,184	Value in use
Real Estate	Non-Performing Loans	152	Value in use
		1,017,854	

The impairment test consists of estimating the recoverable amount of the cash generating units and comparing it with the net carrying amount of the relevant assets, including goodwill. Value in use corresponds to the present value of the future cash flows that are expected to be associated with the cash generating units, using a rate that reflects the specific risks of the single cash generating units at the valuation date.

In applying this method the management uses many assumptions, including estimates of future sales increases, operating cash flows, the rate of growth of terminal values and the weighted average cost of capital (discount rate). More specifically, the cash flows approved by the management used to determine the value in use cover a time horizon of two years for the Tyre and Real Estate segments and three years for the Eco Technology segment. For the Real Estate segment the flows relating to the third, fourth and fifth year were extrapolated from the flows of the second year without applying growth assumptions.
The calculation also factored in the flow deriving from the disposal of cash generating units at the end of the explicit period (assumed to be the present value of the perpetual return of the flow generated in the last year of the projection); for industrial businesses, this flow was extrapolated applying to the flow of the last year a growth factor of 2% (2% in financial year 2008).

The discount rates, net of taxes, applied to prospective cash flows are shown in the following table:

Operating segment	Cash generating unit/Groups of CGUs	Discount rate	
		2009	2008
Tyre	Consumer	9.16%	9.20%
Tyre	Industrial	9.16%	9.20%
Eco Technology	Eco Technology	9.20%	15.00%
Real Estate	Real Estate	6.5% - 8%	6.50%
Real Estate	Agency	6.50%	6.50%
Real Estate	Credit Servicing	6.50%	6.50%
Real Estate	Property	6.50%	6.50%
Real Estate	Poland	6.5%-8%	6.50%
Real Estate	Fund management	6.50%	6.50%
Real Estate	Germany	6.50%	6.50%
Real Estate	Non-Performing Loans	6.50%	6.50%

With reference to the Real Estate Sector, the Group allocated indistinctly Euro 32,910 thousand as the difference between the purchase over time of minority interests on the listed securities market and the associated net equity. The sustainability of this higher value recognized is assessed considering the recoverable amount of the segment as a whole.

On the basis of the results of the tests performed, no impairment loss emerged.

A sensitivity analysis of the results was also carried out: in all cases the values in use remain higher than the carrying amounts even assuming a change in key parameters such as:
— a change in the weighted average cost of capital of 50 basis points (hundredths of one percent) or
— for industrial businesses, a change in the growth rate of 50 basis points.

Impairment losses in 2009 of intangible fixed assets, which are included in the "decreases" column in the table, relate mainly, for Euro 3,854 thousand (Euro 60 thousand at December 31, 2008) to the write-down of the concession issued by Milan City Council to the subsidiary Parcheggi Bicocca S.r.l. for the management up to the year 2032 of the P7 and P9 car parks located in the Bicocca area. They are accounted for in the income statement under the item "Amortization, depreciation and impairments" (Note 32).

10. Investments in associates and joint ventures

Equity investments in associates and joint ventures amounted to Euro 593,237 thousand compared with Euro 515,300 thousand at December 31, 2008.

The following movements occurred in the period:

(in thousands of euro)

	12/31/2009	12/31/2008
Opening balance	**515,300**	**534,194**
Assets sold	-	(5,145)
Acquisition/change in Share capital and Reserves	40,247	171,607
Distribution of Dividends	(10,105)	(30,831)
Impairments	(16,000)	(74,421)
Disposals and liquidations	(166)	(25,696)
Share of net income	(61,161)	(175,677)
Share of other components recognised in Equity	(1,629)	(52,525)
Decrease in Financial receivables	114,629	-
Reclassifications and other	57,513	131,629
Movements in provisions for liabilities and charges	(45,391)	42,165
Closing balance	**593,237**	**515,300**

The table below shows in detail the movements in equity investments in associates:

(in thousands of euro)

	12/31/2008	Acquisitions Changes S.C. and reserves	Components recognized in equity	Reclassifications change in scope and other	Distributions dividends and reserves	Disposals and liquidations	Impairments	Portion in net income	Decreases receivables financial	Movements provisions for risks and expenses	12/31/2009
Cloe Fondo Uffici	-	570	(92)	37,446	(2,738)	-	-	2,963	-	-	38,149
Olinda Fondo Shops	-	-	-	33,492	(793)	-	-	2,314	-	-	35,013
Dixia S.r.l.	5,031	9	-	-	-	-	-	(274)	-	-	4,766
Orione Immobiliare Prima S.p.A.	53	314	-	346	-	-	-	(713)	-	-	-
Sci Roev Texas Partners L.P.	237	-	-	-	(220)	-	-	-	-	-	17
Spazio Investment N.V.	62,586	(154)	349	-	-	-	-	(348)	-	-	62,433
Turismo e Immobiliare S.p.A.	7,698	5,848	-	-	-	-	-	(3,401)	-	-	10,145
Eurostazioni S.p.A.	54,335	-	-	-	(1,460)	-	-	4,892	-	-	57,767
Cyoptics	29,579	-	-	-	-	-	(16,000)	-	-	-	13,579
RCS MediaGroup	66,450	-	(635)	-	-	-	-	(3,914)	-	-	61,901
Altre PRE	217	(2)	-	-	(160)	(144)	-	255	64	(60)	170
Other group companies	1,685	17		(381)	-	-	-	611	-	-	1,932
Associates	**227,871**	**6,602**	**(378)**	**70,903**	**(5,371)**	**(144)**	**(16,000)**	**2,385**	**64**	**(60)**	**285,872**

It should be noted that the extraordinary shareholders' meeting of the associate Spazio Investment N.V. held on December 3, 2009 resolved to delist the company from the Alternative Investment Market managed by London Stock Exchange plc.

The item “Equity investments in associates” includes the interest in the company RCS Mediagroup S.p.A of 5.3% of the voting capital; Pirelli & C. S.p.A. is one of the major shareholders, is represented on the Board of Directors and is a party to the shareholders’ agreement which aims to ensure stability of the shareholding structure and coherent strategies in the management of the RCS Group (the parties to the agreement hold shares representing 63.5% of the share capital). For the purposes of measurement of this equity investment in accordance with the net equity method the last published accounts were taken into consideration. These were found in the interim management report at September 30, 2009. The fair value attributable to the equity investment in the associate RCS Mediagroup S.p.A., which is listed on the Milan Stock Exchange, calculated using the reference price of December 31, 2009 (Euro per share 1.268), was Euro 49.6 million (Euro 38.2 million in 2008).
This stock exchange quotation, which has recovered with respect to December 31, 2008 (Euro per share 0.98), continued to be less than the carrying amount of the companies own equity. Therefore, taking into account also the amount of the equity of the associate, and considering the role held on the administrative and executive bodies, for which recognition on the basis of the stock exchange figures is of little significance, it was considered reasonable not to make adjustments to the current carrying amount.

Taking into account the influence exerted, substantially, on certain investments as a result of the conditions of governance and of the significance of the interests held in comparison with the fragmentation of the stakes of other investors, confirmed in the light of the long-term investment strategy which also led to the purchase of further interests, although for a limited amount, the reclassifications described below, included in the column “**Reclassifications, changes in scope and other changes**” were made in a consistent manner:

— the shares held in Cloe Fondo Uffici were reclassified from the item “Other financial assets” to the item “Investments in associates”, for a total amount of Euro 37,446 thousand. This amount includes the value, net of fair value changes cumulatively recognized in equity up to December 31, 2008, of the interests held by the company Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. (5.03%), of Euro 7,847 thousand, and the interest held by Pirelli RE Netherlands B.V. (13.57%), the change in the fair value of which was recognized in the income statement, of Euro 29,599 thousand;

— the shares held in Olinda Fondo Shops were reclassified from the item “Other financial assets” to the item “Investments in associates”, for an amount of Euro 33,492 thousand. This amount relates to the value, net of the fair value changes cumulatively recognized in equity at December 31, 2008, in relation to the interests held by the companies Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. (5.18%) and Pirelli RE Netherlands B.V. (6.64%). The attributable fair value of the listed fund *Olinda Fondo Shops*, calculated using the reference price at December 31, 2009 of Euro 325 per share, was Euro 20 million.

“**Impairment losses**” include Euro 16,000 thousand relating to CyOptics Inc.

The table below shows in detail the movements in equity investments in joint-ventures:

(in thousands of euro)

	12/31/2008	Acquisitions Changes S.C. and reserves	Components recognized in equity	Reclassifications change in scope and other	Distributions dividends and reserves	Disposals and liquidations	Impairments	Portion in net income	Decreases receivables financial	Movements pro-visions for risks and expenses	12/31/2009
Afrodite S.à r.l.	-	(7)	-	-	-	-	-	(832)	1,751	(912)	-
Aida RE B.V.	-	(1,552)	(418)	-	-	-	-	(698)	12,586	(9,918)	-
Alceo B.V.	582	(39)	-	-	-	-	-	(4,734)	4,191	-	-
Alimede Luxembourg S.à.r.l.	-	(48)	-	-	-	-	-	(10,366)	14,067	(3,653)	-
Alnitak S.à r.l.	2,677	-	-	-	-	-	-	1,164	-	-	3,841
Aree Urbane S.r.l.	1,780	10,707	-	-	-	-	-	(5,240)	-	-	7,247
Artemide S.à r.l.	-	(3)	-	-	-	-	-	(529)	1,189	(657)	-
Austin S.à.r.l.	3,954	15	-	-	-	-	-	(4,533)	564	-	-
Bicocca S.à.r.l.	-	(2)	-	-	-	-	-	(665)	1,047	(380)	-
Capitol Immobiliare S.r.l.	-	54	-	-	-	-	-	(42)	-	(12)	-
Castello S.r.l. (in liquidation)	57	-	-	-	-	-	-	(45)	-	-	12
Colombo S.à.r.l.	17,774	14	321	-	-	-	-	551	-	-	18,660
Consorzio G6 Advisor	22	-	-	-	-	-	-	-	-	-	22
Continuum S.r.l.	1,935	(24)	-	-	(1,200)	-	-	(264)	-	-	447
Dallas S.à.r.l.	3,954	15	-	-	-	-	-	(4,634)	665	-	-
Delamain S.à.r.l.	204	-	-	(346)	-	-	-	22,764	-	-	22,622
Dolcetto Sei S.r.l.	34	67	-	-	-	-	-	(67)	-	-	34
Doria S.à.r.l.	17,672	2	321	-	-	-	-	551	-	-	18,546
Erice S.r.l. (in liquidation)	327	-	-	-	(207)	-	-	140	-	-	260
Espelha - Servicos de Consultadoria L.d.A.	8,148	-	-	-	-	-	-	(1,046)	-	-	7,102
European NPL S.A.	18,034	(165)	(1,403)	-	-	-	-	(1,303)	-	-	15,163
Fedora - Fondo comune di investimento immobiliare di tipo chiuso	-	250	(17)	-	-	-	-	-	-	-	233
Finprema S.r.l.	5,178	(1,047)	(565)	-	-	-	-	(588)	-	-	2,978
Fondo Città di Torino - Fondo comune di investimento immobiliare speculativo di tipo chiuso (già Patrimonio Casa - Fondo comune di investimento immobiliare speculativo di tipo chiuso)	11,482	-	-	-	-	-	-	(1,433)	-	-	10,049
Gädeke & Landsberg Dritte Contract KG	-	(1,657)	-	(1,646)	-	-	-	(4,500)	7,803	-	-
Gamma RE B.V.	79,285	(625)	732	-	-	-	-	(2,219)	-	-	77,173
Gatus 372.GmbH	11	-	-	(11)	-	-	-	-	-	-	-
Gemeinnützige Wohnungsgesellschaft für den Kreis Herzogtum Lauenburg mbH	-	448	-	-	-	-	-	(427)	-	-	21
Gesellschaft für Wohnungsbau Lübeck mbH	-	997	-	-	-	-	-	223	-		1,220
Golfo Aranci S.p.A. - Società di trasformazione urbana	3,361	663	-	-	-	-	-	(5,455)	-	1,431	-
Grundstücksgesellschaft Königstraße mbH & Co. KG	-	-	-	-	(2,368)	-	-	2,368	-	-	-
GWK Braunschweig GmbH	-	1,368	-	-	-	-	-	522	-	-	1,890
GWL Wohnungsbetreuungsgesellschaft mbH	-	34	-	-	-	-	-	(13)	-	-	21
Heimstätten Lübeck GmbH	-	2,313	-	-	-	-	-	(1,761)	-	-	552
IN Holdings I S.à.r.l.	-	-	-	-	-	-	-	516	-	(343)	173
Induxia S.r.l.	-	1,587	-	-	-	-	-	(2,364)	1,213	(436)	-
Inimm Due S.à.r.l.	2,125	-	-	-	(834)	-	-	(212)	-	-	1,079
Iniziative Immobiliari S.r.l.	3,920	(42)	-	-	-	-	-	(784)	-	-	3,094
Localto ReoCo S.r.l. (in liquidation)	2	7	-	-	-	(10)	-	1	-	-	-

(in thousands of euro)

	12/31/2008	Acquisitions Changes S,C, and reserves	Components recognized in equity	Reclassifications change in scope and other	Distributions dividends and reserves	Disposals and liquidations	Impairments	Portion in net income	Decreases receivables financial	Movements provisions for risks and expenses	12/31/2009
Manifatture Milano S.p.A. (formerly Quadrifoglio Milano S.p.A.)	3,197	(103)	-	-	-	-	-	1,661	-	-	4,755
Maro S.r.l. (in liquidation)	336	(45)	-	-	-	-	-	(222)	-	-	69
Masseto I B.V.	-	-	-	-	-	-	-	(140)	-	140	-
Mistral Real Estate B.V.	21,817	(7,998)	734	-	-	-	-	(2,256)	-	-	12,297
M.S.M.C. Italy Holding B.V.	1,866	2,500	-	-	-	-	-	(1,296)	-	-	3,070
Nashville S.à.r.l.	3,953	14	-	-	-	-	-	(4,533)	566	-	-
Polish Investments Real Estate Holding B.V.	4,500	126	-	-	-	-	-	14	-	-	4,640
Polish Investments Real Estate Holding II B.V.	-	2,228	-	-	-	-	-	(2,670)	5,984	(5,542)	-
Popoy Holding B.V.	451	700	-	-	-	-	-	(486)	-	-	665
Progetto Bicocca La Piazza S.r.l. (in liquidation)	1,872	-	-	-	-	-	-	(294)	-	-	1,578
Progetto Bicocca Università S.r.l. (in liquidation)	-	(113)	-	-	-	-	-	-	-	113	-
Progetto Gioberti S.r.l. (in liquidation)	44	(13)	-	-	-	-	-	(159)	128	-	-
Projektentwicklung Blankenese Bahnhofsplatz GmbH & Co. KG	-	-	-	(277)	-	-	-	-	-	277	-
Resi S.r.l. (in liquidation)	5	7	-	-	-	(12)	-	-	-	-	-
Resident Baltic GmbH	227	(13)	-	-	-	-	-	121	-	-	335
Resident Berlin 1 P&K GmbH	3,633	282	-	11	-	-	-	3,165	-	-	7,091
Resident Sachsen P&K GmbH	148	(4)	-	-	-	-	-	154	-	-	298
Resident West GmbH	77	6	-	-	-	-	-	39	-	-	122
Rinascente/Upim S.r.l.	-	5,298	-	(9,059)	-	-	-	-	7,202	(3,441)	-
Riva dei Ronchi S.r.l.	-	4,555	-	-	-	-	-	(1,713)	-	(2,276)	566
Roca S.r.l. (in liquidation)	1,148	(48)	-	-	-	-	-	(856)	-	-	244
Sigma RE B.V.	8,608	279	6,657	-	-	-	-	(40,948)	25,404	-	-
Sicily Investments S.à.r.l.	121	-	-	-	-	-	-	4,085	-	-	4,206
Solaia RE S.à.r.l.	-	3,261	(780)	2,352	-	-	-	20,317	-	(4,363)	20,787
Solar Utility S.p.A.	5,841	-	-	(4,414)	-	-	-	(1,427)	-	-	-
Solaris S.r.l.	1,143	-	-	-	-	-	-	(887)	-	-	256
S.I. Real Estate Holding B.V.	-	(17)	-	-	-	-	-	(1,042)	790	269	-
S.I.G. RE B.V.	1,430	1,045	-	-	-	-	-	1,913	-	-	4,388
Tamerice Immobiliare S.r.l.	4,006	23	-	-	-	-	-	1,519	-	-	5,548
Theta RE B.V.	-	6,545	(7,154)	-	-	-	-	(13,047)	29,322	(15,666)	-
Tizian Wohnen 1 GmbH	2,233	712	-	-	-	-	-	455	-	-	3,400
Tizian Wohnen 2 GmbH	1,055	238	-	-	-	-	-	4	-	-	1,297
Trinacria Capital S.à.r.l.	128	-	-	-	-	-	-	4,906	-	-	5,034
Trixia S.r.l.	3,913	-	-	-	-	-	-	(3,394)	-	-	519
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbH	10	-	-	-	-	-	-	(103)	93	-	-
Vespucci S.à.r.l.	17,791	5	321	-	-	-	-	549	-	-	18,666
Vesta Finance S.r.l.	12	-	-	-	-	-	-	-	-	-	12
Vivaldi - Fondo comune di investimento immobiliare speculativo di tipo chiuso	8,614	-	-	-	-	-	-	(383)	-	-	8,231
Other Pirelli & C. Real Estate Deutschland GmbH Group companies	6,732	845	-	-	(125)	-	-	(638)	-	38	6,852
Joint ventures	**287,429**	**33,645**	**(1,251)**	**(13,390)**	**(4,734)**	**(22)**	**-**	**(63,546)**	**114,565**	**(45,331)**	**307,365**
Total equity investments in associates and joint ventures	**515,300**	**40,247**	**(1,629)**	**57,513**	**(10,105)**	**(166)**	**(16,000)**	**(61,161)**	**114,629**	**(45,391)**	**593,237**

It is also important to note that the investment in Rinascente Upim was classified among "assets held for sale", on the basis of a plan for the sale of the two investments held by the same, which represent the exclusive corporate purpose, carried out at the end of the year and which already led to completion of the sale of the investment in Upim S.r.l. (controlled by Rinascente/Upim S.r.l.) in January 2010; the carrying amount of the investment, net of the actuarial losses cumulatively allocated to equity up to December 31, 2008 (Euro 239 thousand net of the resultant tax effect) was wholly offset with the shareholders' loan granted to the same by Pirelli & C. Real Estate S.p.A..

The column "**Decrease in financial receivables**" contains the reduction in financial receivables from associates and joint ventures in the Real Estate segment due to the portions of loss made by the same associates and joint ventures in excess to the carrying amount of the investments.

The column "**Movements in provisions for liabilities and charges**" includes provisions to cover losses of associates and joint ventures in the Real Estate segment exceeding their carrying amounts, where a legal or constructive obligation exists.
For comments on the column "**Share of net income**", see the comments contained in Note 34.1 below "share of net income of associates and joint ventures".

The most important data of the main associates and joint ventures (at 100%) at December 31, 2009 relating to the Real Estate segment are presented below:

(in thousands of euro)

	associates	joint ventures
Non-current assets	572,529	4,840,535
Current assets	1,528,279	9,090,760
Non-current liabilities	1,078,035	11,018,260
Current liabilities	100,083	1,689,069
Revenues from sales and services	270,587	1,351,381
Costs of production	(244,539)	(1,843,076)
Net income	7,822	(214,613)

It is worth noting, finally, that of total equity investments in associates and joint ventures, an amount of Euro 97,415 thousand has been pledged as collateral.

