

Annual corporate governance report 2007 financial year

GLOSSARY

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

Civil code: means the Italian Civil Code;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Company: indicates Pirelli & C.;

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

1. PROFILE OF THE ISSUER

Pirelli & C is a company listed on the Italian Stock Exchange that controls a multinational Group that does business in 160 countries with 135 years' experience in industry.

In the tyres sector it operates Pirelli Tyre, the fifth largest manufacturer in the world, in terms of turnover, and leader in the high quality tyre market, with an industrial presence on four continents.

In the property sector it trades as Pirelli RE, a company which in just a few years has established its leadership in Italy, and recently started to expand into Central and Eastern Europe. With its strong orientation towards innovation, the Group has also initiated a number of start-up initiatives in recent years, in high technology sectors such as new generation photonics, broadband access, sustainable mobility and renewable energy sources.

Pirelli Labs S.p.A. is the advanced research centre that serves all the Group businesses.

The Company is aware of the importance of its Corporate Governance system in fulfilling its objective of creating value for all shareholders and making progress in sustainable development, and thus induces the Company to keep its own corporate governance system constantly in line with national and international best practices, as well as making sure that it is up to date with legislative changes.

The Company uses the traditional administration and control model, founded on the central position of the Board of Directors, on the presence of correct disclosure practices regarding the choices and the procedures for decision-making within the Company, on an effective system of internal controls, on an effective monitoring for potential clash of interests and on a rigorous code of conduct for transactions with related parties.

The system of governance is documented in the Code of Ethics, in the Company bylaws, in the Regulations regarding shareholders' meetings, and in a series of principles, rules and procedures, periodically updated to reflect regulatory changes, that are available on the website of the Company at www.pirelli.com under the Governance section dedicated to the Governance, and in the policies and guidance of the Board of Directors.

Moreover, the Company has been publishing its corporate governance reports since 2005 – further information is available in the appropriate section in the company financial reports.

It should be noted that the Company highlights updates and additions made to its corporate governance system since the preceding annual report in its half-yearly report.

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

a) Structure of the share capital

The Report takes into account the share capital reduction operation approved by the extraordinary shareholders' meeting on 12 December 2007, and, for those matters pertaining to such shareholders, by the special meeting of savings shareholders' held on 14 December 2007.

Specifically, the shareholders approved the voluntary reduction in the share capital from euros 2,791,311,344.64 to euros 1,556,692,865.28 by reducing the par value of ordinary and savings shares from 0.52 to euro 0.29.

The purpose of the reduction is to allow shareholders to be reimbursed for some of the financial resources obtained as a result of the sale of the holding in Olimpia S.p.A., by distributing an "extraordinary dividend" of 0.154 euros per share (for a total of approximately 827 million euros), and to optimise the equity structure of the company by allocating approximately 408 million euros to the reserve.

The capital reduction operation will be completed on 31 March 2008, and the "extraordinary dividend" will be payable from 31 March 2008 (with coupons to be surrendered on 3 April 2008). The bylaws updated with the new values will be filed after the above-mentioned dividend has been paid.

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

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

* Identification code ISIN IT0000072725

** Identification code ISIN IT0000072733

Rights and obligations

Ordinary shares entitle the holder to one vote each. They are registered shares or bearer shares, to the extent permitted by law, and in this case can be converted into the other type of shares at the request and expense of their owner.

Savings shares do not have voting rights and, unless otherwise provided by law, are bearer shares. At the request and expense of the shareholder they can be converted into registered savings shares.

In addition to the rights and privileges specified by the law and the Company bylaws, savings shares have pre-emption in the reimbursement of capital for their whole face value; if the share capital is reduced by losses, the face value of the savings shares is only reduced for the part of the losses that exceeds the overall face value of the other shares. They also retain the rights and privileges assigned to them by the law and the Company bylaws, even when excluded from negotiations of ordinary and savings shares.