11. Other financial assets

These amounted to Euro 228,106 thousand compared with Euro 527,229 thousand at December 31, 2008. They can be broken down as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Available-for-sale financial assets	221,351	476,300
Financial assets carried at fair value through profit or loss	-	29,599
Financial assets carried at amortized cost	6,755	21,330
	228,106	**527,229**

The following movements occurred in the year in **available for sale financial assets**:

(in thousands of euro)

	12/31/2009	12/31/2008
Opening balance	**476,300**	**926,362**
Increases	3,031	31,864
Decreases	(241,984)	(29,992)
Impairments	(20,102)	(200,840)
(Gains)/Losses transferred to income statement for disposal or impairment losses, previously recognised in Equity	(792)	1,995
Adjustment to fair value	34,739	(136,408)
Reclassification	(41,646)	(132,171)
Reversal of reserve for reclassification of associates	12,281	15,419
Redemption of units	-	-
Other	(476)	71
Closing balance	**221,351**	**476,300**

At December 31, 2009 available for sale financial assets included:

(in thousands of euro)

	12/31/2009	12/31/2008
Listed securities		
Telecom Italia S.p.A.	-	203,539
Mediobanca S.p.A.	131,011	108,979
Oclaro (formerly Avanex Corporation)	10,440	1,422
Other companies	1,975	105
	143,426	**314,045**
Unlisted securities		
Alcatel Submarine SA	-	44,805
Alitalia S.p.A.	17,171	20,000
Fin. Priv. S.r.l. (sh. Mediobanca)	17,945	14,883
Gruppo Banca Leonardo S.p.A.	8,337	8,444
Istituto Europeo di Oncologia S.r.l.	6,677	6,483
Vittoria Capital N.V. (sh. Vittoria Assicurazioni)	-	6,469
F.C. Internazionale Milano S.p.A.	6,008	4,627
Tlcom I LP	2,114	2,453
Equinox Two SCA	3,536	2,270
Equinox Investment Company S.c.p.A.	-	970
Other PRE Group	2,781	9,115
Other companies	5,581	5,213
	70,150	**125,732**
Closed-end real estate funds		
Olinda Fondo Shops	-	17,888
Cloe Fondo Uffici	-	11,170
Tecla Fondo Uffici	5,461	5,122
Armilla	1,826	1,847
Fondo Abitare Sociale 1	488	496
	7,775	**36,523**
	221,351	**476,300**

The **increases** relate mainly to the subscription of 5,311,741 shares in F.C. Internazionale Milano S.p.A. (Euro 1,381 thousand) and to the purchase of units in Equinox (Euro 1,266 thousand).

The **decreases** include mainly the sale of the equity interest in Alcatel-Lucent Submarine Networks, held by the parent company Pirelli & C. S.p.A. (Euro 44,805 thousand), which generated a capital gain of Euro 11,195 thousand, to the sale of shares, held directly and indirectly by Pirelli & C. S.p.A., in Telecom Italia S.p.A. (Euro 183,785 thousand), which generated a capital gain of Euro 2,251 thousand, and to the sale of the equity interest in Vittoria Capital N.V. representing 5% of the share capital (Euro 5,677 thousand) again held by Pirelli & C. S.p.A., which generated a capital gain of Euro 823 thousand.

The **impairment losses** related almost exclusively to the equity investment in Telecom Italia S.p.A. (Euro 19,754 thousand).

Adjustments to fair value, positive overall by Euro 34,739 thousand, related mainly to equity investments in Mediobanca S.p.A. (Euro 22,033 thousand), in Oclaro Inc.-formerly Avanex (Euro 9,018 thousand) and in FinPriv S.r.l. (Euro 3,062 thousand) set against a negative adjustment for Alitalia (Euro 2,829 thousand).

The item “**reclassification**” relates almost exclusively to the Real Estate Segment and regards the interests held in Cloe Fondo Uffici and in Olinda Fondo Shops, as already described above.

For listed securities and closed-end real estate funds, the fair value corresponds to the stock exchange quotation at December 31, 2009.

For unlisted securities and closed-end real estate funds, the fair value was determined making use of estimates on the basis of the best information available.

The item **other financial assets carried at fair value through profit or loss** was reduced to zero following reclassification of the units of Cloe Fondo Uffici – a reserved unlisted closed-end real estate investment trust– held by the Real Estate Segment, to the item “Equity investments in associates and joint ventures”.

Other financial assets carried at amortized cost (Euro 6,755 thousand at December 31, 2009 and Euro 21,330 thousand at December 31, 2008) consist of a bond with deferred redemption amount relating to the securitization of a portfolio of non-performing loans (Euro 741 thousand), and of Class B junior notes relating to the securitization of a portfolio of non-performing loans (Euro 6.014 thousand), both relating to the Real Estate Segment.

12. Deferred tax assets and liabilities

This item can be broken down as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Deferred tax assets	91,164	72,426
Deferred tax liabilities	(44,000)	(38,372)
	47,164	**34,054**

As the accounting for deferred tax assets and liabilities was carried out, when the conditions allowed, considering offsetting for legal entities, the breakdown of the same gross of the offsets performed is as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Deferred tax assets	**177,826**	**150,959**
- of which recoverable within 12 months	59,403	37,813
- of which recoverable beyond 12 months	118,423	113,146
Deferred tax liabilities	**(130,662)**	**(116,905)**
- of which recoverable within 12 months	(1,311)	(2,149)
- of which recoverable beyond 12 months	(129,351)	(114,756)
	47,164	**34,054**

The tax effect of temporary differences and of retained tax losses which make up the item at December 31, 2009 and at December 31, 2008 are shown in the following table:

DEFERRED TAX ASSETS (in thousands of euro)

	12/31/2009	12/31/2008
Provisions for future liabilities and charges	30,281	25,082
Provisions for employee benefits	38,044	35,156
Stocks	13,498	14,563
Tax losses retained	43,121	40,786
Amortization and depreciation	2,060	5,547
Trade receivables and other receivables	16,216	7,788
Trade payables and other payables	17,607	9,756
Intra-group transactions	3,292	3,688
Derivatives	6,386	1,398
Other	7,321	7,195
	177,826	**150,959**

PROVISIONS FOR DEFERRED TAXES (in thousands of euro)

	12/31/2009	12/31/2008
Amortization and depreciation	(120,409)	(100,962)
Other	(10,253)	(15,943)
	(130,662)	**(116,905)**

At December 31, 2009 unrecognized deferred tax assets relating to temporary differences amounted to Euro 95,522 thousand (Euro 75,213 thousand at December 31, 2008), and those relating to tax losses amounted to Euro 461,400 thousand (Euro 521,620 thousand at December 31, 2008): these amounts relate to situations in which recovery is not considered likely.

Tax losses broken down by maturities, against which no deferred tax assets were recognized, are shown below:

(in thousands of euro)

Year of maturity	12/31/2009	12/31/2008
2009	-	288,667
2010	136,020	137,604
2011	36,853	62,922
2012	517,611	533,169
2013	108,705	36,293
2014	83,004	1,157
2015	24,859	26,318
2016	33,382	30,638
2017	62	62
2018	1,169	-
2021	133	28,480
2022	50,137	52,807
2023	2,654	6,613
2024	39,457	-
with no maturity	640,483	609,504
	1,674,529	**1,814,234**

The tax effect of gains and losses recognized directly in equity was a positive Euro 14,111 thousand (a positive Euro 11,281 thousand at December 31, 2008), and is shown in the statement of comprehensive income; these movements were mainly due to the tax effects associated with actuarial gains/losses on employee benefits, to the adjustment to fair value of available-for-sale financial assets and of derivatives in cash flow hedges.

13. Trade receivables

Trade receivables can be analized as follows:

(in thousands of euro)

	12/31/2009			12/31/2008		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Associates and joint ventures	89,803	-	89,803	76,237	-	76,237
Minorities	721,061	-	721,061	765,526	-	765,526
Receivables on construction contracts	2,802	-	2,802	6,177	-	6,177
	813,666	**-**	**813,666**	**847,940**	**-**	**847,940**
Provisions for impairment of receivables	(77,874)	-	(77,874)	(59,989)		(59,989)
	735,792	**-**	**735,792**	**787,951**	**-**	**787,951**

Receivables on construction contracts, relating almost exclusively to the Real Estate Segment, represent the surplus of costs incurred and of margins recognized on the basis of the criterion of the percentage completed, of Euro 41,411 thousand at December 31, 2009 (Euro 9,967 thousand at December 31, 2008) compared with the advances received against invoicing of work in progress, of Euro 38,610 thousand at December 31, 2009 (Euro 3,790 thousand at December 31, 2008).

Of total gross trade receivables of Euro 813,666 thousand (Euro 847,940 thousand at December 31, 2008), Euro 155,323 thousand were past due (Euro 164,149 thousand at December 31, 2008).
Receivables past due and not yet due were written down on the basis of the Group's policies described in the paragraph on the accounting standards adopted.
Receivables written down include both significant single positions subject to individual impairment and positions with characteristics similar from the point of view of the credit risk grouped together and written down on a collective basis.

Movements in provisions for the impairment of trade receivables are shown below:

(in thousands of euro)

	12/31/2009	12/31/2008
Opening balance	**59,989**	**53,872**
Assets sold	-	(6,358)
Translation differences	1,350	(2,374)
Allocations	26,057	26,264
Utilization/releases	(8,970)	(10,990)
Changes in consolidation scope	(552)	94
Other	-	(519)
Closing balance	**77,874**	**59,989**

Provisions for the impairment of receivables are recognized in the Income Statement under the items "Other Expenses" (Note 33).
For trade receivables, the carrying amount is considered approximate to the fair value.

14. Other receivables

Other receivables can be broken down as follows:

(in thousands of euro)

	12/31/2009			12/31/2008		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures						
- financial receivables	405,010	394,554	10,456	582,259	564,492	17,767
- other receivables	8,507	884	7,623	6,826	891	5,935
Financial receivables from third parties	92,082	91,257	825	98,781	87,987	10,794
Trade and other accrued income and prepaid expenses/third parties	24,152	4,952	19,200	18,018	13	18,005
Financial accrued income and prepaid expenses	1,818	622	1,196	4,721	1,004	3,717
Receivables from employees	6,989	2,746	4,243	8,240	2,893	5,347
Receivables from social security agencies	4,617	-	4,617	4,391	-	4,391
Receivables from tax authorities unrelated to income taxes	67,086	17,492	49,594	83,897	12,717	71,180
Other receivables	161,738	44,723	117,015	142,576	31,677	110,899
	771,999	**557,230**	**214,769**	**949,709**	**701,674**	**248,035**
Provisions for impairment of receivables	(17,625)	-	(17,625)	(8,079)	-	(8,079)
	754,374	**557,230**	**197,144**	**941,630**	**701,674**	**239,956**

For **other current and non-current receivables**, the carrying amount is considered approximate to the fair value. In particular as regards non-performing loans (included under the item "other receivables") which, as explained in the description of the accounting policies and measurement criteria of reference, are carried at their amortized cost using the effective interest criterion, the carrying amount is the present value of the future cash flows resulting from the latest available business plan at the original effective interest rate.
The carrying amount of these receivables, calculated as described above, is considered approximate to the fair value of the same at the date of December 31, 2009, because the original effective interest rate, used to determine the present value, is still today representative of a market rate that would be applied by third parties for measurement of the portfolio; this rate was in fact determined considering the specific features (riskiness, reference market, etc.) of the portfolio being measured, elements that the management responsible for these assessments considers still substantially valid today.

Financial receivables with associates and joint ventures amounted to Euro 405,010 thousand and relate almost exclusively to the Real Estate segment. Of these, Euro 394,337 thousand are classified as non-current on the basis of time to collection, in relation to the plans for the disposal of real estate assets held directly or indirectly by the companies, which are realized in a time horizon of between two and six years. These loans are disbursed at rates in line with those charged by the leading market operators, with the exception of certain companies to which interest-free loans were granted. As of December 31, 2009, the discounting of non-interest-bearing shareholders' loans, net of interest accrued, led to a reduction in the receivable of Euro 4,735 thousand. The net decrease in the item compared with the amount at December 31, 2008 (of Euro 169,938 thousand) is mainly due to increases of Euro 85,301 thousand mostly attributable to new loans disbursed (in particular to the company Espelha – Servicos de Consultadoria L.d.a., Jamesmail B.V. and Nabucco B.V., as well as to entry into the consolidation scope of the companies in the Mistral R.E. B.V. Group) set against decreases due mainly for Euro 83,731 thousand to the refund of the shareholders' loan on the part of the company European NPL S.A. and for Euro 16,192 thousand to the waiver of loans on the part of lender companies. It should be noted that from the present financial year the decreases include the reductions of financial receivables due from associates and joint ventures operated in excess of the carrying amount of equity investments relating to the same companies from which the financial receivables are claimed.

Non-current financial receivables due from third parties (Euro 91,257 thousand) refer primarily to amounts deposited to guarantee tax and legal disputes in relation to the subsidiary Pirelli Pneus S.A. (Brazil), remunerated at market rates.

Other current receivables (Euro 117,015 thousand) include:
- receivables for portfolios of Non-Performing Loans of the Real Estate Segment of Euro 29,730 thousand (Euro 21,094 thousand at December 31, 2008), attributable to acquisitions of portfolios of unsecured and mortgage loans during previous years predominantly from Banca Popolare di Intra and Banca Antonveneta;
- receivables for the sale of equity investments of the Real Estate Segment, of Euro 3,301 thousand;
- receivables from the Campania Region of the Real Estate Segment of Euro 1.757 thousand, relating to regional grants to be disbursed by the Campania Region, under the terms of R.L. N° 15 of July 26 2002 and later extensions and amendments, in favour and in support of buyers of properties owned by the company Geolidro S.p.A..

The gross amount of other impaired receivables was Euro 35,706 thousand at December 31, 2009 (Euro 26,884 thousand at December 31, 2008), and concerned mainly receivables for the NPL portfolio.

Movements in provisions for the impairment of other receivables are shown below:

(in thousands of euro)

	12/31/2009		12/31/2008	
	non-current	current	non-current	current
Opening balance	-	**8,079**	**3,610**	**2,845**
Translation differences	-	9	-	(21)
Provisions	-	6,088	-	1,124
Utilization/releases	-	(143)	-	(424)
Changes in consolidation scope	-	3,592	(3,610)	4,545
Other	-	-	-	10
Closing balance	**-**	**17,625**	**-**	**8,079**

15. Tax receivables

Tax receivables amounted to Euro 51,042 thousand (of which Euro 9,578 thousand of non-current assets) compared with Euro 56,510 thousand at December 31, 2008 (of which Euro 10,264 thousand of non-current assets).

16. Inventories

Inventories can be broken down as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Pirelli Tyre	559,579	809,376
Pirelli Real Estate	96,637	93,379
Other	22,761	18,355
	678,977	**921,110**

(in thousands of euro)

	12/31/2009	12/31/2008
Raw and auxiliary materials and consumables	140,923	210,045
Sundry materials	745	771
Trading properties held for sale	55,335	17,775
Buildings under construction/renovation	9,603	34,997
Work in process and semi-finished products	39,659	63,385
Finished products	390,178	538,529
Goods purchased for resale	9,274	10,413
Building plots	31,698	40,525
Advances to suppliers	1,562	4,670
	678,977	**921,110**

The decrease in value of the inventories of Pirelli Tyre was essentially due to reductions in the quantity, as a result of actions taken to improve operating efficiency, and in the value owing to a reduction in unit costs.

The increase in the value of **trading properties held for sale** compared with December 31, 2008 is attributable for Euro 17,551 thousand to entry into the consolidation scope of the company Orione Immobiliare S.p.A. and for Euro 26,744 thousand to a multi-functional centre located in Centrova (Perugia), in relation to which the company Progetto Perugia S.r.l. (now merged into Iniziative Immobiliari 3 S.r.l.) completed the construction work.

The inventories of **properties under construction and renovation** relate mainly to properties being renovated located in the Bicocca district of Milan by Iniziative Immobiliari 3 S.r.l. (Euro 4,657 thousand), Lambda S.r.l. (Euro 2,127 thousand), and properties under construction located in and near Warsaw owned by the company Pirelli Pekao Real Estate Sp.zo.o. (Euro 380 thousand) and a property located in Magdeburg (Germany) owned by the company Einkaufszentrum Münzstrasse GmbH & Co. KG (Euro 2,613 thousand).
Of the reduction in the item in question, Euro 26,525 thousand relates to the multi-functional centre at Centrova (Perugia), which the company Progetto Perugia S.r.l. (now merged into Iniziative Immobiliari 3 S.r.l.) finished building.

The value of inventories includes capitalized financial expenses of Euro 1,598 thousand, an amount unchanged from December 31, 2008.

Impairment losses on inventories recognized in financial year 2009 amounted to Euro 18,914 thousand (Euro 27,321 thousand at December 31, 2008), the reversal of previous losses amounted to Euro 5,455 thousand (Euro 2,575 thousand at December 31, 2008).

Inventories were not subject to any collateral pledges.

17. Securities held for trading

Securities held for trading amounted to Euro 161,024 thousand (Euro 115,800 thousand at December 31, 2008) and consisted of:
— floating-rate bonds of Euro 106,082 thousand;
— fixed-rate bonds of Euro 47,961 thousand, of which Euro 47,491 thousand listed;
— equities of Euro 6,945 thousand, of which Euro 6,218 thousand relating to listed shares;
— other securities of Euro 36 thousand.

For listed securities, the fair value corresponds to the stock exchange quotation at December 31, 2009.
For unlisted securities, the fair value was determined making use of estimates on the basis of the best information available.

Fair value changes are recognised in the income statement under the item “financial expenses” (Note 36).

18. Cash and cash equivalents

Cash and cash equivalents are concentrated in the Group’s financial companies, holdings and sub-holdings. They are used essentially on the market for short-term maturity deposits with leading banking counterparties at interest rates in line with the predominant market terms.
In the statement of cash flows, the balance of cash and cash equivalents was indicated net of bank overdrafts of Euro 21,334 thousand at December 31, 2009 and Euro 26,828 thousand at December 31, 2008.

19. Equity

19.1 ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The subscribed and paid-up share capital at December 31, 2009 (including treasury shares in the portfolio) is represented by 5,233,142,003 ordinary shares and 134,764,429 savings shares all of a nominal Euro 0.29 each and with normal entitlements, for a total of Euro 1,556,693 thousand.

As prescribed by IAS 32, the **share capital** is presented net of treasury shares in the portfolio (3,867,500 ordinary shares, representing 0.07% of ordinary shares only, and 4,491,769 savings shares, representing 3.33% of savings shares only), and amounts to Euro 1,554,269 thousand. The total of treasury shares in the portfolio represents 0.16% of the share capital.

The share capital remained unchanged with respect to financial year 2008.

19.2 ATTRIBUTABLE TO MINORITY INTERESTS

The equity of minority interests increased from Euro 202,558 thousand at December 31, 2008 to Euro 319,648 thousand at December 31, 2009. The change was mainly due to the capital increase of the Real Estate segment (increase of Euro 167,824 thousand), to completion of the acquisition of minority interests in subsidiaries of the Tyre segment in Turkey (down Euro 7,442 thousand), to the contribution made to the company Yanzhou Hixih Ecotech Environment CO. Ltd (increase of Euro 5,286 thousand), to the loss for the period (decrease of Euro 45,331 thousand) as well as to the exchange rate effect deriving from translation into Euro of financial statements in foreign currencies (a negative Euro 3,067 thousand).

The main equity interests held by minorities are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Drahtcord Saar Gmbh & Co. K.G. (Germany)	50.00%	50.00%
Pirelli & C. Eco Technology S.p.A. (Italy)	49.00%	49.00%
Pirelli & C. Ambiente S.p.A. (Italy)	49.00%	49.00%
Euro Driver Car S.L. (Spain)	49.10%	48.85%
Pirelli & C. Real Estate S.p.A. (Italy)	41.93%	41.93%
Driver Italia S.p.A. (Italy)	27.63%	26.93%
Pirelli Tyre Co. Ltd (China)	25.00%	25.00%
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%
Turk Pirelli Lastikleri A.S. (Turkey)	0.01%	4.65%

20. Stock option plans

PLANS ESTABLISHED BY PIRELLI & C. S.P.A.

During the year ended December 31, 2009, the Company did not introduce any stock option plans. Pirelli & C. S.p.A. has two existing stock option plans destined for managers and employees of Pirelli & C. S.p.A. and other companies of the Group which were granted non-transferable option rights for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.
IFRS 2 "Share-based Payment" does not apply to these plans, as the option rights were granted prior to November 7, 2002.

More complete information on these Plans – which are entitled Pirelli to People and Group Senior Executives – is provided below.

	Pirelli to People	**Group Senior Executives**
Characteristics of the plan	Attribution of non-transferable option rights to the subscription of Pirelli & C. ordinary shares newly issued in the future or, at the discretion of the company, to purchase Pirelli & C. treasury shares.	Attribution of non-transferable option rights to the subscription of Pirelli & C.ordinary shares newly issued in the future or, at the discretion of the company, to purchase Pirelli & C. treasury shares.
Recipients as of December 31, 2009	205 employees (executives, managers, and key personnel) of Group companies. Originally, at the date of approval of the plan, 725.	18 executives of Group companies. Originally, at the date of approval of the plan, 51.
Conditions for exercise of options	Continuing employment	(a) continuing employment, and (b) achievement, in the two years 2001 – 2002, of specific targets assigned to each recipient.
Unit price for subscription/ purchase of shares	Each option attributed gives the right to subscribe / purchase one Pirelli & C. ordinary share at the price of Euro 0.996 [1].	Each option attributed gives the right to subscribe / purchase one Pirelli & C. ordinary share at the price of Euro 0.996 [1].
Option exercise period	Up to nine years from the date of their attribution (November 5, 2001), but not until one year had passed from this attribution in relation to 50% of the options assigned, two years for a further 25% and three years for the remaining 25%.	As regards options granted on November 5, 2001, up to nine years from the date of their attribution, but not until one year had passed from this attribution in relation to 50% of the options assigned, two years for a further 25% and three years for the remaining 25%. As regards options attributed definitively on May 10, 2002 until May 31, 2009, but not before June 1, 2002 for 50% of them and not before January 1, 2003 for the remainder.
Maximum number of options with pending offers as of December 31, 2008	15,697,334, equivalent to around 0.3% of outstanding ordinary shares, destined for 222 beneficiaries.	9,789,185, equivalent to around 0.2% of outstanding ordinary shares, destined for 21 beneficiaries.
Maximum number of options with pending offers as of December 31, 2009 [2]	14,537,334, equivalent to around 0.28% of outstanding ordinary shares, destined for 205 beneficiaries.	4,032,001, equivalent to around 0.077% of outstanding ordinary shares, destined for 18 beneficiaries.
Options expired in 2009 for persons who have left the Group	1,160,000	5,757,184
Shares issued in the period	None	None

1 Following the capital distribution operation for 0.154 euro per share approved by the extraordinary shareholders' meeting of December 12, 2007, from April 3, 2008 the unit subscription price was changed to Euro 0.996 (from Euro 1.15) in accordance with the prescriptions covering share capital operations of the Regulations of the Stock Option Plans in question.

2 Unexercised options of the Group Senior Executives Plan granted definitively on May 10, 2002 expired to all effects and purposes on May 31, 2009.

The tables presented below show the evolution of the above plans, the number of options and the exercise price.

Pirelli to people

TAB.1

	2009			2008		
	Number of shares	Average exercise price in euro	Market price in euro	Number of shares	Average exercise price in euro	Market price in euro
Options existing at 01/01/2009	15,697,334	0.996 [1]	0.26	18,175,604	1.15 [1]	0.75
Options assigned in the period	-	-	-	-	-	-
(Options exercised in the period)	-	-	-	-	-	-
(Options expired in the period - for persons who have left the Group)	1,160,000	-	-	2,478,270	-	-
Options existing at 12/31/2009	14,537,334	0.996 [1]	0.42	15,697,334	0.996 [1]	0.26

TAB.2

Exercise prices	Options assigned - existing at 12/31/2009 Remaining contractual life		Of which exercisable
	< 1 year *	Total	From 11/5/2004
Euro 0,996 [1]	14,537,334	14,537,334	14,537,334

* up to November 5, 2010

1 Following the capital distribution operation for 0.154 euro per share approved by the extraordinary shareholders' meeting of December 12, 2007, from April 3, 2008 the unit subscription price was changed to Euro 0.996 (from Euro 1.15) in accordance with the prescriptions covering share capital operations of the Regulations of the Stock Option Plans in question. Regulations of the Stock Option Plans in question.

Group Senior Executives

TAB.1

	2009			2008		
	Number of shares	Average exercise price in euro	Market price in euro	Number of shares	Average exercise price in euro	Market price in euro
Options existing at 01/01/2009	9,789,185	0.996 [1]	0.26	11,541,015	1.15 [1]	0.75
Options assigned in the period	-	-	-	-	-	-
(options exercised in the period)	-	-	-	-	-	-
(Options expired in the period - for persons who have left the Group)	5,757,184	-	-	1,751,830	-	-
Options existing at 12/31/2009	4,032,001	0.996 [1]	0.42	9,789,185	0.996 [1]	0.26

TAB.2

Exercise prices	Options assigned - existing at 12/31/2009 Remaining contractual life		Of which exercisable
	< 1 year *	Total	From 11/5/2004
Euro 0,996 [1]	4,032,001	4,032,001	4,032,001

* up to November 5, 2010

1 Following the capital distribution operation for 0.154 euro per share approved by the extraordinary shareholders' meeting of December 12, 2007, from April 3, 2008 the unit subscription price was changed to Euro 0.996 (from Euro 1.15) in accordance with the prescriptions covering share capital operations of the Regulations of the Stock Option Plans in question.

2 Unexercised options of the Group Senior Executives Plan granted definitively on May 10, 2002 expired to all effects and purposes on May 31, 2009.

The table below indicates the number of shares granted in the bonus schemes described above, held at December 31, 2009, directly or indirectly, by the members of the Board of Directors, by the General Managers, and by the key management personnel of the Company and of the companies it controls.

Name and Surname	Options held at 01/01/2009		Options assigned during financial year 2009		Options exercised during financial year 2009		Options held at 12/31/2009	
	N° of options	Average exercise price	N° of options	Average exercise price	N° of options	Average exercise price	N° of options	Average exercise price
Claudio De Conto	778,774 [1]	0.996 [3]	-	-	-	-	298,667 [1]	0.996 [3]
	410,667 [2]	0.996 [3]	-	-	-	-	410,667 [2]	0.996 [3]
Francesco Gori [4]	533,334 [1]	0.996 [3]	-	-	-	-	426,667 [1]	0.996 [3]
	666,667 [2]	0.996 [3]	-	-	-	-	666,667 [2]	0.996 [3]

1 Group Senior Executives bonus scheme.

2 Pirelli to People bonus scheme.

3 Following the capital distribution operation for 0.154 euro per share approved by the extraordinary shareholders' meeting of December 12, 2007, from April 3, 2008 the unit subscription price was changed to Euro 0.996 (from Euro 1.15) in accordance with the prescriptions covering share capital operations of the Regulations of the Stock Option Plans in question.

4 On December 31, 2009 Claudio De Conto resigned his executive post with Pirelli & C. S.p.A. maintaining in his capacity as Director the position of Chief Financial Officer of Pirelli & C. Real Estate S.p.A..

Giovanni Ferrario (Chief Executive Officer and General Manager of the Company up to December 2004) is the holder of 426,667 options that give him the right to subscribe/purchase the same number of Pirelli & C. S.p.A. ordinary shares at the price of Euro 0.996 each.

Valerio Battista (General Manager of the Company up to June 2005) is the holder of 1,093,334 options that give him the right to subscribe/purchase the same number of Pirelli & C. S.p.A. ordinary shares at the price of Euro 0.996 each.

PLANS ESTABLISHED BY PIRELLI & C. REAL ESTATE S.P.A.

The Shareholders' Meeting on April 14, 2008 of Pirelli & C. Real Estate S.p.A. approved, among other things, guidelines for a stock option plan, which provides for assignment to the beneficiaries of options for the purchase of shares in Pirelli & C. Real Estate S.p.A. ("Stock Option Plan 2008-2010" or "SOP 2008-2010").

Comprehensive information on the above Plan, whose general terms have not changed since December 31, 2008, is reported below. It should be noted that the reference amounts (number of options, market constraint, and exercise price) were adjusted to take account of the capital increase operation completed in July 2009.

STOCK OPTION 2008-2010

Characteristics of the plan	Assignment of non-transferable options to purchase ordinary shares in Pirelli & C. Real Estate S.p.A. held by the company (treasury shares).
Recipients as of December 31, 2009	28 resources (directors, managers and other key personnel) of Pirelli & C. Real Estate S.p.A. and its subsidiaries. Originally, on the date of approval of the plan, there were 58. Two assignments were carried out, respectively on May 8, 2008 (23,914,286 options) and on May 27, 2008 (3,731,786 options).
Conditions for exercise of options	(a) continuing employment relationship or position of director within Pirelli RE Group companies; (b) a minimum market price for Pirelli RE shares, at the moment of exercise, equal to or more than Euro 1.35 [market constraint]; (c) achievement by Pirelli RE of certain performance targets regarding income and net financial position for the three years 2008-2010.
Unit price for subscription/purchase of shares	Each option assigned gives the beneficiary the right to subscribe/purchase one Pirelli & C. Real Estate S.p.A. ordinary share at the price of Euro 1.10 for options assigned on May 8, 2008 and at the price of Euro 0.98 for options assigned on May 27, corresponding to the "normal value" of the share on the date of offering; this price may vary in the event of share capital operations or other extraordinary operations, but beneficiaries are in any case guaranteed rights equivalent to those to which they were entitled prior to such operations.
Option exercise period	Options may be partially exercised (40%) from May 1, 2010 to December 31, 2011 (first tranche) and the remaining 60% from May 1, 2011 to December 31, 2011 (second tranche) and, in any case, not later than December 31, 2011. Beneficiaries may be entitled to early exercise of options, in the event of a "change of control" and, thus, if Pirelli & C. S.p.A. is no longer the controlling shareholder in the company, without prejudice to the validity of the market and operational constraints, with predetermined application criteria in relation to the exercise of options if such an event occurs.
Maximum number of options with pending offers as of December 31, 2009	10,375,714, equivalent to around 0.01% of outstanding ordinary shares, destined for 28 beneficiaries.
Options expired in 2009 for persons who have left the Group	16,228,929
Shares issued in the period	None

The fair value of the options at the assignment date was determined according to a Binomial measurement model and is:

Assignment date	**1st tranche**	**2nd tranche**
May 8, 2008	0.12 Euro	0.15 Euro
May 27, 2008	0.09 Euro	0.12 Euro

The assumptions that at the time were considered in the measurement model can be summarised as follows:

— weighted average price of the shares at the assignment date of Euro 1.10 for options assigned on May 8 and Euro 0.98 for options assigned on May 27;
— projected volatility of 30% determined on the basis of the historical volatility of the share price from the moment of listing of Pirelli & C. Real Estate S.p.A. up to the assignment dates of the plan in question;
— the term set for the options of 1.98 years for the first tranche and 2.98 years for the second for the options assigned on May 8 (1.93 years and 2.93 years respectively for the first tranche and the second tranche for the options assigned on May 27);
— planned dividends equal to 4%;
— risk free interest rate equal to 4.25%.

The statements presented below – in accordance with the provisions of Scheme 2 of Annex 3C of Regulation N° 11971/1999 – show the movements that occurred in 2009 in stock options held by the Directors and General Managers of Pirelli & C. Real Estate S.p.A..

Name and Surname	Office Held	Options held at beginning of year			Options assigned during year			Options exercised during year			Options expired/ forfeited in year	Options held at end of year	
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11) =(1)+(4)--(7)-(10)	(12)
		Number of options	Average exercise price	Maturity	Number of options	Average exercise price	Maturity	Number of options	Average exercise price	Average market price at exercise	Number of options	Number of options	Average exercise price
Carlo Alessandro Puri Negri	Executive Deputy Chairman [a]	300,000	21.23	12/31/11	-	-	-	-	-	-	300,000	-	-
Emilio Biffi	Chief Technical Officer	30,000	21.23	12/31/11	-	-	-	-	-	-	-	30,000	21.23
Olivier de Poulpiquet	Director [b]	200,000	21.23	12/31/11	-	-	-	-	-	-	200,000	-	21.23
Paolo Massimiliano Bottelli	Director and General Manager Germany and Poland	140,000	21.23	12/31/11	-	-	-	-	-	-	-	140,000	21.23
		33,500	18.88	12/31/11	-	-	-	-	-	-	-	33,500	18.88
Wolfgang Weinschrod	Director	15,000	21.23	12/31/11	-	-	-	-	-	-	-	15,000	21.23
Rodolfo Petrosino	General Manager Italy [c]	140,000	21.23	12/31/11	-	-	-	-	-	-	140,000	-	-
		33,500	18.88	12/31/11	-	-	-	-	-	-	33,500	-	-
Gerardo Benuzzi	General Manager, Finance & Advisory	65,000	21.23	12/31/11	-	-	-	-	-	-	-	65,000	21.23
		12,500	18.88	12/31/11	-	-	-	-	-	-	-	12,500	18.88

a Resigned from the post of Executive Deputy Chairman on April 8, 2009

b Termination of employment and revocation of powers for Investment & Fund Raising from June 30, 2009 as resolved by the Board on April 8, 2009

c Termination of employment on June 30, 2009

These are options relating to the 2008-2010 Stock Option Plan, as resolved by the Shareholders' meeting on April 14 and illustrated in detail in the Prospectus pursuant to Art. 114-bis of the Italian Finance Act and Art. 84-bis of the Issuers' Regulations, published under the terms of the law.

21. Tax payables

Tax payables amounted to Euro 53,955 thousand (of which Euro 10,037 thousand of non-current assets) compared with Euro 53,742 thousand at December 31, 2008 (of which Euro 9,706 thousand of non-current assets).

22. Provisions for liabilities and charges

The changes that occurred during the period are shown below:

PROVISIONS FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION (in thousands of euro)

Opening balance at 12/31/2008	141,191
Translation differences	21,478
Change in scope	1,720
Increases	13,987
Utilization/releases	(9,938)
Other	(645)
Closing balance at 12/31/2009	**167,793**

PROVISIONS FOR LIABILITIES AND CHARGES - CURRENT PORTION (in thousands of euro)

Opening balance at 12/31/2008	135,650
Translation differences	8
Increases	194,609
Utilization/releases	(83,264)
Reclassification	(3,528)
Decrease in financial receivables	(114,629)
Other	1,937
Closing balance at 12/31/2009	**130,783**

At December 31, 2009 **provisions for liabilities and charges - non-current portion** relates mainly to provisions set aside for legal and tax disputes concerning the subsidiary Pirelli Pneus S.A. in Brazil (Euro 97,892 thousand), contingent tax liabilities (Euro 27,410 thousand) and other contingent liabilities/charges of a commercial nature and employment disputes (Euro 14,541 thousand) involving the parent company Pirelli & C. S.p.A., and to contractual commitments for extraordinary maintenance work on properties sold (Euro 16,913 thousand) and disputes in arbitration and lawsuits in progress (Euro 8,400 thousand) undertaken by Pirelli & C. Real Estate S.p.A..

Increases in the non-current portion in the year involved mainly adjustments related to the needs to cover commercial risks, compensation and disputes (Euro 2,687 thousand of the parent company Pirelli & C. S.p.A. and Euro 8,218 thousand of the Tyre segment).

Provisions for liabilities and charges - current include amounts set aside for contractual guarantees and product claims (Euro 72,112 thousand of the Tyre segment and Euro 11,314 of the Broadband Access segment), provisions made by the parent company Pirelli & C. S.p.A. to cover warranties given on the occasion of the sales of the Pirelli businesses in the Cables and Energy and Telecommunication Systems segments to Goldman Sachs Capital Partner completed in July 2005 (Euro 10,000 thousand), restructuring expenses for internal reorganization of Pirelli & C. Real Estate S.p.A. (Euro 5,714 thousand) as well as provisions for risks on equity investments carried at equity, relating to the Real Estate segment (Euro 3,279 thousand), which include amounts set aside to cover the losses of associates and joint ventures exceeding their carrying amount and the amount of financial receivables from them, where a legal or constructive obligation exists..

Increases in the current portion relate mainly to the Tyre segment (Euro 57,491 thousand) for units based in Italy for industrial illnesses, remediation work on the new area of the Settimo Torinese hub and product warranties, in Spain for costs associated with closure of the Manresa factory and in the USA for liabilities arising from disputes and product warranties. The increases also relate to adjustments to provisions for equity investments carried at equity in the Real Estate segment (Euro 117,908 thousand).

The **utilization/releases of the current portion** mainly relate to the Real Estate segment and are associated with adjustments to provisions for equity investments carried at equity (Euro 48,670 thousand).

The item "**decrease in financial receivables**" contains the reduction in financial receivables from such companies against the portion of loss incurred by the same exceeding their carrying amount.

23. Employee benefits obligations

The item includes:

(in thousands of euro)

	12/31/2009	12/31/2008
Pension funds:		
- funded	222,368	157,368
- unfunded	92,310	88,752
Employee severance indemnity (Italian companies)	51,454	56,783
Healthcare plans	17,899	18,442
Other benefits	67,849	45,190
	451,880	**366,535**

PENSION FUNDS

The following table shows a breakdown of the pension funds at December 31, 2009:

(in thousands of euro)

	12/31/2009					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded funds						
Present value of funded liabilities			122,199	783,307	2,981	908,487
Fair value of plan assets			(76,860)	(606,856)	(2,403)	(686,119)
Unfunded funds						
Present value of unfunded liabilities	92,310	92,310				
Net liabilities recognized	**92,310**	**92,310**	**45,339**	**176,451**	**578**	**222,368**
of which:						
- Tyre	84,168	84,168	45,339	91,681	578	137,598
- Real Estate	8,142	8,142				
- Other				84,770		84,770

The following table shows a breakdown of the pension funds at December 31, 2008:

(in thousands of euro)

	12/31/2008					
	Germany	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds						
Present value of funded liabilities			128,035	598,155	2,615	728,805
Fair value of plan assets			(73,780)	(495,549)	(2,108)	(571,437)
Unfunded funds						
Present value of unfunded liabilities	88,752	88,752				
Net liabilities recognized	**88,752**	**88,752**	**54,255**	**102,606**	**507**	**157,368**
of which:						
- Tyre	83,310	83,310	54,255	62,157	507	116,919
- Real Estate	5,442	5,442				
- Other				40,449		40,449

The features of the main pension funds existing at December 31, 2009 are as follows:

- Germany - Tyre Segment: this is an unfunded defined-benefit plan based on the final salary. It provides a supplementary pension in addition to the state pension. The plan was closed in October 1982; consequently the members of the plan are employees whose employment began prior to that date;
- USA - Tyre Segment: this is a funded defined-benefit plan based on the final salary. It provides a supplementary pension in addition to the state pension and is administered by a Trust. The plan was closed in 2001 and frozen in 2003 for employees who were transferred to a defined-contribution scheme. The members of the plan are all retired;
- UK: these are funded defined-benefit plans based on the final salary. They provide a supplementary pension in addition to the state pension and are administered in Trusts. The plans were closed in 2001; consequently the members are employees whose employment began prior to that date.