If share capital should be increased by the issue of shares of a single category, they must be offered as an option to all categories of shareholders.

If capital is increased by the issue of both ordinary and savings shares:

- a) holders of ordinary shares have the right to receive options for ordinary shares and, for any difference, savings shares;
- b) holders of savings shares have the right to receive options for savings shares and, for any difference, ordinary shares.

The net annual profits are divided as follows, after the legal allocations have been made:

- a) savings shares are attributed a sum totalling seven percent of their par value; if a dividend of less than seven percent of the par value has been assigned to the savings share in a financial year, the difference is calculated by increasing the privileged dividend in the two subsequent years¹; the profits remaining after assignment of the above dividend to the savings shares are split between all the shares so that the savings shares are entitled to a total dividend that is two percent of their par value higher than the dividend payable to the ordinary shares;
- b) without prejudice to the above provisions concerning the increased total dividend payable on savings shares, ordinary shares are attributed a sum totalling five percent of their par value².

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

If reserves are distributed the savings shares have the same rights as the other shares.

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

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

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

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

It should be noted that in a decision made by the extraordinary shareholders' meeting held on 11 May 2004, the Directors were given the right to issue convertible bonds in both ordinary and savings shares, or with warrants valid for the subscription of such shares to be offered as options to shareholders and holders of convertible bonds, for a maximum nominal sum of 1,000 million euros, before 10 May 2009, in one or more operations, within the limits permitted at the time of issue by the current regulations, with a consequent possible increase in share capital to serve the conversion of the bonds and/or the exercise of the warrants. See the section below entitled "Powers to increase the share capital and authorisations to purchase own shares".

Stock incentive plans

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

b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

c) Major shareholdings

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

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

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

d) Securities that confer special rights

No securities that confer special monitoring rights have been issued.

e) Employee shareholdings: mechanism for exercising voting rights

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

f) Restrictions on voting rights

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

g) Shareholder agreements

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

h) Appointment and replacement of Directors

The Company bylaws³ have provided that the Board of Directors is appointed by a slate system since 2004. This system ensures that – if more than one slate is presented – minority shareholders can elect one fifth of the Directors.

The slates presented by shareholders, undersigned by the parties submitting them, must be deposited⁴ at the registered office of the Company at least fifteen days prior to the date set for the shareholders' meeting to be held on first call and made available to anyone on request. Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate, on pain of ineligibility.

Only shareholders who, alone or together with other shareholders, hold at least 2 per cent of the share capital entitled to vote at the ordinary shareholders' meeting, may present slates, or the lesser proportion required by regulatory provisions issued by CONSOB, subject to their proving ownership of the necessary number of shares not later than the date by which they must be deposited.

CONSOB⁵ has determined the percentage shareholding required for presentation by the shareholders of the slates of candidates for election to the administration and control bodies of Pirelli & C for the 2008 financial year as 1.5% of the capital with voting rights in the ordinary shareholders' meeting.

Declarations in which the candidates individually accept their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and the bylaws, must be deposited with each slate. The declarations must be accompanied by a *curriculum vitae* for each candidate regarding his personal and professional characteristics, indicating the administration and control appointments held by the candidate with other companies and his or her suitability to qualify as independent, according to legal and Company criteria.

Slates presented in violation of the above rule are considered null.

Each person entitled to vote may vote for only one slate.

The following procedure will be used for the election of the Board of Directors:

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

³ Article 10 of the company bylaws.

⁴ Also in accordance with Application Criterion 6.C.1 of the Self-Regulatory Code.

⁵ CONSOB deliberation no. 16319 of 29 January 2008.

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

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director, or which has elected the fewest directors, is elected.

If no-one from these slate has yet elected a director, or if they have all elected the same number of directors, then within these slates candidate who obtained the highest number of votes is elected. If two candidates on a slate have the same number of votes, and the same quotient, then the entire shareholders' meeting votes again and the candidate obtaining a simple majority of votes is elected.