The changes in the period in the present value of the liabilities for pension funds (funded and unfunded) are as follows:

(in thousands of euro)

	12/31/2009	**12/31/2008**
Opening balance	**817,557**	**1,113,853**
Translation differences	38,925	(207,553)
Changes in scope	-	3,986
Movements through the income statement:		
- current employment expenses	4,195	4,669
- interest cost	51,479	57,672
Actuarial (gains)/losses recognised in Equity	138,070	(111,992)
Employee contributions	1,182	1,323
Benefits paid	(53,114)	(48,146)
Other	2,503	3,745
Closing Balance	**1,000,797**	**817,557**

The changes in the year in the fair value of the pension plan assets are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Opening balance	**(571,437)**	**(907,569)**
Translation differences	(33,372)	187,355
Movements through the income statement:		
- expected return on plan assets	(40,416)	(64,529)
Actuarial (gains)/losses recognised in equity	(56,062)	195,456
Employer contributions	(29,171)	(22,453)
Employee contributions	(1,689)	(1,323)
Benefits paid	45,403	40,978
Other	625	648
Closing Balance	**(686,119)**	**(571,437)**

The assumptions used to calculate the expected return on the pension fund assets are based on the expected returns of the underlying assets (shares, bonds and deposits); the expected return is derived from the general average of the returns expected from the assets for each separately identified investment class, with reference to an effective or objective composition of the assets. The expected return of each investment class is derived from the market returns available at the reporting date. In particular, the expected return of shares is derived from a risk free rate of return with the addition of an adequate risk premium.
The following table shows a breakdown of funded pension fund assets:

(in %)

	12/31/2009			12/31/2008		
	UK	USA	Other countries	UK	USA	Other countries
Shares	62%	70%		64%	70%	
Bonds	27%	25%		33%	25%	
Other	11%	5%	100%	3%	5%	100%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

The effective return of pension plan assets was as follows:

(in thousands of euro)

	USA	UK	Other countries	Totale
Effective return 2009 - (Gains)/losses	(13,268)	(83,057)	(250)	(96,575)
Effective return 2008 - (Gains)/losses	26,027	134,370	(51)	160,346

Costs recognised in the income statement in relation to pension funds are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Current employment expenses	4,195	4,669
Interest cost	51,479	57,672
Expected return on plan assets	(40,416)	(64,529)
	15,258	**(2,188)**

The amounts recognized in the income statement are included in the item "Personnel Expenses" (Note 31).
Contributions expected to be paid in during financial year 2010 to the pension funds amount to Euro 34,831 thousand.

EMPLOYEES' LEAVING INDEMNITY

Changes in the year in employees' leaving indemnity are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Opening balance	**56,783**	**74,559**
Assets sold	-	(12,846)
Movements through income statement	3,333	3,565
Curtailment	1,987	-
Actuarial (gains)/losses recognised in equity	2,809	1,959
Payments/advances	(13,453)	(10,798)
Other	(5)	344
Closing Balance	**51,454**	**56,783**
of which:		
- Tyre	33,809	37,194
- Real Estate	4,877	7,327
- Other	12,768	12,262

The movements through the income statement in 2009 related only to expenses for interest accrued on employees' leaving indemnity at December 31, 2008. Following the reform of employees' leaving indemnity introduced in the 2007 Budget Law, employees' leaving indemnity was transformed, in fact, into a defined-contribution plan.

The movements through the income statement are recognised in the item "Personnel Expenses" (Note 31).

MEDICAL CARE PLANS

Medical care plans can be broken down as follows:

(in thousands of euro)

	USA
Liabilities recognized at 12/31/2009	17,899
Liabilities recognized at 12/31/2008	18,442

The medical care plan existing in the United States (Tyre Segment) covers clerical staff and factory workers, both active and retired.
The plan is divided into two components "pre-medicare" and "post-medicare"; the latter is destined for participants more than 65 years old.
Contributions are paid by both the employer and the employees.

The changes in the period in liabilities recognized for medical care plans are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008
Opening balance	**18,442**	**21,839**
Translation differences	(661)	1,333
Movements through the income statement:		
- current employment expenses	6	7
- interest cost	1,090	1,217
Actuarial (gains)/losses recognized in equity	(15)	(1,109)
Benefits paid	(963)	(1,591)
Other	-	(3,254)
Closing Balance	**17,899**	**18,442**

The effect of an increase or decrease of one percentage point in the projected medical care cost trend rates is as follows:

(in thousands of euro)

	Increase of 1%		Decrease of 1%	
	12/31/2009	12/31/2008	12/31/2009	12/31/2008
Effect on current employment expenses and on interest cost	40	55	(39)	(54)
Effect on liabilities recognized	626	933	(609)	(908)

The expenses recognized in the income statement in relation to medical care plans are as follows:

(in thousands of euro)

	2009	2008
Current employment expenses	6	7
Interest cost	1,090	1,217
	1,096	**1,224**

The amounts recognized in the income statement are included in the item "Personnel Expenses" (Note 31).

OTHER INFORMATION

Net actuarial losses accrued in financial year 2009 booked directly to equity amounted to Euro 86,633 thousand (at December 31, 2008 net losses of Euro 85,058 thousand) and also include the share relating to companies measured with the net equity method, gains of Euro 10 thousand (at December 31, 2008 losses of Euro 405 thousand).

The cumulative amount at December 31, 2009, net losses of Euro 383,502 thousand, of which Euro 383,893 thousand attributable to the Group (at December 31, 2008 net losses of Euro 296,634 thousand, of which Euro 297,339 thousand attributable to the Group), is divided as follows:

(in thousands of euro)

	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	(5,684)	(80,705)	(296,227)	(8,902)	(391,518)
Healthcare plans	-	-	(9,242)	-	-	(9,242)
Employee severance indemnity	17,258	-	-	-	-	17,258
Total actuarial Gains/(losses) recognized in equity	**17,258**	**(5,684)**	**(89,947)**	**(296,227)**	**(8,902)**	**(383,502)**

The breakdown by country at December 31, 2008 was as follows:

(in thousands of euro)

	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	(2,330)	(83,974)	(212,439)	(8,325)	(307,068)
Healthcare plans	-	-	(9,257)	-	-	(9,257)
Employee severance indemnity	19,691	-	-	-	-	19,691
Total actuarial Gains/(losses) recognized in equity	**19,691**	**(2,330)**	**(93,231)**	**(212,439)**	**(8,325)**	**(296,634)**

The main actuarial assumptions used at December 31, 2009 and in determining the projected cost for financial year 2010 are as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.00%	5.20%	5.20%	5.70%	5.75%
Inflation rate	2.00%	2.00%	2.00%	3.45%	-
Expected return on plan assets	-	-	-	6.84%	7.39%
Expected rate of increase in salaries	3.00% *	2.50%	2.00%	2.70%-3.45%	-
Healthcare cost trend rates - initial	-	-	-	-	8.00%
Healthcare cost trend rates - final	-	-	-	-	4.50%

* indicator valid only for companies with less than 50 employees

The main actuarial assumptions used at December 31, 2008 and in determining the cost for financial year 2009 were the following:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.70%	5.70%	5.70%	6.20%-6.40%	6.25%
Inflation rate	2.00%	2.00%	2.00%	2.70%	-
Expected return on plan assets	-	-	-	6.65%	7.75%
Expected rate of increase in salaries	3.5% - 4.5% *	2.50%	2.00%	3.15%	-
Healthcare cost trend rates - initial	-	-	-	-	8.50%
Healthcare cost trend rates - final	-	-	-	-	4.50%

* indicators valid only for companies with less than 50 employees

The discount rates are used to measure the obligation and the financial component of the net present cost. The Group selected these rates on the basis of the yield curve of fixed-income securities (Corporate bonds) of leading companies (with AA+ ratings) at the valuation date of the plans. The healthcare cost trend rate represents the projected increase of expenses for medical assistance. This rate is determined on the basis of the specific experience of the Segment and of the various trends, including the specific inflation projections in the healthcare sector.

The initial rate used represents a short-term trend based on recent experience and on prevailing market conditions. The final rate used is a long-term assumption which takes into account, among other factors, inflation in healthcare costs on the basis of the general inflation trend, incremental medical inflation, technologies, new medicines, and the average age of the population and a different mix of medical services. The change in the average healthcare cost trend rate in 2009 was caused by the recent change in healthcare costs.

The expected rates of return of the assets reflect the estimates of the trend in average long-term rates of the pension fund assets for the entire duration of the obligation. The expected return is defined for each asset class (equities, bonds, cash, and real estate) and is net of the projected administrative costs. The historical trend and the correlation of the returns, estimates of future trends and other significant financial factors are analyzed to ensure that they are reasonable and consistent.

The adjustments based on past experience, in relation to defined benefit plans, are as follows:

(in thousands of euro)

	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Adjustments of plan liabilities - (Gains)/losses	959	(9,553)	16,097	(7,527)	46,038
Adjustments of plan assets - (Gains)/losses	(56,318)	224,875	(744)	(32,733)	(75,756)

The adjustments of liabilities represent the change of the actuarial liability not deriving from modifications of the actuarial assumptions. They normally include changes in the demographic and remunerative structure. Changes to the plan rules (past service costs) are excluded from the past experience.
The adjustments of the assets represent the difference between the effective return of the assets and the return expected at the beginning of the year.

OTHER BENEFITS

At December 31, 2009 this item included Euro 18,681 thousand relating to the portion accruing in the year of the long-term bonus scheme for the management, approved by the Board of Directors of Pirelli & C. S.p.A. on April 21, 2009 and destined for approximately 80 senior managers.

24. Borrowings from banks and other financial institutions

Amounts due to banks and other financial institutions can be broken down as follows:

(in thousands of euro)

	12/31/2009			12/31/2008		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Bonds	-	-	-	150,000	-	150,000
Borrowings from banks	1,661,280	1,402,524	258,756	1,780,681	1,279,470	501,211
Borrowings from other lenders	62,135	60,899	1,235	66,401	64,739	1,662
Financial leasing payables	47,927	40,923	7,005	41,099	30,340	10,759
Financial accruals and deferrals	14,169	789	13,379	19,268	510	18,758
Other financial payables	9,599	670	8,930	13,859	688	13,171
	1,795,110	**1,505,805**	**289,305**	**2,071,308**	**1,375,747**	**695,561**

Financial payables backed by real guarantees (pledges and mortgages) amounted to Euro 23,845 thousand (Euro 19,107 thousand at December 31, 2008).

Adding to the total for the item Euro 29,599 thousand relating to measurement at negative fair value of exchange rate derivatives hedging financial payables (classified under the item "Derivative financial instruments"), we obtain a gross debt of Euro 1,824,709 thousand, which is shown in the net financial position.

For current payables, the carrying amount is considered approximate to the fair value.
Current payables include the proportion of non-current financial payables, of Euro 141,000 thousand (Euro 414,330 thousand at December 31, 2008), due to be settled within the next financial year.

The fair value of non-current payables is shown below, compared with their carrying amount:

(in thousands of euro)

	12/31/2009		12/31/2008	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Non-current financial payables	1,505,805	1,503,800	1,375,747	1,383,316

At December 31, 2009, the breakdown of payables by interest rate and by initial currency of origin of the debt is as follows:

(in thousands of euro)

	Fixed rate		Variable rate		Total
EUR	117,507		68,683		186,190
USD	-		-		-
BRL (Brazilian Real)	43,541		-		43,541
EGP (Egyptian Pound)	-		-		-
CNY (Chinese Renminbi)	27,509		21,315		48,824
Other currencies	10,750		-		10,750
Current payables	**199,307**	**69%**	**89,998**	**31%**	**289,305**
EUR	999,043		361,788		1,360,831
USD	7,581		-		7,581
BRL (Brazilian Real)	39		32,718		32,757
CNY (Chinese Renminbi)	-		54,762		54,762
RON	-		49,874		49,874
Non-current payables	**1,006,663**	**67%**	**499,142**	**33%**	**1,505,805**
	1,205,970	**67%**	**589,140**	**33%**	**1,795,110**

At December 31, 2008 the situation was as follows:

(in thousands of euro)

	Fixed rate		Variable rate		Total
EUR	301,418		228,896		530,314
USD	1,902		-		1,902
BRL (Brazilian Real)	88,872		-		88,872
EGP (Egyptian Pound)	-		-		-
CNY (Chinese Renminbi)	37,737		26,326		64,063
Other currencies	10,310		100		10,410
Current payables	**440,239**	**63%**	**255,322**	**37%**	**695,561**
EUR	313,321		989,192		1,302,513
USD	23,711		-		23,711
BRL (Brazilian Real)	-		17,909		17,908
CNY (Chinese Renminbi)	-		31,614		31,614
Non-current payables	**337,032**	**24%**	**1,038,715**	**76%**	**1,375,747**
	777,271	**38%**	**1,294,037**	**62%**	**2,071,308**

The value of fixed-rate payables indicated above includes those established by contract as fixed-rate payables and those established by contract as variable-rate payables to offset which hedging derivatives have been put in place.

The increase in the percentage of fixed-rate indebtedness compared with financial year 2008 (67% compared with 38%) is mainly due to the acquisition, during 2009, of interest rate derivatives to hedge floating-rate payables for a total notional Euro 575 million (Euro 100 million at December 31, 2008).

The Group's exposure to fluctuations in interest rates on financial payables, in terms of both type of rate and their resetting date, are summarized below:

(in thousands of euro)

	12/31/2009			12/31/2008		
	Total	Fixed rate	Variable rate	Total	Fixed rate	Variable rate
Up to 6 months	457,765	114,132	343,633	850,480	378,539	471,941
From 6 to 12 months	100,714	100,714	-	61,700	61,700	-
From 1 to 5 years	1,135,116	889,609	245,507	1,151,637	329,541	822,096
More than 5 years	101,515	101,515	-	7,491	7,491	-
	1,795,110	**1,205,970**	**589,140**	**2,071,308**	**777,271**	**1,294,037**

The bond loan issued in 1999 by Pirelli & C. S.p.A. for Euro 150,000 thousand at a fixed rate of 5.125% was redeemed on April 7, 2009.

It should be noted that some of the following credit facilities, all of a revolving type, are subject to financial covenants and negative pledge clauses.

Corporate:

— Barclays Capital, BNP Paribas, HSBC Bank plc, J.P. Morgan plc, The Royal Bank of Scotland plc (as Mandated Lead Arrangers), for an amount of Euro 800,000 thousand (of which Euro 155,000 thousand with maturity December 2011 and Euro 645,000 thousand with maturity December 2012), not utilised and for which Pirelli & C. is obliged to maintain a certain level of consolidated net indebtedness and a certain ratio between consolidated net indebtedness and Gross Operating Margin. At December 31, 2009 these parameters were being observed.
As regards negative pledges the facility provides for a commitment not to grant real guarantees, above a threshold of Euro 75,000 thousand, in relation to the Relevant Debts (bond loans and the like destined for listing) with the exception of real guarantees on the existing debt or debt to replace it, to be granted by law, relating to "export finance", "project finance" and subsidized finance.

Tyre:

— Syndicated facility (granted to Pirelli Tyre S.p.A. and Pirelli International Limited), in which 12 banks take part for a total amount of Euro 675,000 thousand, utilised for Euro 675.000 thousand, with maturity February 2012, for which no covenants are envisaged. There is a negative pledge clause which provides for a commitment not to grant real guarantees, above a threshold defined as the greater of Euro 100,000 thousand and 3% of Total Assets (as defined in the consolidated financial statements of Pirelli Tyre S.p.A.), in relation to the Relevant Debts (bond loans and the like destined for listing) with the exception of real guarantees on the existing debt or debt to replace it, to be granted by law, relating to "export finance", "project finance" and subsidized finance.

Real Estate:

— West LB AG, for an amount of Euro 50,000 thousand, utilised in full and with a maturity of May 2011, for which Pirelli & C. Real Estate S.p.A. is obliged to maintain a certain amount of net equity at the consolidated level;
— Club Deal, for a total amount of Euro 320.000 thousand, utilised partially, with a maturity of July 2012, for which Pirelli & C. Real Estate S.p.A. has undertaken to maintain:
  — a maximum level of net indebtedness, decreasing over time;
  — a maximum level in the ratio between net indebtedness and equity, decreasing over time;

— starting in December 2010 a maximum level in the ratio between net indebtedness and net income;

— UniCredit Corporate Banking of Euro 35,000 thousand at December 31, 2009 with decreasing commitment over time and final maturity at December 31, 2010, utilised in full. On this facility Pirelli & C. Real Estate S.p.A. is not obliged to observe any financial covenants.

At December 31, 2009 the entire financial covenant mentioned above are being observed.

No other existing financial payables contain financial covenants or clauses that might cause early repayment of the loans as a result of events other than bankruptcy.
No negative pledge clauses are present.

At December 31, 2009 the Group has available, besides cash and securities held for trading of Euro 793,137 thousand, unused committed credit lines of Euro 819,000 thousand (Euro 785,000 thousand at December 31, 2008), with the following maturities:

(in thousands of euro)

	12/31/2009	12/31/2008
2010	-	10,000
2011	155,000	136,000
2012	664,000	639,000
Total	**819.000**	**785.000**

As regards payables for financial leasing, see Note 8.1 "Leases".

25. Trade payables

Trade payables can be broken down as follows:

(in thousands of euro)

	12/31/2009			12/31/2008		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	20,983	-	20,983	21,704	-	21,704
Minorities	959,996	-	959,996	1,079,800	-	1,079,800
Notes payable	1,933	-	1,933	3,043	-	3,043
Payables on construction contracts	4,961	-	4,961	4,026	-	4,026
	987,873	**-**	**987,873**	**1,108,573**	**-**	**1,108,573**

For trade payables, the carrying amount is considered approximate to the fair value.

Payables on construction contracts, relating to the Real Estate Segment, represent the amount by which advances received against invoicing of work in progress, of Euro 43,010 thousand at December 31, 2009 (Euro 30,266 thousand at December 31, 2008) exceed the costs incurred and the margins recognized on the basis of the criterion of the percentage of work completed, of Euro 38,049 thousand at December 31, 2009 (Euro 26,240 thousand at December 31, 2008).

26. Other payables

Other payables can be broken down as follows:

(in thousands of euro)

	12/31/2009			12/31/2008		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	12,003	2,608	9,395	7,344	-	7,344
Trade and other accrued liabilities and deferred income	84,963	4,421	80,542	72,253	3,712	68,541
Tax payables	67,593	10,926	56,667	53,986	8,167	45,819
Payables to employees	141,105	75	141,030	168,244	277	167,967
Payables to social security agencies	44,723	5,078	39,645	38,256	3,052	35,204
Payables for stock options	-	-	-	10	-	10
Dividends approved	1,070	-	1,070	920	-	920
Advances from customers	8,024	9	8,015	2,284	10	2,274
Other payables	165,562	10,891	154,671	187,576	33,254	154,322
	525,043	**34,008**	**491,035**	**530,873**	**48,472**	**482,401**

Other current payables (Euro 154,671 thousand) include:
- payables for the purchase of property, plant and equipment of Euro 24,289 thousand, relating to the Tyre Segment;
- payables for deposits and advances relating to the Tyre Segment of Euro 2,372 thousand;
- payables to representatives, agents, professionals and consultants of Euro 5,620 thousand;
- payables to Directors and Oversight Committee of Euro 2,552 thousand;
- payables to Statutory Auditors of Euro 1,157 thousand;
- advances paid by the European Union to the Tyre Segment for research projects of Euro 1,678 thousand;
- advances paid by the Piedmont Region to the Tyre Segment of Euro 2,960 thousand against the investment for the creation of the New Technological Hub at Settimo Torinese;
- advances paid by the Piedmont Region to the Tyre Segment for research projects of Euro 7,818 thousand;
- payables for income tax withholdings of the Tyre Segment of Euro 4,104 thousand;
- payables for a non-performing loan portfolio of Euro 17,326 thousand, relating to the debt assumed by the Real Estate Segment to Banco di Sicilia for the purchase of a portfolio of non-performing loans;
- payables for the purchase of equity investments relating to the Real Estate Segment of Euro 11,902 thousand, for the purchase of 100% of the share capital of the companies Relco Sp.z.o.o. and Coimpex Sp.z.o.o..

For other current and non-current payables, the carrying amount is considered approximate to the fair value.

27. Derivative financial instruments

The item includes the measurement at fair value of derivative instruments in being at December 31, 2009.

In particular, the portion included in **current assets** comprises:
- Euro 21,243 thousand (Euro 90,535 thousand at December 31, 2008) relating to the fair value measurement of forward purchases/sales of foreign currencies in being at the reporting date.

These are operations to hedge commercial and financial transactions of the Group for which the hedge accounting option was not taken. The fair value is determined using the forward exchange rate at the reporting date;
- Euro 5,324 thousand (Euro 3,507 thousand at December 31, 2008) relating mainly to the fair value measurement of other derivatives, for which the hedge accounting provided for in IAS 39 has not been implemented.

The portion of amounts measured included in **current liabilities** comprises:
- Euro 46,873 thousand (Euro 104,106 thousand at December 31, 2008) relating to the fair value measurement of forward purchases/sales of foreign currencies in being at the reporting date. These are operations to hedge commercial and financial transactions of the Group for which the hedge accounting option was not taken. The fair value is determined using the forward exchange rate at the reporting date;
- Euro 5,535 thousand (zero at December 31, 2008) relating mainly to the fair value measurement of other derivatives, for which the hedge accounting provided for in IAS 39 has not been implemented;
- Euro 23,745 thousand (Euro 6,367 thousand at December 31, 2008) relating to the fair value measurement of interest rate derivatives for which the hedge accounting provided for in IAS 39 was implemented, with reference mainly for Euro 22,806 thousand to the Tyre Segment (Euro 4,992 thousand at December 31, 2008) and Euro 841 thousand (Euro 264 thousand at December 31, 2008) to the Real Estate Segment.

As regards the Tyre Segment, the item mainly includes the measurement of "plain vanilla" interest rate swap derivatives purchased in financial year 2009 and in the previous financial year as protection against rising interest rates on a notional of Euro 675 million. For accounting purposes the hedge accounting provided for in IAS 39 was implemented. During 2009 the amount recognised in net equity was a negative Euro 17,814 thousand (a negative Euro 4,992 thousand at December 31, 2008).

As regards the Real Estate Segment, the item includes the measurement of the "plain vanilla" interest rate collar derivative purchased in 2006 of a notional value of Euro 120 million as protection against increases in interest rates. For accounting purposes, the hedge accounting pursuant to IAS 39 was implemented. This hedge accounting is applied only to the intrinsic value, while the change associated with the time value is recognised in the income statement. In 2009 the amount recognized in net equity is a negative Euro 727 thousand (a negative Euro 2,038 thousand at December 31, 2008), while the amount recognized in the income statement is a positive Euro 150 thousand (a negative Euro 432 thousand at December 31, 2008).

28. Commitments and contingencies

SURETIES

Sureties of a total amount of Euro 157,691 thousand, relating mainly to contractual commitments, were issued by banks and insurance companies in favour of third parties and in the interest of companies of the Pirelli & C. Real Estate Group.

There were also guarantees and confort letters given by the Real Estate Segment in the interest of associates and joint ventures for a total of Euro 99,696 thousand among which the most noteworthy were:
- insurance co-obligations towards third parties of various kinds for a total amount of Euro 7,630 thousand;
- guarantees against loans granted by credit institutions to associates and joint ventures, for a total amount of Euro 36,801 thousand;

- guarantees issued in favour of Hypo Real Estate, the lending bank for the acquisition of the DGAG Group, to cover any tax liabilities associated with the term of the loan. These guarantees entail an exposure for the Group quantified at Euro 25,000 thousand;
- guarantees issued, as part of the transaction for the sale of junior notes relating to a non-performing loan portfolio originating from ex Banco di Sicilia, in the interest of joint ventures in favour of third parties. These guarantees, which are counter-guaranteed by the partner in the iniziative, entail a net exposure for the Group of Euro 25,612 thousand;
- Guarantees issued mainly for the fulfilment by the company International Credit Recovery 8 S.r.l. of the obligation to pay the purchase price of a non-performing loan portfolio for an amount of Euro 3,898 thousand.

PLEDGES ON SECURITIES

Securities of associates and joint ventures of belonging to the Real Estate Segment were lodged as collateral for an amount of Euro 97,415 thousand.

COMMITMENTS FOR PURCHASE OF PROPERTIES

Commitments for purchase of properties relate to:
- the undertaking given by Pirelli & C. Real Estate S.p.A. to purchase a number of properties if they remained unsold by Imser 60 S.r.l., for a maximum amount of Euro 307,383 thousand. The purchase price of these properties is contractually defined as a certain fraction of their market value. This option may be exercised by the counterparty from November 12, 2021 to May 31, 2022;
- the undertaking given by the subsidiary Centrale Immobiliare S.p.A., within the scope of its activity and for a maximum amount of Euro 10,259 thousand, in favour of G.P.I Group to purchase a portfolio of real estate properties, whose amount will be determined on June 30, 2010 on the basis of the trend of the sale activity that the contractual counterparty is carrying out , being understood that the purchase values will be 20% lower than the actual price list applied by the counterparty.

It should also be noted that, under the terms of the joint venture agreement with MSREF, the latter will have the right to exercise a remaining sell option in relation to Pirelli & C. Real Estate S.p.A. with reference to two development projects (Osnabruck and Wiener Platz), for a total amount of Euro 53 million. If the sales have not been made in advance by the joint venture Mistral Real Estate B.V., as planned, and if MSREF exercises this option, Pirelli & C. Real Estate S.p.A. will have a commitment to purchase these properties.

COMMITMENTS FOR PURCHASE PROPERTY, PLANT AND EQUIPMENT

The commitments to purchase property, plant and equipment relate mainly to the Tyre Segment and amount to Euro 128.6 million (Euro 84,4 million at December 31, 2008), mostly regarding companies in Brazil, China and Italy.

COMMITMENTS FOR PURCHASE EQUITY INTERESTS/FUND UNITS

These relate to buy options and concern undertakings given:
- by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. to subscribe units of the Abitare Sociale 1 Fund – a Closed-end Real Estate Ethical Investment Trust Reserved for Qualified Investors, for a total countervalue of Euro 1,913 thousand;
- by Pirelli & C. Real Estate S.p.A. to subscribe, through the investee company Alimede Luxembourg S.à.r.l., units of the Social & Public Initiatives Fund – a Closed-end Speculative real estate investment trust, up to a maximum amount of Euro 7,000 thousand;

— by Pirelli & C. Real Estate S.p.A. to subscribe, through the investee companies Afrodite S.à.r.l. and Artemide S.à.r.l., units of the Diomira Residential Fund – an unlisted closed-end speculative real estate investment trust, up to a maximum amount of Euro 3,164 thousand; by Pirelli & C. Real Estate S.p.A. to subscribe initial units of the B, C and D sub-funds of the Hospitality & Leisure 2 Fund – a closed-end speculative real estate investment trust, for a total amount of Euro 4,500 thousand;
— by Pirelli & C. Real Estate S.p.A. to subscribe initial units of the Pergolesi, Monteverdi and Donizetti funds for a total amount of Euro 4,500 thousand;
— by Pirelli RE Netherlands B.V. to subscribe units of the Vivaldi Fund – a closed-end speculative real estate investment trust, up to a maximum amount of Euro 3,000 thousand;
— by Pirelli & C. Real Estate S.p.A. to make capital grants to the investee company Rinascente/Upim S.r.l. for an amount of Euro 2,000 thousand;
— by Pirelli & C. Real Estate S.p.A. to subscribe further securities originating from the securitisation of the vehicle International Credit Recovery 8 S.r.l. for an amount of Euro 2,460 thousand;
— by Pirelli & C. Real Estate S.p.A. to subscribe, through the investee company Sagrantino B.V., Class C securities held by BNP Paribas for a total countervalue of Euro 1,782 thousand;
— by Pirelli & C. Real Estate S.p.A. to subscribe, through the investee company Sagrantino B.V., Class C securities held by BNP Paribas for a total countervalue of Euro 1,782 thousand;
— by Pirelli Finance (Luxembourg) S.A. to subscribe shares of the company Equinox Two S.c.a., a private equity company specialized in investments in listed and unlisted companies with high growth potential, for a maximum countervalue of Euro 6,288 thousand.

GUARANTEES GIVEN ON THE SALE OF OLIMPIA

On the sale of the equity interest in Olimpia S.p.A. the vendors (Pirelli and Sintonia) remained contractually responsible for all the contingent tax liabilities regarding the years up to the date of sale. The current dispute can be summarised in the following terms.
On December 27, 2006 the Tax Authority served Olimpia S.p.A. with an assessment notice for **2001** regarding the IRAP Regional Business Tax.
More precisely, for this financial year, on the basis of an assumption which was entirely groundless both at the legal level and at the economic level, the Authority had ascertained a non-existent financial revenue on the Bell Bond Loan redeemable with Olivetti shares, with a consequent IRAP tax of Euro 26.5 million, plus a fine of the same amount.
Against this payment order, the company had appealed in administrative and judicial proceedings claiming the non-existence of the taxable amount ascertained.
With a decision on November 25, 2007, the 1st level Tax Commission accepted the Company's appeal, cancelling the above assessment completely.
Subsequently, the Tax Authority appealed this decision.
The Company's arguments against the appeal were filed with the Regional Tax Commission. In the 2nd level judgement on May 29, 2009, these arguments were also accepted.
Although we are not yet sure, it seems that, despite this double undisputable negative judgement, the Tax Authority intends to appeal to the Court of Cassation.

With regard also to the assessment on financial year **2002**, served at the end of 2007, in which Olimpia was referred to as a "shell company", the appeal was heard at the first level on November 18, 2008, obtaining not only a favourable outcome, but also an order for the Tax Authority to pay all the legal costs.
It should be noted that the corporation tax (IRPEG) claimed amounted to Euro 29.3 million, plus fines of the same amount.
Despite such a clear decision, the Tax Authority lodged an appeal, against which we have presented our counterarguments.

Then on December 9, 2008 a second notice of assessment was served, in relation to financial year **2003**, in which Olimpia was again defined as a "shell company".
The relevant corporation tax (IRPEG) amounts to Euro 28.5 million, plus fines of the same amount.
Against this order, which like the previous one is considered completely groundless, the Com-

pany has appealed to the 1st level Tax Commission. Pending the outcome, the Authority, as is normal, issued a provisional order to pay half the tax assessed. Against this order, the Company presented a plea for suspension of the payment, which was accepted at a hearing on 1st July 2009. The Section of the Commission which issued this judgement was subsequently closed, and consequently the dossier was transferred to another Section, before which the merit of the dispute will be discussed.

On December 23, 2009, finally, a third notice of assessment was served, in relation to financial year **2004**, in which Olimpia was obstinately defined as a "shell company".
The relevant amount of IRES tax amounts to Euro 29.6 million, plus fines of the same amount. Against this claim, which is considered like the previous one absolutely groundless, the Company lodged an appeal with the 1st Level Tax Commission.
A decision can reasonably be expected before the end of 2010.
Given that this third dispute is of the same kind as the previous ones, we are confident about the outcome of the judgement, in view of the solidity of the arguments raised by the Company, which is assisted by the same qualified consultants to which the entire dispute has been entrusted.
It should also be noted that, if the Tax Authority, pending judgement, proceeds with the routine provisional demand for half the tax assessed, the company, as for the previous years, will request suspension of the payment until the judgement of merit on the part of the Provincial Tax Commission which – is reasonable to suppose – is likely to confirm the similar orders issued previously.

29. Revenues from sales and services

Revenues from sales and services can be broken down as follows:

(in thousands of euro)

	2009	2008
Revenues from sales of goods	4,142,232	4,342,434
Revenues from services	270,563	304,711
Revenues from construction contracts	49,412	13,030
	4,462,207	**4,660,175**

30. Other income

The item amounts to 174,915 thousand compared with Euro 175,928 thousand in financial year 2008, and includes revenues for rents, fees, royalties, compensation, insurance refunds and other less significant items.
The amount for financial year 2009 includes income from **non-recurring events** of Euro 5,900 thousand relating to the Tyre Segment and to surplus amounts set aside for restructuring carried out in 2008. Financial year 2008 included income of Euro 17,000 thousand relating to the price received by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. for the sale to another asset management company of the management of the Berenice Fund, which in practice represents an advance on the amounts that would accrue as fees in subsequent years. The proportion of the total for the item in financial year 2009 was 3.4% while in 2008 it was 9.7%.

31. Personnel expenses

These can be broken down as follows:

(in thousands of euro)

	2009	2008
Wages and salaries	784,937	851,374
Social security contributions	162,028	173,956
Expenses for severance indemnity and similar costs *	27,510	30,136
Expenses for defined-contribution pension funds	17,247	18,906
Expenses for defined-benefit pension funds	15,258	(2,188)
Expenses for defined-benefit healthcare plans	1,095	1,224
Expenses for seniority bonuses	1,608	782
Expenses for defined-contribution healthcare plans	26,651	23,739
Other expenses	17,398	76,922
	1,053,732	**1,174,851**

* Includes Italian and foreign companies

At December 31, 2009 this item included Euro 18,681 thousand relating to the portion accruing in the year of the long-term bonus scheme for the management, approved by the Board of Directors of Pirelli & C. S.p.A. on April 21, 2009 and destined for approximately 80 senior managers.

As regards the amounts relating to employee severance indemnities, pension funds and defined-benefit healthcare plans, see the comment on the item "Provisions for employee benefits" (Note 23).

The item also includes Euro 58,673 thousand of expenses classified as **non-recurring events** (5.6% of the total item) compared with Euro 132,352 thousand in financial year 2008 (11.3% of the total item). These expenses were mainly: Euro 33,957 thousand for extraordinary voluntary redundancy payments made by the Tyre Segment (Euro 91,100 voluntary redundancy payments in financial year 2008), Euro 6,080 thousand by the Real Estate Segment (Euro 41,252 thousand in 2008) and Euro 18,636 thousand by other Group companies.

32. Amortization, depreciation and impairments

Amortization, depreciation and impairment losses on fixed assets can be broken down as follows:

(in thousands of euro)

	2009	2008
Amortization of intangible assets	9,426	9,938
Depreciation of property, plant and equipment	201,688	198,742
Impairment losses on intangible assets	6,371	105
Impairment losses on property, plant and equipment	13,970	9,770
	231,455	**218,555**

The item includes Euro 8,000 thousand relating to impairment losses associated with restructuring plans implemented by the Tyre Segment, which are classified as non-recurring events. The proportion of the total for the item was 3.5%.

33. Other expenses

The breakdown of this item is as follows:

(in thousands of euro)

	2009	2008
Selling costs	221,852	279,052
Purchases of goods destined for resale	327,562	200,801
Fluids and power	167,683	188,907
Advertising	143,878	148,813
Advice	66,487	95,816
Maintenance	50,579	69,892
Rental and hire	65,836	73,473
Work contracted out	43,187	60,362
Travelling expenses	31,103	41,875
IT expenses	26,850	35,831
Remuneration of key managers	18,171	8,610
Other provisions	80,984	36,129
Duty stamps, duties and local taxes	25,655	27,549
Impairment of receivables	32,145	27,389
Insurance	24,289	26,853
Contract work expenses	29,269	24,149
Leasing instalments	18,276	17,121
Cleaning expenses	11,849	12,127
Security expenses	8,572	12,981
Telephone expenses	9,548	11,681
Other	217,121	288,158
	1,620,896	**1,687,569**

Selling costs mainly include contractual expenses for the signing of sales contracts, shipments and transport on domestic and foreign markets, commissions to agents and sales staff, customs duties, running costs of external warehouses.

Research expenses fell from Euro 156 million in 2008 (3.3% of net sales) to Euro 137 million in 2009 (3.1% of net sales). They were accounted for in the income statement as the requisites laid down by the IFRSs for their capitalization were not fulfilled.

The item includes **expenses for non-recurring events** of Euro 18,826 thousand (1.2% of the total) relating to restructuring plans implemented by certain companies in the Real Estate Group (Euro 10,032 thousand included in fees to key management personnel). In the previous year the item included Euro 4,764 thousand (0.3% of the total) also relating to restructuring plans implemented by the Tyre Segment (Euro 1,800 thousand) and by the Real Estate Segment (Euro 2,964 thousand).

34. Net income from equity investments

34.1 SHARE OF NET INCOME OF ASSOCIATES AND JOINT VENTURES

The share of earnings (losses) of associates and joint ventures measured with the net equity method was a negative Euro 61,160 thousand compared with a negative amount of Euro 175,677 thousand in financial year 2008; both amounts relate mainly to the Real Estate segment and include, among other things, changes in the value of the property portfolios held.

In this regard it is important to note that the consolidated net income for financial year 2009 includes a pro-rata net negative effect attributable to the Pirelli & C. Real Estate Group of Euro 23.5 million deriving from real estate value adjustments.
In particular the Pirelli & C. Real Estate Group benefits from a pro-rata positive effect of Euro 67.4 million deriving from the adjustment to fair value of "Real estate investments" held by associates and joint ventures, as a result of the formalization of the strategy already announced for most of the residential properties in Germany and for selected assets in Italy, which are expected to be kept in the portfolio in the medium term (hold strategy). The amount for revaluations is however more than offset by devaluations of other portfolios of Euro 98.8 million.

34.2 GAINS ON EQUITY INVESTMENTS

The breakdown of this item is as follows:

(in thousands of euro)

	2009	2008
Gains on disposal of available-for-sale financial assets	15,572	6,855
Gains on sale of equity investments in Group companies	13,517	21,391
Gains on purchase of minorities	4,335	27,300
	33,424	**55,546**

The item **gains on disposal of available-for-sale financial assets** for financial year 2009 relates mainly to the gain realized on the sale of the interests held in Alcatel-Lucent Submarine Networks (Euro 11,195 thousand) and to the gain realized on the sale of the Telecom Italia S.p.A. shares held directly and indirectly by Pirelli & C. S.p.A. (Euro 2,251 thousand).
In 2008 the item included mainly Euro 5,584 thousand relating to the sale of the units of Berenice Fondo Uffici – a closed-end Real Estate Fund held by the subsidiary Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. and Euro 1,151 thousand relating to the sale of the shares in Intek S.p.A. by the parent company Pirelli & C. S.p.A..

The item **gains on disposal of equity investments in Group companies** in financial year 2009 relates mainly to the sale of a minority interest of 20% in Pirelli Real Estate Credit Servicing S.p.A. (Euro 1,684 thousand) and of a minority interest of 10% in Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. (Euro 11,658 thousand).
The amount for 2008 included Euro 21,391 thousand for the release of provisions set aside on the sale of a stake in Pirelli Tyre S.p.A. following the purchase in financial year 2008 of all minority interests.

The item **capital gains on purchase of minorities** relates mainly to the Tyre segment for the capital gain of Euro 3,366 thousand realized as the difference between the purchase price of the minority interests in Turkey and the corresponding net equity determined in accordance with the Group's accounting policies (Euro 27,300 thousand in financial year 2008).