For the appointment of directors not nominated according to the procedure described above for any reason, then the shareholders decide with the legal majorities.

If one or more directorships should become vacant during the financial year, the provisions of art. 2386 of the Italian Civil Code apply.

It should be noted that when the financial reports for the year ended on 31 December 2007 are to be approved⁶, the extraordinary meeting of the shareholders will be asked to make some changes to the company bylaws⁷. In particular, in addition to some further changes, we propose to supplement the arrangements for the election of the Board of Directors by providing that, if the slate voting mechanism does not assure the minimum number of independent directors, the non-independent candidate with the highest progressive number in the list who has received the highest number of votes is replaced by the unelected independent candidate from the same list according to their progressive number on it, and so on, list by list, until the minimum number of independent directors has been achieved. The purpose of this change is essentially to ensure that the director appointment procedure guarantees that the minimum number of independent directors required by the law is present on the Board. As per international best practices, the renewal of the administrative body of the Company allows shareholders to vote on separate elections on: (i) the number of people on the Board of Directors; (ii) the election of Directors through a vote on the presented slates; (iii) the duration of the mandate of the Board of Directors; and (iv) the pay packages of the Directors.

i) Changes to the bylaws

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

l) Powers to increase share capital and authorisations to purchase own shares⁸

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

⁶ The date of first call of the shareholders' meeting to approve the financial reports for the year ended on 31 December 2007 is 28 April 2008, and in second call, for 29 April 2008.

⁷ For full details of these proposals, please see the report that was drafted by the Directors regarding this matter.

⁸ The data reported take the operation to reduce the share capital described in the paragraph headed "Structure of share capital" in the "Information on ownership structure" section into account.

In a deliberation made by an extraordinary shareholders' meeting on 11 May 2004, the Directors were given the right to increase the share capital by payment, by 10 May 2009, in one or more operations, up to a total sum of 600 million euros par value, with or without share premium, by issuing a maximum of 2,068,965,517 ordinary shares to be offered in option to shareholders and holders of convertible bonds, with the possibility of excluding the right to option pursuant to the combined provisions of art. 2441, last subsection, of the Civil Code, and article 134, subsection two of the FSA, where the shares are offered for subscription by the employees of Pirelli & C. or its subsidiaries.

By a deliberation made by the extraordinary shareholders' meeting of 11 May 2004, the Directors were given the right to issue convertible bonds in both ordinary and savings shares, or with warrants valid for the subscription of such shares to be offered as options to shareholders and holders of convertible bonds, for a maximum nominal sum of 1,000 million euros, before 10 May 2009, in one or more operations, within the limits permitted at the time of issue by the current regulations, with a consequent possible increase in share capital to serve the conversion of the bonds and/or the exercise of the warrants.

At the date of approval of this report, the Board of Directors had not made use of the last two powers mentioned above.

The deliberations to increase the share capital that may ultimately be made by the Board of Director in exercising its rights as attributed above must set the subscription price (including any share premium) and the corresponding term within which the shares may be subscribed. It may also specify that, if the deliberated increase should not be wholly subscribed within the period of time set, the capital will be increased by a sum equal to the subscriptions collected at the end of said period.

At the date of this report, the Company holds 2,617,500 of its own ordinary shares and 4,491,769 of its own savings shares.

In its meeting on 26 March 2008, the Board of Directors deliberated to propose to the shareholders' meeting⁹ that the Board of Directors should be authorised to purchase and sell its own shares within the limits specified in the current regulations.. For more detail, see the Directors' Report for this operation, which will be made available on the company website www.pirelli.com.

m) Change of control clauses

There are no subjects which may, directly or indirectly, also by virtue of shareholder agreement, individually or jointly with other persons included in these agreements, exercise control over Pirelli & C..

It follows that, this being the case, no change of control of the company can occur.

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

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

3. COMPLIANCE

Since it was first issued, Pirelli & C. has adhered to the self-regulatory code of the Italian Stock Exchange (published in July 2002) and in the Board meeting held on 12 March 2007 it formalized its adherence to the new self-regulatory code for listed companies (published on March 2006).

As mentioned, the Company is aware of the importance of its Corporate Governance system

⁹ Cf. Note 6

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

4. DIRECTION AND COORDINATION ACTIVITIES

There are no subjects which may directly or indirectly, also by virtue of shareholder agreement, individually or jointly with other persons included in these agreements, exercise control over Pirelli & C..

Moreover, the Company is not subject to direction and coordination activities by any company or body pursuant to article 2497 and subsequent 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 companies, having published appropriate information about these matters pursuant to article. 2497-bis of the Civil Code.

It should be noted that, while the Company controls Pirelli RE, a company listed on the Milan stock exchange, pursuant to article 2359 of the Civil Code, consolidates its results, and held over 50% of the voting capital at the date of approval of this Report, it does not exercise direction and coordination activities over it, since there is no evidence to show that it has any effective impact on the management of this subsidiary, and this is also confirmed in the section “Role of the Board of Directors”, para. “Transactions with significant impact on the strategy, the profitability, the assets or the financial position of the Company”. Formal evidence for this assessment has been provided by the Boards of Directors of both Pirelli and of Pirelli RE.

5. BOARD OF DIRECTORS

In line with Italian regulations for the traditional direction model, the management of the Company in guiding its strategy and controlling its operations, with the power to direct its overall management and intervene directly in a series of decisions that are necessary or useful in the pursuit of its corporate aims is entrusted to the Board of Directors.

To carry out its duties the Board of Directors relies on the support provided by specific Board subcommittees composed entirely of independent directors.

5.1. Composition

The Board of Directors of the Company, as established by the bylaws, consists of no less than seven and no more than twenty-three members, who serve for three years (unless a lesser period is specified by the shareholders’ meeting at the act of their appointment) and may be re-elected.

The Board of Directors in office on 31 December 2007 consists of twenty members and was appointed by the shareholders’ meeting of 28 April 2005 for three financial years to expire on approval of the financial reports for the year ending 31 December 2007¹⁰.

By voting on a slate¹¹ the minority shareholders were able to nominate four Directors, i.e. one fifth of the total number (specifically, Carlo Angelici, Franco Bruni, Mario Garraffo and Aldo Roveri).

Two lists were presented at the shareholders’ meeting on 28 April 2005, one by the participants in the Pirelli & C. S.p.A. Share Block Syndicate and the other by various savings management companies. Those proposing the slates made the candidates’ profiles available so that

¹⁰ Cf. Note 6.

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

the candidates' personal and professional characteristics, as well as some candidates' qualifications as independents, were made known prior to voting. The *curricula vitae* presented when the slates were filed were promptly published on the Governance section of the company website, www.pirelli.com, where they remain available in an updated version.

During 2007 some changes were made to the composition of the Board. Specifically, the appointment of Alberto Bombassei, co-opted by the Board of Directors on 12 September 2006, was confirmed by the shareholders' meeting on 23 April 2007, and Luigi Roth was appointed, restoring the number of serving Directors to twenty (at the end of 2006, following the resignation of Managing Director Carlo Buora, the Board of Directors, given the imminent shareholders' meeting, decided not to proceed to co-opt any other directors, but to refer all decisions on this issue to the shareholder meeting). Finally, the shareholders' meeting of 12 December 2007 confirmed the appointment of Enrico Tommaso Cucchiani, coopted to the Board of Directors in the meeting of 26 July 2007, as Director in place of Paolo Vagnone, who resigned his directorship on 20 July 2007.

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

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

LEGEND

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

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

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

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

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

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

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

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

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

In accordance with the provisions of the Self Regulatory Code¹², the positions occupied by the Directors in major companies other than Pirelli Group companies are listed at the end of the Report..