34.3 LOSSES ON EQUITY INVESTMENTS

The breakdown of this item is as follows:

(in thousands of euro)

	2009	2008
Losses on disposal of available-for-sale financial assets	80	4,809
Impairment of equity investments in associates and joint ventures	16,000	74,421
Impairment of available-for-sale financial assets	20,620	200,841
Measurement of financial assets at fair value through profit or loss	-	1,616
	36,700	**281,687**

The item l**osses on disposal of available-for-sale financial assets** in financial year 2008 relates to the sale of 5,000,000 Telecom Italia S.p.A. shares.

The item **impairment of equity investments in associates and joint ventures** relates exclusively to the equity investment held in CyOptics Inc. by the parent company Pirelli & C. S.p.A., while in 2008 the amount of Euro 74,421 thousand related for Euro 65.721 thousand to RCS MediaGroup S.p.A. and for Euro 8,700 thousand to CyOptics Inc.

The item **impairment of available-for-sale financial assets** in financial year 2009 includes chiefly the impairment loss recognized in the interim financial report on the equity investment in Telecom Italia S.p.A. (Euro 19,754 thousand) which, net of the gain arising on disposal (Euro 2,251 thousand, included in "Income from equity investments"), brought a net loss of Euro 17,503 thousand.
In 2008 the item included Euro 197,339 thousand for impairment losses in listed companies (in particular in Telecom Italia S.p.A. for Euro 173,004 thousand and in Oclaro – formerly Avanex Corporation for Euro 24,335 thousand) as well as the impairment loss in other unlisted companies of Euro 3,502 thousand.

34.4 DIVIDENDS

The amount of Euro 7,701 thousand for 2009 relates mainly for Euro 6,196 thousand to Telecom Italia S.p.A., for Euro 202 thousand to Gruppo Banca Leonardo S.p.A. and for Euro 252 thousand to Vittoria Capital N.V..

In financial year 2008 the amount of Euro 35,325 thousand related mainly for Euro 14,569 thousand to Telecom Italia S.p.A., for Euro 9,752 thousand to Mediobanca S.p.A., for Euro 4,300 thousand to RCS MediaGroup S.p.A., for Euro 1,269 thousand to Fin. Priv. S.r.l., for Euro 278 thousand to Gruppo Banca Leonardo S.p.A. and for Euro 154 thousand to Intek S.p.A..

35. Financial income

Financial income can be broken down as follows:

(in thousands of euro)

	2009	2008
Interest	50,058	81,957
Other financial income	14,219	15,280
Gains on exchange rates	308,334	420,497
Measurement of currency derivatives	-	4,821
Measurement of other derivative instruments	339	2,054
	372,950	**524,609**

Gains on foreign exchange include the adjustment to the end-of-year exchange rates of items expressed in currencies other than the functional currency still in being at the reporting date and gains made on items closed during the year.

36. Financial expenses

These can be broken down as follows:

(in thousands of euro)

	2009	2008
Interest to banks	73,880	106,500
Other financial expenses	50,337	41,908
Losses on exchange rates	290,532	450,235
Measurement at fair value of securities held for trading	886	6,055
Measurement at fair value of currency derivatives	42,669	-
	458,304	**604,698**

Other financial expenses mainly include the negative value adjustment of junior notes of the Real Estate segment, classified in the item "Other financial assets", the value adjustment of the investment in Rinascente/Upim, which was considered an "asset held for sale", as indicated in Note 10 above "Investments in associates and joint ventures" and the loss on the net monetary position consequent to the adoption of inflation accounting in Pirelli de Venuezuela C.A. (see also Note 41).

Losses on foreign exchange include the adjustment to the end-of-year exchange rates of items expressed in currencies other than the functional currency still in being at the reporting date and losses made on items closed during the year.

The item **measurement at fair value of currency derivatives** relates to transactions for the purchase/sale of forward currencies to hedge commercial and financial transactions. For transactions open at the end of the year, the fair value is determined using the forward exchange rate at the reporting date.

Measurement at fair value is made up of two elements: the interest component linked to the interest rate spread between the two currencies subject to the individual hedges, a net hedging cost of Euro 22,650 thousand, and the exchange rate component, a net loss of Euro 20,019 thousand.
Comparing the latter with the exchange differences on items in foreign currencies, a net gain of Euro 17,802 thousand (exchange losses of Euro 290,532 thousand and exchange gains of Euro 308,334 thousand, included in financial income), it can be seen that the management of exchange rate risk is essentially balanced.

37. Income taxes

Taxes for the year consisted of the following:

(in thousands of euro)

	2009	2008
Current taxes	98,683	86,557
Deferred taxes	(786)	(13,937)
	97,897	**72,620**

Reconciliation between theoretical taxes and effective taxes is presented below:

(in thousands of euro)

	2009	2008
Income/(loss) before income taxes	75,311	(403,327)
Net income from discontinued operations	-	63,421
Reversal of net income from discontinued operations (*)	61,160	175,677
Total Taxable Income	**136,471**	**(164,229)**
Theoretical taxes	**50,177**	**(33,528)**
Main causes that give rise to changes between theoretical and effective taxes:	-	-
Income not subject to taxation	(34,935)	(87,214)
Non-deductible costs	65,094	119,236
Utilization of retained losses	(20,782)	(31,513)
Unrecognized deferred tax assets	26,676	60,812
Other	11,667	44,827
	97,897	**72,620**

The Group's effective tax burden for 2009 (of Euro 97.8 million) is attributable for the most part to taxes payable by the Tyre Segment (of Euro 89.9 million) for the positive taxable incomes of its associates.
It also reflects the presence of taxes not related to income components, among which IRAP (Regional Business Tax) on employment expenses and the non-recognition of deferred tax assets on tax losses, mainly in relation to companies in the Real Estate Segment.
The amount of taxes includes, finally, accounting by Pirelli & C. S.p.A. for the positive effects deriving from the option for domestic tax consolidation.
The Group's theoretical tax burden is calculated taking into account the nominal tax rates of the countries in which the main Group companies operate, as shown below:

	2009	2008
EUROPE		
Italy	31.40%	31.40%
Spain	30.00%	30.00%
Germany	29.44%	29.51%
Great Britain	28.50%	28.50%
Turkey	20.00%	20.00%
NORTH AMERICA		
USA	40.00%	40.00%
SOUTH AMERICA		
Argentina	35.00%	35.00%
Brazil	34.00%	34.00%
Venezuela	34.00%	34.00%

38. Net income from discontinued operations

The amount for financial year 2008 relates to the Integrated Facility Management business of Pirelli Real Estate and to the Photonics business, which were disposed of in 2008.

39. Earnings /(losses) per share

Basic earnings/(losses) per share are given by the ratio between net income (loss) attributable to equity holders of the Parent Company (adjusted to take into account the minimum dividend destined for savings shares) and the weighted average of the number of ordinary shares outstanding during the period, with the exclusion of treasury shares.

	2009	2008
Net income for the period from continuing operations attributable to equity holders of the Parent	22.7	(378.5)
Net income attributable to savings shares considering the 2% supplement	(0.6)	9.0
Adjusted net income for the period from continuing operations attributable to equity holders of the Parent	22.2	(369.5)
Weighted average number of ordinary shares outstanding (in thousands)	5,229,275	5,230,244
Basic earnings per ordinary share from continuing operations (in euro per thousand shares)	**4.24**	**(70.65)**
Net income for the period from discontinued operations attributable to equity holders of the Parent	-	31.0
Net income attributable to savings shares considering the 2% supplement	-	(1.0)
Net income for the period from discontinued operations attributable to equity holders of the Parent	-	30.0
Weighted average number of ordinary shares outstanding (in thousands)	5,229,275	5,230,244
Basic earnings per ordinary share from discontinued operations (in euro per thousand shares)	**-**	**5.74**

Diluted earnings/(losses) per share were not calculated, as the Company, both at December 31, 2009 and at December 31, 2008, has only one category of potential ordinary shares with a dilutive effect: those deriving from stock option plans but which, taking into account that the exercise price is higher than the market value, were not considered exercisable.

40. Dividends per share

In the year 2009, Pirelli & C. S.p.A. did not distribute dividends to its shareholders in respect of the year ended December 31, 2008. In the year 2008, Pirelli & C. S.p.A. paid dividends based on 2007 earnings to its shareholders equal to Euro 0.0160 per each 5,230,524,503 ordinary shares (excluding treasury shares) and Euro 0.0728 per each 130,272,660 savings shares (excluding treasury shares). Total dividends paid out amounted to Euro 93.2 million.

A dividend in respect of the year ended December 31, 2009 of Euro 0.0145 per each 5,229,274,503 ordinary shares (excluding treasury shares) and of Euro 0.0406 per each 130,272,660 savings shares (excluding treasury shares) is to be proposed at the Annual General Meeting on April 20, 2010. Total dividends to be paid out amount to Euro 81.1 million.

41. Hyperinflation

On the basis of the provisions of the Group accounting policies on the criteria of introducing/ending inflation accounting, the subsidiary Pirelli de Venezuela C.A. adopted inflation accounting for the purposes of preparing the consolidated financial statements at December 31,

2009. For this purpose, a blended price index has been used: a consumer price index (IPC) covering only the cities of Caracas and Maracaibo has been used until December 31, 2007; starting from 2008 the Banco Central de Venezuela together with the "Istituto Nazionale di Statistica" started to publish a national consumer price index (NCPI) that covers the entire country and whose calculation is based on December 2007.

Such indexes and the related conversion factors are presented in the table below:

	Index	Conversion factor
December 31, 2006	81.7	2.0047
December 31, 2007	100.0	1.6370
December 31, 2008	130.9	1.2506
December 31, 2009	163.7	1.0000

The losses on the net monetary position are recognized in the income statement under the item "Financial expenses" (Note 36) for an amount of Euro 6,495 thousand.

42. Related party transactions

Related party transactions, including intragroup transactions, are neither unusual nor exceptional, but are part of the ordinary course of business of the Group companies. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted on terms in line with those of the market.
The statement below shows a summary of the balance sheet and income statement items that include transactions with related parties and their percentage impact:

(in thousands of euro)

	Total in financial statements at 12/31/2009	of which related parties	% proportion	Total in financial statements at 12/31/2008	of which related parties	% proportion
BALANCE SHEET						
Non-current assets						
Other receivables	557.2	395.2	70.9%	701.7	565.2	80.5%
Current assets						
Trade receivables	735.8	91.5	12.4%	788.0	77.1	9.8%
Other receivables	197.1	19.1	9.7%	240.0	23.9	10.0%
Non-current liabilities						
Other payables	34.0	2.6	7.7%	48.5	-	0.0%
Current liabilities						
Borrowings from banks and other lenders	289.3	2.5	0.9%	695.6	5.2	0.7%
Trade payables	987.9	24.1	2.4%	1,108.6	23.8	2.2%
Other payables	491.0	10.8	2.2%	482.4	7.7	1.6%
Provisions for liabilities and charges	130.8	3.3	2.5%	135.7	48.7	35.9%
Tax payables	43.9	1.1	2.5%	44.0	1.1	2.4%
INCOME STATEMENT						
Revenues from services rendered	4,462.2	154.6	3.5%	4,660.2	138.1	3.0%
Personnel expenses	(1,053.7)	(12.7)	1.2%	(1,174.9)	(3.1)	0.3%
Other expenses	(1,620.9)	(37.1)	2.3%	(1,687.6)	(42.9)	2.5%
Financial income	373.0	30.4	8.1%	524.6	34.1	6.5%
Financial expenses	(458.3)	(10.9)	2.4%	(604.7)	(0.2)	0.0%

The effects of related party transactions on the consolidated income statement and balance sheet of the Pirelli & C. Group at December 31, 2009 are shown below.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES:

(in millions of euro)

Revenues from sales and services	153.2	These refer essentially to mandates signed with associates and joint ventures of the Real Estate group relating to fund and asset management and technical and commercial services.
Other expenses	8.5	These mainly refer to amounts of various kinds recharged to Pirelli & C. Real Estate, including consortium expenses.
Financial income	30.4	This mainly includes interest income relating to financial receivables from associates and joint ventures of Pirelli & C. Real Estate.
Financial expenses	10.9	
Current trade receivables	89.8	These are mainly receivables for services rendered to associates and joint ventures of Pirelli & C. Real Estate.
Non-current other receivables	0.9	
Non-current financial receivables	394.3	These mainly refer to loans made for real estate developments managed by the individual companies of the Pirelli & C. Real Estate Group.
Current other receivables	8.5	These refer to Pirelli & C. Real Estate and mainly include a receivable to be collected for dividends approved.
Current financial receivables	10.5	These are attributable essentially to current accounts held by new businesses owning real estate assets in Germany.
Current trade payables	21.1	These payables relate mainly to various types of amounts recharged to Pirelli & C. Real Estate.
Current other payables	10.8	These are mainly amounts of various kinds recharged to Pirelli & C. Real Estate companies.
Non-current other payables	2.6	
Current borrowings from banks and other lenders	2.5	These mainly include negative balances on intercompany current accounts of Pirelli & C. Real Estate companies.
Provisions for other liabilities and charges	3.3	These include provisions to cover losses of associates and joint ventures exceeding their carrying amounts.
Current tax payables	1.1	These refer to the payable of Pirelli & C. Real Estate S.p.A. to Trixia S.r.l. for expenses arising from the latter's participation in the fiscal transparency regime pursuant to Art. 115 of the Consolidated Income Tax Act (TUIR), on the basis of which shareholders are responsible for the taxable income or loss of the company.

TRANSACTIONS WITH PARTIES RELATED TO PIRELLI THROUGH DIRECTORS

(in millions of euro)

Revenues from sales and services	1.5	These refer to services rendered by Pirelli & C. Real Estate S.p.A. and Pirelli & C. S.p.A. to the Camfin group.
Other expenses	10.5	Expenses for the sponsorship of F.C. Internazionale Milano S.p.A..
Current trade receivables	1.7	Receivables connected with the aforementioned services rendered to Camfin.
Current other receivables	0.1	
Current trade payables	3.0	Payables connected with the sponsorship expenses as above.

The subsidiary Centrale Immobiliare has undertaken a given of unsold withdrawal with G.P.I. Group, wich is better described in the section commitments and contingencies (note 28).

BENEFITS FOR KEY MANAGERS OF THE COMPANY

At December 31, 2009, fees payable to key managers, that is to those who have the power and responsibility, directly or indirectly, for planning, management and control of the business of Pirelli & C. S.p.A., including executive and non-executive directors amounted to Euro 30,870 thousand (Euro 11,707 thousand at December 31, 2008). The portion relating to employee benefits was recognized in the income statement item "personnel expenses" for Euro 12,699 thou-

sand of which Euro 492 thousand relating to provisions for severance indemnities (Euro 3,097 thousand in 2008 of which Euro 608 thousand relating to severance indemnities) and for Euro 18,171 thousand in the income statement item "other expenses" (Euro 8,610 thousand in 2008).
In relation to the position held and in accordance with the legal provisions, in addition to the component of Retirement Benefit (equivalent to Severance Indemnity and included in the amount mentioned in the previous paragraph), the Chairman of Pirelli & C. S.p.A. was granted in the past a portion of Retirement Benefit pursuant to Article 17 (1), letter c) of Presidential Decree 917/1986 (the Combined Act on Income Taxes), payable from the 62nd birthday or prior death, deriving from policies with a leading insurance company, with a premium paid by the Company. This premium was equal to the amounts which would have been payable by the company to Social Security Institutions or Pension Funds if the interested party had been an executive of the company.

43. Significant events subsequent to the end of the period

On **January 19, 2010** the Pirelli & C. S.p.A. Block Shareholders Agreement was renewed, with expiry on April 15, 2013. All the parties to the agreement had signalled their intention to renew the agreement by January 15, 2010, the contractual deadline for any withdrawals.

44. Other information

REMUNERATION OF DIRECTORS AND STATUTORY AUDITORS

Fees paid to directors and statutory auditors of Pirelli & C. S.p.A. for the performance of their duties also in other companies included in the consolidation scope were as follows:

(in thousands of euro)

	2009	**2008**
Directors	20,263	8,840
Statutory Auditors	129	157
	20,392	**8,997**

EMPLOYEES

The average number, divided by category, of employees of companies included in the consolidation scope is as follows:

	2009	**2008**
Executives and Clerical Staff	6,941	7,808
Factory workers	20,242	20,254
Temporary workers	2,382	3,438
	29,565	**31,500**

REMUNERATION OF INDEPENDENT AUDITORS

The statement below, prepared under the terms of Art. 149–duodecies of the Consob issuer regulations, shows the fees accruing to financial year 2009 for auditing services and for services other than auditing, rendered by the auditing firm Reconta Ernst & Young S.p.A. and by entities belonging to its network:

(in thousands of euro)

		Partial fees	Total fees	
Independent auditing services	Pirelli & C. S.p.A.	235		
	Subsidiaries	3,379	3,614	79.8%
Attestation services	Pirelli & C. S.p.A.	45		
	Subsidiaries	701	746	16.5%
Tax assistance services	Pirelli & C. S.p.A.	-		
	Subsidiaries	103	103	2.3%
Services other than auditing	Pirelli & C. S.p.A.	31		
	Subsidiaries	32	63	1.4%
			4,526	**100%**

TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL OPERATIONS

Under the terms of Consob Communication of 28 July 2006, it should be specified that in 2009 the Group did not carry out any atypical and/or unusual operations, as defined in the Communication itself.

EXCHANGE RATES

The main exchange rates used for consolidation purposes are as follows:

(local currency against euros)

	End-of-period exchange rates		Change in %	Average exchange rates		Change in %
	12/31/2009	12/31/2008		2009	2008	
British pound	0.8881	0.9525	(6.76%)	0.8910	0.7961	13.94%
Swiss franc	1.4836	1.4850	(0.09%)	1.5101	1.5873	(6.07%)
Slovak koruna	30.1260	30.1260	0.00%	30.1260	31.2771	(4.61%)
US dollar	1.4406	1.3917	3.51%	1.3941	1.4716	(8.41%)
Canadian dollar	1.5128	1.6998	(11.00%)	1.5853	1.5596	2.34%
Brazilian real	2.5084	3.2524	(22.88%)	2.7791	2.7041	8.26%
Venezuelan bolivar	6.1946	2.9922	107.03%	2.9973	3.1640	(8.41%)
Argentinean peso	5.4743	4.8055	13.92%	5.2006	4.6535	9.99%
Australian dollar	1.6008	2.0274	(21.04%)	1.7735	1.7411	6.26%
Chinese renminbi	9.8367	9.4991	3.55%	9.5229	10.2270	(10.41%)
Singapore dollar	2.0194	2.0040	0.77%	2.0238	2.0769	(4.34%)
Egyptian pound	7.8995	7.6544	3.20%	7.7252	7.9888	(5.98%)
Turkish lira	2.1707	2.1511	0.91%	2.1612	1.9062	15.84%

NET FINANCIAL POSITION
(alternative performance measure not envisaged by the accounting standards)

The net financial position is made up as follows:

(in millions of euro)

	12/31/2009		12/31/2008	
		of which related parties		of which related parties
Current borrowings from banks and other lenders	275,926	2,473	676,803	5,209
Current financial accrued liabilities and deferred income	42,977		59,017	
Non-current borrowings from banks and other lenders	1,505,805		1,377,886	
Total gross debt	**1,824,708**		**2,113,706**	
Cash and cash equivalents	(632,113)		(253,905)	
Securities held for trading	(161,024)		(115,800)	
Current financial receivables	(11,281)	(10,456)	(28,562)	(16,948)
Current financial accrued income and prepaid expenses	(5,018)		(31,085)	
Net financial debt *	**1,015,272**		**1,684,354**	
Non-current financial receivables	(485,810)	(394,337)	(652,478)	(564,261)
Non-current financial accrued income and prepaid expenses	(622)		(4,165)	
Total net financial position	**528,840**		**1,027,711**	

* Under the terms of Consob Communication of July 28, 2006 and in conformity with the CESR recommendations of February 10, 2005 - “Recommendations for the consistent implementation of the European Commission’s Regulation on Prospectuses”.