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

LEGEND

R.C. indicates the Remuneration Committee

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

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

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

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

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

LEGEND

Refer to the legend for the two preceding tables

Maximum accumulation of directorships in other companies

By deliberation of the Board of Directors on 9 November 2007, fully implementing the Self Regulatory Code¹³ it has been established that serving as a director or authority of more than five companies other than those directed and coordinated by Pirelli & C S.p.A, or controlled or affiliated to such companies, is not considered compatible with serving as a director of the Company, when the companies are (1) listed companies included in the S&P/MIB index (or equivalent foreign indices), or (ii) companies operating prevalently in the retail finance sector (members of the lists specified in article 107 of legislative decree no. 385 of 1 September 1993) or (iii) companies that undertake banking or insurance activities. Moreover, it is not considered compatible for a director to hold more than three executive positions in companies described in (1), (ii) or (iii).

Offices held in more than one company in the same group are considered a single office, and executive positions prevail over non-executive ones.

The Board of Directors retains the right to form a different opinion, and this will be made public in the annual report on corporate governance, together with the congruent grounds for doing so.

The positions occupied by the Directors in major companies other than Pirelli Group companies are listed at the end of the Report..

After investigation by the Committee for Internal Control and Corporate Governance, the Board of Directors, in its meeting of 26 March 2008, examined the offices held and reported by the individual Directors and determined that all Directors hold appointments that are compatible with the execution of their office of Director of Pirelli & C according to the policy on this issue adopted by the Company.

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

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

Shareholders who, pursuant to the bylaws, intend to present slates for the composition of the Board of Directors, are invited to examine this document.

The “policy of the Board of Directors on the maximum number of appointments considered compatible with effective service as a director of the Company” is appended at the end of this Report and is also available in the Governance section of the company website, *www.pirelli.com*.

5.2. Role of the Board of Directors

The Bylaws do not specify a minimum interval between Board meetings. The Company has circulated a calendar¹⁴ that schedules 4 meetings for 2008, specifically:

- 26 March 2008 to examine the budget and consolidated financial reports for the year ended on 31 December 2007
- 9 May 2008 to examine the intermediate report on operations for the first quarter of 2008;
- 5 August 2008 to examine the abbreviated half-yearly financial report;
- 7 November 2008 to examine the intermediate report on operations for the third quarter of 2008.

Moreover, after its renewal by the Shareholders' Meeting¹⁵, the newly-appointed Board of Directors will meet for the deliberations consequent on the appointment.

The Board meetings may take place by means of telecommunication systems enabling participation of all parties concerned, with equal information, in the debate.

The Board of Directors meetings are convened by means of letter, telegram, fax or e-mail sent at least five days prior (or, in the event of emergencies, at least six hours prior) to the meetings to each Director and Acting Auditor.

Barring exceptional cases, the Directors and the Auditors have always received the necessary documentation and data with reasonable notice in order to express their informed opinion on the matters submitted to their examination.

During the 2007 financial year there were 9 meetings of the Board of Directors, with an average duration of approximately one and a half hours each; the mean percentage attendance by directors was around 85%, and the independent Directors attended an average 82% of meetings.

The Lead independent director attended all meetings of the Committee for Internal Control and Corporate governance (which he Chairs), all meetings of the Board of Directors, the two shareholders' meetings that were held during the 2007 financial year, and the special meeting of savings shareholders.

At the date of approval of the Report, there had been 2 meetings of the board.

Functions of the Board of Directors

As stated, the Board of Directors plays a central role in the corporate governance system of the Company; it has the power (and the duty) to direct Company business, pursuing and fulfilling its primary and ultimate objective of creating shareholder value.

Pursuant to the bylaws¹⁶, 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 Code¹⁷:

- examines and approves the strategic, industrial and financial plans of the Company and the Group;
- formulates and adopts the rules for the corporate governance of the Company, and defines the group governance guidelines;
- evaluates the adequacy of the general organisational, administrative and accounting

¹⁴ Press release of 9 November 2007.

¹⁵ Cf. Note 6.

¹⁶ Article 11 of the company bylaws.

¹⁷ Self Regulatory Code: Criterion of application 1.C.1, lett. a).

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

- grants powers to the Managing Directors and the Executive Committee (if established) and revokes them; fixing their limits, the manner in which they have to be exercised and the frequency, at least quarterly, on which such bodies must report to the Board on the activity performed in the exercise of the powers granted to them;
- determines, after having examined the Remuneration Committee proposals and consulted the Board of Statutory Auditors, the remuneration of the Managing Directors and of those directors who are vested with special offices and, if the shareholder meeting has not already resolved upon it, allocates the total remuneration to which the members of the Board of Directors are entitled;
- evaluates the general performance of the Company, taking particularly into consideration the information received from the delegated bodies, and periodically compares the results achieved with those planned;
- examines and approves in advance all operations involving the Company and its subsidiaries which have a significant impact on the strategy, the profitability, the assets or the financial position of the Company, paying particular attention to situations in which one or more directors act in their own interest or in the interest of third parties, and more generally to transactions with related parties. During the revision of the corporate governance instruments, it was expressly stated that the Board of Directors establish general criteria for the detection of these kinds of operation;
- at least once a year, evaluates the size, composition and functioning of the Board itself and its Committees, expressing opinions on the professional figures whose presence in the Board could be deemed advisable;
- constitutes the Supervisory Body pursuant to legislative decree no. 231/2001;
- appoints and dismisses the internal control officer and determines her/his duties and remuneration, after having received the opinion of the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors; reviews and approves periodic reports prepared according to applicable legislation;
- exercises the other powers and fulfils those duties attributed to it by the law and the Company bylaws.

Evaluation of the general results of operations¹⁸

Pursuant to the bylaws¹⁹ and the current regulations²⁰, the Board of Directors has evaluated the general results and likely development of operations at at least quarterly intervals. Please also refer to the paragraph headed “Information to the Board” in the “Delegated Bodies” section.

Internal control system and governance system²¹

The Board of Directors has assessed²² the adequacy of the internal control system and, more generally, the governance of the Company and of the Group it controls, at six monthly intervals. In this respect it should be noted that recently the Board of Directors, in its meeting on 26 March 2008, adopting the considerations made by the Committee for Internal Control and Corporate Governance, evaluated the adequacy of the general organisational, administrative and accounting structure of the Company, and expressed a positive opinion of the internal control system and, more generally, of the governance system of the Company and the Group²³

¹⁸ Self Regulatory Code. Criterion of application 1.C.1, lett. e)..

¹⁹ Article 11 of the company bylaws.

²⁰ Article 150 of the FSA

²¹ Self-Regulatory Code. Criterion of application 1.C.1, lett. b)..

²² Self-Regulatory Code. Criterion of application 1.C.1

²³ See the paragraph headed “ Committee for Internal Control and Corporate Governance”, below, for further details.

Remuneration of the directors vested with special responsibilities²⁴

The Board has examined and approved the Committee's proposal for the remuneration of the General Managers of the Company and has been informed of the remuneration of the Managing Director and General Manager of Pirelli Tyre²⁵.

Given the ending of its mandate, the Board did not deliberate on the variable remuneration package of directors vested with special responsibilities for the 2008 financial year, referring all determinations on this matter to the new Board.

See section 10 "Remuneration of directors" for all issues related to remuneration.

Transactions with significant impact on the strategy, the profitability, the assets or the financial position of the Company²⁶

The "Procedure for information flows to Directors and Auditors", appended at the end of this chapter, available in the Governance section of the company website, www.pirelli.com, specifies that the general information on the activities carried out should be accompanied by specific detailed information on, among other matters, transactions with significant impact on the profitability, assets or financial position of the company, identified using qualitative criteria and quantitative thresholds.