It should be noted that the main events that affected the net financial position are the following:
— revenue from the sale of Telecom Italia S.p.A. shares (Euro 130 million)
— capital increase of Pirelli Real Estate subscribed by minorities (Euro 167 million)
— positive operating cash flow of the Tyre segment.

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

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarters	Share	Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Vienna	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Bulgaria						
Pirelli RE Bulgaria AD	Real Estate	Sofia	Bgn	50,000	75.00%	Pirelli RE Netherlands B.V.
France						
Gecam France S.a.S	Sustainable mobility	Villepinte	Euro	130,205	70.00%	Pirelli & C. Eco Technology S.p.A.
Pirelli Broadband Solutions France S.a.r.l.	Telecommunications	Villepinte	Euro	10,000	100.00%	Pirelli Broadband Solutions S.p.A.
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Germany						
BauBeCon Treuhand GmbH	Real Estate	Hannover	Euro	530,000	100.00%	Pirelli RE Property Management Deutschland GmbH
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
DGAG Beteiligung GmbH & Co. KG	Real Estate	Hamburg	Euro	42,118,445	94.90%	Mistral Real Estate B.V.
DGAG Nordpartner GmbH & Co. KG	Real Estate	Hamburg	Euro	2,760,976	94.00%	Mistral Real Estate B.V.
Drahtcord Saar Geschaeftsfuehrungs GmbH	Tyre	Merzig	Deut. Mark	60,000	50.00%	Pirelli Deutschland GmbH
Drahtcord Saar GmbH & Co. KG	Tyre	Merzig	Deut. Mark	30,000,000	50.00%	Pirelli Deutschland GmbH
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Einkaufszentrum Munzstasse GmbH & Co. KG	Real Estate	Hamburg	Deut. Mark	10,000,000	74.80%	DGAG Beteiligung GmbH & Co. KG
					25.20%	Pirelli & C. Real Estate Deutschland GmbH
PGP Projektentwicklung Goblers Park GmbH & Co. KG	Real Estate	Hamburg	Euro	100,000	94.90%	DGAG Nordpartner GmbH & Co. KG
					5.10%	VGP Verwaltung Goblers Park GmbH
Pirelli & C. Real Estate Deutschland GmbH	Real Estate	Hamburg	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	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Asset Management Deutschland GmbH	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Development Deutschland GmbH	Real Estate	Hamburg	Euro	153,400	100.00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Facility Management Deutschland GmbH	Real Estate	Hamburg	Euro	25,600	100.00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Hausmeister Service Deutschland GmbH	Real Estate	Kiel	Euro	25,000	100.00%	Pirelli RE Facility Management Deutschland GmbH
Pirelli RE Management Services Deutschland GmbH	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland GmbH

Company	Business	Headquarters	Share	Capital	% holding	Held by
Pirelli RE Property Management Deutschland GmbH	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Residential Investments GmbH	Real Estate	Hamburg	Euro	570,000	100.00%	Pirelli & C. Real Estate S.p.A.
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pneumobil GmbH	Tyre	Breuberg	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Projekt Bahnhof Hamburg-Altona Verwaltungs GmbH	Real Estate	Hamburg	Euro	25,000	100.00%	Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG
Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	Real Estate	Hamburg	Euro	8,000,000	74.90%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung Einkaufszentrum Munzstasse GmbH	Real Estate	Hamburg	Deut. Mark	50,000	74.80%	DGAG Beteiligung GmbH & Co. KG
					25.20%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung Grundstücksgesellschaft Friedenstrasse Wohnungsbau mbH	Real Estate	Hamburg	Euro	26,100	100.00%	DGAG Beteiligung GmbH & Co. KG
VGP Verwaltung Goblers Park GmbH	Real Estate	Hamburg	Euro	25,000	100.00%	DGAG Beteiligung GmbH & Co. KG
Greece						
Elastika Pirelli S.A.	Tyre	Athens	Euro	1,192,000	99.90%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
					0.10%	Pirelli Tyre S.p.A
Pirelli Hellas S.A. (in liquidation)	Sundry	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The experts in wheels – Driver hellas S.A. of marketing and trading and supply of services of development, promotion and strategic organization of network in tires and spare parts	Tyre	Athens	Euro	100,000	72.00%	Elastika Pirelli S.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US $	7,150,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Italy						
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.
Bosco Solar S.r.l.	Enviroment	Milan	Euro	30,000	100.00%	Solar Prometheus S.r.l.
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	Milan	Euro	20,110,324	100.00%	Pirelli & C. Real Estate S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	350,000	72.37%	Pirelli Tyre S.p.A
Edilnord Gestioni S.r.l.	Real Estate	Milan	Euro	100,000	100.00%	Pirelli & C. Real Estate S.p.A.
Elle Uno Società Consortile a r.l. (in liquidation)	Real Estate	Milan	Euro	100,000	100.00%	Edilnord Gestioni S.r.l. (in liquidation)
EPRE S.r.l.	Enviroment	Milan	Euro	10,000	100.00%	Solar Utility S.p.A.
Geolidro S.p.A.	Real Estate	Napoli	Euro	3,099,096	100.00%	Centrale Immobiliare S.p.A.
Giova Solar S.r.l.	Enviroment	Milan	Euro	65,000	100.00%	Solar Prometheus S.r.l.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Green&Co2 S.r.l.	Enviroment	Milan	Euro	10,000	100.00%	Pirelli & C. Ambiente S.p.A.
IESS Pachino S.r.l.	Enviroment	Rome	Euro	10,000	85.00%	Solar Utility 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.
Lux Solar S.r.l.	Enviroment	Milan	Euro	10,000	100.00%	Solar Prometheus S.r.l.
Maristel S.p.A.	Telecommunications	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 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.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro	104,000	100.00%	Pirelli & C. Real Estate S.p.A.
Parcheggi Bicocca S.r.l.	Real Estate	Milan	Euro	1,500,000	100.00%	Pirelli & C. Real Estate S.p.A.
P.A. Società di Gestione del Risparmio S.p.A.	Financial	Milan	Euro	2,000,000	100.00%	Pirelli & C. Ambiente 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.
Perseo S.r.l.	Services	Milan	Euro	20,000	100.00%	Pirelli & C. 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.	Sustainable mobility	Milan	Euro	33,120,000	51.00%	Pirelli & C. S.p.A.
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro	1,000,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Finance S.p.A.	Real Estate	Milan	Euro	120,000	100.00%	Pirelli & C. Real Estate Agency 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	420,585,889	57.99%	Pirelli & C. S.p.A.
					0.14%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	24,558,763	90.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Valuations & e-Services S.p.A. (ex-Casaclick S.p.A.)	Real Estate	Milan	Euro	299,000	100.00%	Pirelli & C. Real Estate Agency S.p.A.
Pirelli Broadband Solutions S.p.A.	Telecommunications	Milan	Euro	9,120,000	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 Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	31,000,000	100.00%	Pirelli Tyre S.p.A
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	5,000,000	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	7,500,000	80.00%	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	100.00%	Pirelli & C. S.p.A.
Progetto Vallata S.r.l.	Real Estate	Milan	Euro	1,500,000	80.00%	Pirelli & C. Real Estate S.p.A.
PZero S.r.l.	Sundry	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Sarca 222 S.r.l. (in liquidation)	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.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	89.30%	Pirelli & C. S.p.A.
					2.00%	Pirelli Tyre S.p.A
					2.00%	Pirelli & C. Real Estate S.p.A.
					1.00%	Pirelli & C. Ambiente S.p.A.
					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 Sistemi Informativi S.r.l.
					0.95%	PZero S.r.l.
					0.95%	Pirelli & C. Eco Technology S.p.A.
SIB S.r.l.	Real Estate	Milan	Euro	10,100	100.00%	Pirelli RE Credit Servicing S.p.A.
Solar Prometheus S.r.l.	Enviroment	Milan	Euro	200,000	60.00%	Solar Utility S.p.A.
Solar Utility S.p.A.	Enviroment	Milan	Euro	14,000,000	100.00%	Pirelli & C. Ambiente S.p.A.
Solar Utility Salento S.r.l.	Enviroment	Milan	Euro	10,000	100.00%	Solar Utility S.p.A.
Solar Utility Sicilia S.r.l.	Enviroment	Milan	Euro	10,000	100.00%	Solar Utility S.p.A.
Valle Solar S.r.l.	Enviroment	Milan	Euro	20,000	100.00%	Solar Prometheus S.r.l.
Tau S.r.l. (in liquidation)	Real Estate	Milan	Euro	93,600	100.00%	Orione Immobiliare Prima S.p.A.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	13,594,910	100.00%	Pirelli & C. S.p.A.
Sigma RE S.à.r.l.	Real Estate	Luxembourg	Euro	12,500	100.00%	Pirelli RE Netherlands B.V.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100,000	64.50%	Pirelli Polska Sp.ZO.O.
Pirelli Pekao Real Estate Sp.ZO.O.	Real Estate	Warsaw	Pol. Zloty	35,430,000	75.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Romania						
S.C. Pirelli & C. Eco Technology RO S.R.L.	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	75,000,000	100.00%	Pirelli & C. Eco Technology S.p.A.
Pirelli RE Romania S.A.	Real Estate	Bucarest	Rom. Leu	100,000	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	442,169,800	95.00%	Pirelli Tyre Holland N.V.
					5.00%	Pirelli Tyre S.p.A
Russia						
OOO Pirelli Tyre Russia	Commercial	Moscow	Rubli	50,485,259	95.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
					5.00%	Pirelli Tyre Holland N.V.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,638,78	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	831,000	24.91%	Pirelli Neumaticos S.A.
					25.99%	Proneus S.L.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A.
Pirelli Iniciativas Tecnologicas S.L.	Tyre	Barcelona	Euro	10,000	100.00%	Pirelli Neumaticos S.A.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	25,075,907	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	Corona Sve.	950,000	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)

Company	Business	Headquarters	Share	Capital	% holding	Held by
Switzerland						
Agom S.A.	Tyre	Conthey	Fr. Sv.	50,000	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Agom S.A. Bioggio	Tyre	Bioggio	Fr. Sv.	590,000	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Pirelli Société Générale S.A.	Financial	Basilea	Fr. Sv.	28,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)	Tyre	Basilea	Fr. Sv.	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.
Mistral Real Estate B.V. (Tracking Share)	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli & C. Real Estate S.p.A.
Mistral Real Estate B.V. (Tracking Shares Glosslers Park)	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	38,045,000	100.00%	Pirelli Tyre Holland N.V.
Pirelli Holding N.V.	Holding	Heinenoord	Euro	60,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli RE Netherlands B.V.	Real Estate	Amsterdam	Euro	21,000	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 (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Sipir Finance N.V.	Financial	Heinenoord	Euro	13,021,222	100.00%	Pirelli & C. S.p.A.
Turkey						
Celikord A.S.	Tyre	Istanbul	Turkish Lira	29,000,000	98.73%	Pirelli Tyre Holland N.V.
					0.63%	Pirelli UK Tyre Holding Ltd
					0.37%	Pirelli UK Tyre Ltd
					0.27%	Pirelli Tyre S.p.A
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkish Lira	140,000,000	99.84%	Pirelli Tyre Holland N.V.
					0.15%	Pirelli Tyre S.p.A
					0.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
United Kingdom						
CPK Auto Products Ltd	Tyre	Burton on Trent	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	Burton on Trent	British Pound	984	100.00%	CTC 2008 Ltd
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres 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	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli UK Ltd	Holding Financial	London	British Pound	97,161,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyre Holding Ltd	Holding	London	British Pound	96,331,000	100.00%	Pirelli Tyre Holland N.V.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	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	Fredericton (New Brunswich)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
U.S.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.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Central/South America						
Argentina						
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
Pirelli Soluciones Tecnologicas S.A.	Telecommunications	Buenos Aires	Arg. Peso	1,283,070	95.00%	Pirelli Broadband Solution S.p.A.
					5.00%	Pirelli & C. S.p.A.
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	12,913,526	100.00%	Pirelli Pneus Ltda
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Tyre	Santo Andrè	Bra. Real	84,784,342	100.00%	Pirelli Pneus Ltda
Pirelli Broadband Solutions Soluçoes em Telecomunicaçoes Ltda (ex-Pirelli & C. Real Estate Ltda)	Telecommunications	Santo Andrè	Bra. Real	2,000,000	100.00%	Pirelli Broadband Solutions S.p.A.
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	28,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Feira de Santana	Bra. Real	341,145,811	100.00%	Pirelli Tyre S.p.A
TLM - Total Logistic Management Serviços de Logistica Ltda	Holding	Santo Andrè	Bra. Real	1,006,000	99.98%	Pirelli Pneus Ltda
					0.02%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso/000	1,918,451	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3,315,069	92.91%	Pirelli Pneus Ltda
					2.28%	Pirelli de Venezuela C.A.
					1.60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
					1.60%	TLM - Total Logistic Management Serviços de Logistica Ltda
					1.60%	Comercial e Importadora de Pneus Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso.	35,098,400	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso.	50,000	99.00%	Pirelli Pneus Ltda
					1.00%	Comercial e Importadora de Pneus Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre Holland N.V.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393,000,000	89.08%	Pirelli Tyre S.p.A
					0.03%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50,000	99.80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	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	1,041,150,000	75.00%	Pirelli China Tyre N.V.
Yanzhou Hixih Ecotech Environment CO. Ltd	Sustainable mobility	Yanzhou	China Renmimbi	130,000,000	60.00%	Pirelli & C. Eco Technology S.p.A.
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 (Suisse) SA (ex-Pirelli Tyre (Europe) S.A.)

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Company	Business	Headquarters	Share	Capital	% holding	Held by
Europe						
Germany						
Beteiligungsgesellschaft Einkaufszentrum Mülheim GmbH	Real Estate	Hamburg	Deut. Mark	60,000	41.17%	Pirelli & C. Real Estate Deutschland GmbH
City Center Mülheim Grundstücksgesellschaft mbH & Co. KG	Real Estate	Hamburg	Euro	47,805,791	41.17%	Pirelli & C. Real Estate Deutschland GmbH
Einkaufszentrum Mülheim GmbH & Co. KG	Real Estate	Hamburg	Euro	26,075,856	41.18%	Pirelli & C. Real Estate Deutschland GmbH
Grundstücksgesellschaft Konigstrasse mbH & Co. KG	Real Estate	Hamburg	Euro	1,024,629	44.90%	DGAG Beteiligung GmbH & Co. KG
					5.10%	Verwaltung Grundstücksgesellschaft Friedenstrasse Wohnungsbau mbH
Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	Real Estate	Hamburg	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 Grundstücksgesellschaft mbH & Co. KG	Real Estate	Hamburg	Euro	6,237,761	50.00%	Pirelli & C. Real Estate Deutschland GmbH
Projektentwicklung Blankenese Bahnhofsplatz GmbH & Co. KG	Real Estate	Hamburg	Euro	5,200,000	50.00%	DGAG Nordpartner GmbH & Co. KG
Projektentwicklungsges-ellschaft Bahnhofsgebaude Blankenese mbH & Co. KG	Real Estate	Hamburg	Euro	10,000	47.40%	DGAG Nordpartner GmbH & Co. KG
					5.20%	Verwaltung Blankenese Bahnhofsplatz GmbH
Resident Berlin 1 P&K GmbH	Real Estate	Berlin	Euro	125,000	40.00%	Pirelli RE Residential Investments 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 Blankenese Bahnhofsplatz GmbH	Real Estate	Hamburg	Deut. Mark	50,000	100.00%	Projektentwicklung Blankenese Bahnhofsplatz GmbH & Co. KG
Verwaltung Büro - und Lichtspielhaus Hansaallee GmbH	Real Estate	Hamburg	Euro	50,000	27.00%	Pirelli & C. Real Estate Deutschland GmbH
					20.00%	Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG
Verwaltung City Center Mülheim Grundstücksgesellschaft mbH	Real Estate	Hamburg	Deut. Mark	60,000	41.17%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung Kurpromenade 12 Timmendorfer Strand Grundstücks gesellschaft mbH & Co. KG	Real Estate	Hamburg	Deut. Mark	50,000	50.00%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbH	Real Estate	Hamburg	Deut. Mark	50,000	44.00%	Pirelli RE Netherlands B.V.
					50.00%	Mistral Real Estate B.V.
Italy						
A.P.I.C.E. - società per azioni	Enviroment	Rome	Euro	200,000	50.00%	Pirelli & C. Ambiente S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro	100,000	34.60%	Pirelli & C. Real Estate S.p.A.
					0.28%	Pirelli & C. S.p.A.
Cairoli Finance S.r.l.	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Castello S.r.l. (in liquidation)	Real Estate	Milan	Euro	1,170,000	49.10%	Pirelli & C. Real Estate S.p.A.
Consorzio G6 Advisor	Real Estate	Milan	Euro	50,000	42.30%	Pirelli & C. Real Estate Agency 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.
Dolcetto sei S.r.l.	Real Estate	Milan	Euro	10,000	50.00%	Pirelli & C. Real Estate S.p.A.
Erice S.r.l. (in liquidation)	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.
Finprema S.p.A.	Real Estate	Milan	Euro	120,000	35.00%	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.
					5.00%	Centrale Immobiliare S.p.A.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro	1,292,500	49.00%	Pirelli & C. Ambiente S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro	40,000	18.00%	Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Milan	Euro	5,000,000	49.46%	Pirelli & C. Real Estate S.p.A.
Localto ReoCo S.r.l. (in liquidation)	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Manifatture Milano S.p.A.	Real Estate	Rome	Euro	11,230,000	50.00%	Pirelli & C. Real Estate S.p.A.
Maro S.r.l. (in liquidation)	Real Estate	Milan	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca la Piazza S.r.l. (in liquidation)	Real Estate	Milan	Euro	3,151,800	26.00%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca Università S.r.l. (in liquidation)	Real Estate	Cinisello Balsamo (Mi)	Euro	50,360	50.50%	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. (in liquidation)	Real Estate	Milan	Euro	100,000	50.00%	Pirelli & C. Real Estate S.p.A.
RCS MediaGroup S.p.A.	Finance Holding Company	Milan	Euro	762,019,050	5.33%	Pirelli & C. S.p.A.
Riva dei Ronchi S.r.l.	Real Estate	Milan	Euro	100,000	50.00%	Pirelli & C. Real Estate S.p.A.
Roca S.r.l. (in liquidation)	Real Estate	Milan	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Serenergy S.r.l.	Enviroment	Milan	Euro	25,500	50.00%	Pirelli & C. Ambiente S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro	20,000	40.00%	Pirelli & C. Real Estate S.p.A.
Tamerice Immobiliare S.r.l.	Real Estate	Milan	Euro	500,000	20.00%	Pirelli & C. Real Estate 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.
Luxemburgo						
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	2,538,953	33.00%	Pirelli & C. Real Estate S.p.A.
IN Holdings I S.à r.l.	Real Estate	Luxembourg	Euro	2,595,725	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	13,000	40.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Trinacria Capital S.à.r.l.	Real Estate	Luxembourg	Euro	12,500	40.00%	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	20,050	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.
Mistral Real Estate B.V.	Real Estate	Amsterdam	Euro	18,000	35.02%	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	47.20%	Pirelli RE Netherlands B.V.
Sigma RE B.V.	Real Estate	Amsterdam	Euro	18,000	24.66%	Pirelli RE Netherlands B.V.
SI Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	763,077	25.00%	Pirelli & C. Real Estate S.p.A.
Spazio Investment N.V.	Real Estate	Amsterdam	Euro	6,096,020	22.07%	Pirelli RE Netherlands B.V.
					0.23%	Spazio Investment N.V.
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.
CyOptics Inc.	Fotonica	Wilmington	US $	629,392,744	34.52%	Pirelli & C. S.p.A.
South America						
Argentina						
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Services	Buenos Aires	Arg. Peso	12,000	20.00%	Pirelli Soluciones Tecnologicas S.A.

OTHER INVESTMENTS CONSIDERED SIGNIFICANT AS PER CONSOB RESOLUTION NO. 11971 OF MAY 14,1999

Company	Business	Headquarters	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						
WoWiMedia GmbH & Co. KG	Real Estate	Hamburg	Euro	2,500,000	18.85%	Pirelli RE Netherlands B.V.
AVW Assekuranzvermittlung der Wohnungswirtschaft GmbH & Co. KG	Real Estate	Hamburg	Euro	260,000	10.50%	Pirelli RE Netherlands B.V.
					0.20%	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 Organizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
Tunisia						
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Dinaro Tunisi	12,623,472	15.83%	Pirelli Tyre S.p.A
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,204	10.39%	Pirelli Finance (Luxembourg) S.A.
U.S.A.						
Oclaro Inc.	Telecomunication	Delaware	US $	1,860,209	5.50%	Pirelli Finance (Luxembourg) S.A.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS UNDER THE TERMS OF ART. 154 BIS OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998, AND UNDER THE TERMS OF ART. 81-TER OF CONSOB REGULATION 11971 OF MAY 14, 1999 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The undersigned Marco Tronchetti Provera, in his capacity as Chairman of the Board of Directors, and Francesco Tanzi, in his capacity as Manager Responsible for Corporate Financial Reporting of Pirelli & C. S.p.A. certify, taking into account also the provisions of Art. 154-bis, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for formation of the consolidated financial statements, during the period January 1, 2009 – December 31, 2009.

2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for formation of the consolidated financial statements for the year ended December 31, 2009 was evaluated on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO) which is a reference framework generally accepted at the international level.

3. We also certify that:

3.1. the consolidated financial statements:
a) were prepared in accordance with the applicable international accounting standards recognized in the European Union under the terms of Regulation (EC) N° 1606/2002 of the European Parliament and Council, of July 19, 2002;
b) correspond to the information in the accounting books and documents;
c) are capable of providing a true and correct picture of the assets, liabilities, income, expenses and financial position of the reporting entity and of the group of companies included in the consolidation.

3.2. The report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity and of the group of companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

March 10, 2010

The Chairman of the Board of Directors	The Manager Responsible for Financial Reporting
Marco Tronchetti Provera	Francesco Tanzi

Independent auditors' report

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Independent auditors' report
pursuant to Article 156 of Legislative Decree No. 58 of February 24, 1998
(Translation from the original Italian text)

To the Shareholders
of Pirelli & C. S.p.A.

1. We have audited the consolidated financial statements of Pirelli & C. S.p.A. and its subsidiaries (the "Pirelli & C. Group") as of and for the year ended December 31, 2009, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these consolidated financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005 is the responsibility of the Pirelli & C. S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   With respect to the comparative data related to the consolidated financial statements of the prior year which have been restated in order to reflect the changes in the presentation of the financial statements introduced by IAS1, reference should be made to our report issued on April 2, 2009.

3. In our opinion, the consolidated financial statements of the Pirelli & C. Group as of December 31, 2009, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005; accordingly, these present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Pirelli & C. Group for the year then ended.

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la CC.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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4. The preparation of the Directors' Report on Operations, in compliance with Italian regulations governing consolidated financial statements, is the responsibility of the management of Pirelli & C. S.p.A.. Our responsibility is to express an opinion on the consistency of the Directors' Report on Operations and the specific section on the corporate governance system and ownership structure, with regards to the information reported in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), with the consolidated financial statements, as required by law. For this purpose, we performed the procedures required by auditing standard No. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Directors' Report on Operations and the information included therein in compliance with art. 123-bis of Italian Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) are consistent with the consolidated financial statements of the Pirelli & C. Group as of December 31, 2009.

Milan, April 2, 2010

Reconta Ernst & Young S.p.A.
signed by: Pellegrino Libroia, Partner

Extraordinary session

Explanatory report drafted by the Directors

pursuant to art. 72, first sub-section, CONSOB Regulation no. 11971 dated 14 May 1999
and subsequent modifications and supplements.

MODIFICATION OF ARTICLES 5 (SHARE CAPITAL), 7 (SHAREHOLDERS' MEETINGS) AND 16 (BOARD OF STATUTORY AUDITORS) OF THE COMPANY BYLAWS; NUMBERING OF THE ARTICLES OF THE COMPANY BYLAWS IN INDIVIDUAL SUB-SECTIONS.

1. THE REASONS FOR PROPOSING MODIFICATIONS TO THE COMPANY BYLAWS.

Shareholders,

We have called this extraordinary meeting to submit for your approval a number of modifications to the Company bylaws.

First of all, I should like to remind you that Legislative Decree no. 27 dated 27 January 2010 containing the "*Implementation of directive 2007/36/EC on the exercise of certain shareholders' rights in listed companies*" was recently approved. The new provisions will be applicable to the shareholders' meetings of listed companies called subsequent to 31 October 2010.
To such purpose, on this occasion, bearing in mind that the regulations implementing a number of the provisions contained in the aforementioned decree are still being drafted by CONSOB, we would like to propose solely the modification of sub-section 4 of article 7 of the company Bylaws in the part where the faculty to call the shareholders' meeting to approve the financial statements - pursuant to article 2364 of the Italian Civil Code - within 180 days of the end of the financial year is not provided for. It should be noted, in relation to this, that Legislative Decree 27/2010, in response to requests from various parties, modifies article 154-*ter* of the CFL, and again permits the meetings of shareholders of listed companies to approve the financial statements to be called within 180 days of the end of the financial year. It should be recalled that article 2364 of the Italian Civil Code was no longer applicable to listed companies after the introduction of article 154-ter of the Consolidated Finance Law (CFL) by legislative decree no. 195/2007, which required these companies to have their statutory and consolidated financial statements approved within 120 days of the end of their financial year.
The proposed modification will once again allow the Company to avail itself of the faculty provided for by article 2364 of the civil code should it so require.
The Board of Directors reserves the right, when the regulatory framework is complete, to subsequently proceed with evaluation of any further modifications to the company bylaws dependent on the provisions of the decree.

We would also like to propose the reduction of the percentage treshold (from 2% to 1.5%) of the share capital required by the Company Bylaws for the presentation of slates for renewal of the Board of Statutory Auditors, in order to further facilitate the presentation of slates by "minorities".

We would then propose that sub-sections 5, 6 and 7 of article 5 (Share Capital) be suppressed, since the powers granted to the directors to proceed with capital increases and issue convertible bonds provided for by said article 5 have reached their expiry date.

Lastly, there is a proposal to number the individual sub-sections composing the articles of the Company Bylaws so as to have a simpler, more immediate method of referring to (and referencing) the single provisions contained in the Company bylaws.

The paragraphs below illustrate in detail the effect of the modifications indicated above on the individual articles of the Company Bylaws.

Article 5 (Share capital)

The purpose of the proposed modifications to article 5 is to delete, due to expiry:

— sub-section 5, concerning the power granted to the directors to increase the share capital against payment, in one or more operations, by a maximum nominal total of 600 million euros, since the last period within which this power could be exercised expired on 10 May 2009;
— sub-section 6, concerning the power granted to directors to issue bonds convertible to both ordinary shares and savings shares, or warrants valid for subscribing said shares, in one or more operations, to a maximum nominal amount of 1 billion euros, within the limits set by the regulations applicable at the time, with a consequent increase in the capital available for the conversion of bonds and/or the exercising of warrants, the latest term for exercising such power having expired on 10 May 2009;

as well as sub-section 7, in as much as related to the powers specified in sub-sections 5 and 6, and which establishes the minimum and optional content of any resolutions for capital increases and for the issue of convertible bonds passed by the Board of Directors in the exercise of said powers.

Article 7 (Shareholders' Meeting)

As indicated above, the only modification proposed to article 7, sub-section 4 relates to the introduction in the Bylaws of the provision by virtue of which the Company may avail itself of the right granted by article 2364 of the Italian Civil Code which allows companies (including listed companies) that are drawing up their consolidated financial statements, or where there are special circumstances, to call the shareholders' meeting within 180 days since the end of the financial year, as opposed to the current 120 days provided for by the company bylaws.

Article 16 (Board of Statutory Auditors)

As regards the modification to the regulations applying to the renewal of the Board of Statutory Auditors, the proposal is to establish that a shareholder alone or togheter with shareholders, representing at least 1.5% of the shares with voting rights in the ordinary shareholders' meeting, may present a slate, or the lesser percentage required by the regulations issued by the National Commission for Companies and the Stock Exchange (CONSOB). In their current version, the Company Bylaws require a threshold of 2% of shares with voting rights in the ordinary shareholders' meeting, or the lesser percentage required by the regulations issued by the National Commission for Companies and the Stock Exchange (CONSOB), set at 2% for the financial year 2010 (see CONSOB Resolution no. 17148 dated 27 January 2010).

Numbering in individual sub-sections of all the articles of the Company bylaws.

The proposal, as stated, is to number the individual sub-sections that make up the articles of the Company bylaws.

2. COMPARATIVE VIEW OF THE ARTICLES OF THE COMPANY BYLAWS PROPOSED FOR MODIFICATION.

The current wording of the articles of the Company bylaws proposed for modification is compared with the wording submitted for your approval in the proposed resolution below.

3. EVALUATION BY THE BOARD OF DIRECTORS OF THE RIGHT TO WITHDRAWAL.

The Board of Directors does not deem that the modifications to the company bylaws described above entitle Shareholders to the right to withdraw pursuant to article 2437 of the Italian Civil Code.

4. RESOLUTION PROPOSAL

On the basis of the above, the Board of Directors submits for your approval the following proposed resolutions:
"The extraordinary meeting of the Shareholders of Pirelli & C. S.p.A.,
— having examined the Directors' Report illustrating the proposed modifications to articles 5 (Share Capital), 7 (Shareholders' meetings) and 16 (Board of Statutory Auditors) of the Company Bylaws and to the numbering of the individual sub-sections of the articles of the company bylaws;

Resolves

1. to amend articles 5 (Share Capital), 7 (Shareholders' Meetings) and 16 (Board of Statutory Auditors) of the Company Bylaws and to number the individual sub-sections of the articles of the Company bylaws of Pirelli & C. S.p.A. as follows:

CURRENT TEXT

NAME – PURPOSE – REGISTERED OFFICE - TERM

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.*.

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.

Article 3

The registered office of the Company shall be in Milan.

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.

SHARE CAPITAL

Article 5

The Company shall have a subscribed and paid-in share capital of EUR 1,556,692,865.28 (onebillionfivehundredandfiftysixmillionssixhundredandninetytwothousandsheighthundredsixtyfivepoint-

PROPOSED TEXT

NAME – PURPOSE – REGISTERED OFFICE - TERM

Article 1

1.1 A joint-stock company has been incorporated under the name *Pirelli & C. Società per Azioni* or, in abbreviated form, *Pirelli & C. S.p.A.*.

Article 2

2.1 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;

2.2 The company may carry out all operations of any type whatsoever - excluding any activities reserved by law - connected to its corporate purpose.

Article 3

3.1 The registered office of the Company shall be in Milan.

Article 4

4.1 The duration of the company shall be until December 31, 2100.

4.2 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.

SHARE CAPITAL

Article 5

5.1 The Company shall have a subscribed and paid-in share capital of EUR 1,556,692,865.28 (onebillionfivehundredandfiftysixmillionssixhundredandninetytwothousandsheight-

twentyeight) divided into no. 5,367,906,432 (fivebillionsthreehundredsixtyseven-millionsninehundredandsixthousandsfour-hundredandthirtytwo) shares with a par value of EUR 0.29 (twentynine cents) each, consisting of 5,233,142,003 (fivebillionst-wohundredandthirtythreemillionsone-hundredandfourtytwothousandsandthree) ordinary shares and 134,764,429 (one-hundredandthirtyfourmillionssevenhun-dredandsixtyfourthousandsfourhundredan-dtwentynine) 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 appointed to audit the accounts.
If so resolved by the shareholders' meeting, the share capital may also be increased by means of contributions in kind or of receivables.
By resolution of the extraordinary shareholders' 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 implementation 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 EUR 15,725,496.50 by issuing up to 54,225,850 ordinary shares with a par value of EUR 0.29 each, at a price of EUR 0.996 per share, inclusive of a EUR 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

hundredsixtyfivepointtwentyeight) divided into no. 5,367,906,432 (fivebillionsthreehundredsixtysev-enmillionsninehundredandsixthou-sandsfourhundredandthirtytwo) shares with a par value of EUR 0.29 (twentynine cents) each, consisting of 5,233,142,003 (fivebillionstwohun-dredandthirtythreemillionsonehun-dredandfourtytwothousandsandthree) ordinary shares and 134,764,429 (onehundredandthirtyfourmillions-sevenhundred-andsixtyfourthousands-fourhundredandtwentynine) savings shares.

5.2 In resolutions to increase the share capital 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 appointed to audit the accounts.

5.3 If so resolved by the shareholders' meeting, the share capital may also be increased by means of contributions in kind or of receivables.

5.4 By resolution of the extraordinary shareholders' 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 implementation 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 EUR 15,725,496.50 by issuing up to 54,225,850 ordinary shares with a par value of EUR 0.29 each, at a price of EUR 0.996 per share, inclusive of a EUR 0.706 share premium, to be reserved for subscription by executive managers and cadres employed by the

CURRENT TEXT	PROPOSED TEXT
EUR 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 EUR 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.	Company, by its subsidiaries and by the latter's subsidiaries, in Italy and abroad.
Article 6	**Article 6**
The shares are divided into ordinary shares and savings shares.	**6.1** 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.	**6.2** 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, at the shareholder's request and expense.
Savings shares do not carry voting rights and, unless the law provides otherwise, are bearer shares.	**6.3** 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.	**6.4** 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 By-laws 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

SHAREHOLDERS' MEETINGS

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

6.5 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.

6.6 Savings shares shall retain the rights and privileges contemplated by law and by these By-laws also in the event that the Company's ordinary and/or savings shares are delisted.

6.7 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.

6.8 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.

6.9 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.

6.10 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

SHAREHOLDERS' MEETINGS

Article 7

7.1 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.

CURRENT TEXT

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.

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

PROPOSED TEXT

7.2 The notice of the call of an extraordinary shareholders' meeting may provide for it being held on third call.

7.3 Shareholders for which the Company has received the communication 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.

7.4 The ordinary shareholders' meeting must be called in accordance with the law within a maximum of 180 days after the end of the Company's financial year.

7.5 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.

7.6 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.

Article 8

8.1 The due constitution of shareholders' meetings and the validity of the resolutions adopted by same are governed by law.

8.2 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

9.1 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

CURRENT TEXT

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 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.

PROPOSED TEXT

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.

9.2 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.

9.3 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.

9.4 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 and ascertain the results thereof.

9.5 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.

9.6 The minutes of extraordinary shareholders' meetings must be drawn up by a notary public appointed by the Chairman of the meeting.

9.7 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

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

10.1 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.

10.2 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.

10.3 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.

10.4 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.

10.5 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.

10.6 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.

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.

If the application of the slate voting system shall not ensure the appointment of the

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.

10.7 Any slates submitted without complying with the foregoing provisions shall be disregarded.

10.8 Each person entitled to vote may vote for only one slate.

10.9 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 dif-

CURRENT TEXT

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.

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.

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.

PROPOSED TEXT

ferent 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.

10.10 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.

10.11 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.

10.12 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.

10.13 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.

10.14 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.

10.15 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.

10.16 The Board of Directors shall appoint a Secretary, who need not be a director.

10.17 Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

Article 11 (current text)

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

Article 11 (proposed text)

11.1 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.

11.2 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.

11.3 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.

11.4 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.

11.5 In the context of the management of the Company, the Board of Directors

CURRENT TEXT

joint signature powers it decides appropriate to establish.
It may also delegate its powers to an Executive 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.

Article 12

The Board shall meet, at the invitation of the Chairman or whoever acts in his/her stead,

PROPOSED TEXT

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.

11.6 It may also delegate its powers to an Executive Committee composed of some of its own members, whose remuneration shall be established by the shareholders' meeting.

11.7 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.

11.8 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.

11.9 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.

11.10 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.

Article 12

12.1 The Board shall meet, at the invitation of the Chairman or whoever acts

CURRENT TEXT

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, 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.

PROPOSED TEXT

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.

12.2 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.

12.3 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.

12.4 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.

12.5 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.

12.6 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.

12.7 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.

12.8 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.

CURRENT TEXT	PROPOSED TEXT
	12.9 Resolutions of the Board of Directors, 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	**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.	**13.1** 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. **13.2** 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. **13.3** 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 14	**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	**14.1** 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.

CURRENT TEXT

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.

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

PROPOSED TEXT

14.2 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

15.1 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

16.1 The Board of Statutory Auditors shall be composed of three standing and two alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.

16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one standing auditor and one alternate auditor.

16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of 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.

16.4 Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

16.5 Shareholders who, alone or together with other shareholders, represent at least **1,5 percent** of the shares with voting rights in the ordinary sharehold-

CURRENT TEXT

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:

a. two standing members and one alternate member shall be chosen from the slate which obtains the highest number

PROPOSED TEXT

ers' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.

16.6 Each shareholder may present or take part in the presentation of only one slate.

16.7 The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office 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.

16.8 Any slates submitted without complying with the foregoing provisions shall be disregarded.

16.9 Each candidate may appear on only one slate, on pain of ineligibility.

16.10 The slates shall be divided into two sections: one for candidates for the position of standing auditor and one for candidates for the position of alternate auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years.

16.11 Each person entitled to vote may vote for only one slate.

CURRENT TEXT

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 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.

PROPOSED TEXT

16.12 The Board of Statutory Auditors shall be elected as specified below:

a. two standing members and one alternate member shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;

b. the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all the shareholders attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

16.13 The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.

16.14 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the alternate auditor chosen from the same slate as the former. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the candidate listed in the same slate of the former Chairman, following the order contained in the list; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

16.15 When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting

CURRENT TEXT	PROPOSED TEXT
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.	shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By Laws ensure the right to take part to the appointment of the Board of Statutory Auditors. The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors. **16.16** In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors. **16.17** When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law. **16.18** Outgoing members of the Board of Statutory Auditors may be re-elected to office. **16.19** Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

CURRENT TEXT

FINANCIAL STATEMENTS – ALLOCATION OF PROFITS

Article 17

The company's financial year shall close on December 31 of each year.

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 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.

PROPOSED TEXT

FINANCIAL STATEMENTS – ALLOCATION OF PROFITS

Article 17

17.1 The company's financial year shall close on December 31 of each year.

Article 18

18.1 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 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.

18.2 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.

18.3 Should reserves be distributed, savings shares shall be awarded the same rights as other shares.

18.4 Interim dividends may be distributed in compliance with the law.

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.	**19.1** 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.
Article 20	**Article 20**
All matters not specifically regulated in these By-laws shall be governed by the applicable provisions of the law.	20.1 All matters not specifically regulated in these By-laws shall be governed by the applicable provisions of the law.

2. to grant the Board of Directors – and on its behalf the Chairman and Vice-Chairman, all separately from each other – any powers required to complete the formalities needed to register the resolutions adopted in the Register of Companies, accepting and introducing to the same any formal and non-substantive modifications, supplements or suppressions required by the competent Authorities. "

The Board of Directors

March 10, 2010