Moreover, the Board, without prejudice to the responsibilities and powers reserved to it by the law, bylaws, powers structure and internal procedures, has also specified that it is the Board of Director's responsibility to give prior approval to certain non infragroup operations and actions (determined on the basis of the latest qualitative criteria and further quantitative thresholds) when carried out by Pirelli & C or by unlisted foreign companies subject to the direction and coordination of Pirelli & C.

Thus the transactions of Pirelli RE (a listed company not subject to the direction and coordination²⁷ of Pirelli & C.) and the companies directed and coordinated by Pirelli RE are not subject to the prior approval of the Board of Directors of Pirelli & C.

Transactions with related parties

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

Board performance evaluation²⁸

During 2006, for the first time, the Board of Directors made a self-evaluation of its performance (officially called a "Board performance evaluation"), thus adhering to international best practices and the provisions in the Self-Regulatory Code²⁹.

As proposed by the Committee for Internal Control and Corporate Governance, and based on suggestions made by the independent directors³⁰, and taking the positive experience of the preceding year into account, the Board concluded that it would be advisable to start a similar Board self-evaluation for the 2007 financial year, inverting the process used the previous year. The self-evaluation process occurred by direct interviews with individual Board members or, alternatively, allowing Board members to provide written answers to a questionnaire which was also used as a guide for the interviews. The self-evaluation was carried out with the as-

²⁴ Self Regulatory Code: Criterion of application 1.C.1, lett. d)..

²⁵ As reported in the section entitled "Remuneration of Directors", the Managing Director and General Manager of Pirelli Tyre, Dr. Francesco Gori, has been categorised, for self-regulatory purposes, as a "director with strategic responsibilities".

²⁶ Self Regulatory Code: Criterion of application 1.C.1, lett. f)..

²⁷ Please see the section entitled "Direction and coordination activities".

²⁸ Self Regulatory Code: Criterion of application 1.C.1, lett. g)..

²⁹ Self Regulatory Code: Criterion of application 1.C.1, lett. g)..

³⁰ The board performance evaluation was examined in depth in the meetings of the independent directors. Please see the "Independent directors" section under "Meeting of the independent directors "

sistance of a major consultancy company that worked alongside the Committee for Internal Control and Corporate Governance to develop self-evaluation methods and to analyse the results.

Directors were invited to express their opinions on three major themes:

- the board performance evaluation: including, among other aspects, the size, composition and operation of the Board and its Committees;
- the directors' evaluation: including, among other aspects, the participation, knowledge of the Company, knowledge of regulatory developments and independence of opinion of the executive directors, non-executive and non-independent directors and independent directors;
- the self-evaluation: including, among other aspects, an evaluation by each individual director of the issues considered in the directors' evaluation of their own participation, knowledge of the Company, knowledge of regulatory developments and independence of opinion.

The Directors interviewed had an opportunity to express four degrees of opinion and to formulate their own comments.

The results were subject to in depth analysis by the Committee, and then examined by the Board of Directors in its meeting of 26 March 2008.

The Directors expressed a high degree of participation in the self-evaluation board performance evaluation and the examination of the results showed the emergence of a decidedly positive impression.

This second edition of the board performance evaluation confirmed the participation in and satisfaction of the Directors with their Board.

Article 2390 Civil Code

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

5.3. Delegated bodies

Chairman

Where the Shareholders' Meeting has not done so, the Board of Directors appoints its Chairman. Specifically, the Board of Directors appointed Marco Tronchetti Provera as Chairman of the Board of Directors in its meeting of 28 April 2005.

The Chairman is recognised as the legal representative of the Company, empowered to perform any action pertinent to corporate activity in its various manifestations.

The Board of Directors has identified the limits to the powers it confers, which have been defined as the inner limits of the relationship between the delegating body of the Board and the subject with delegated powers. In particular, the following inner limits have been identified for the Chairman: the power to guarantee Company and subsidiary bonds having individual values of more than 25 million euros, or for third parties regarding bonds with individual values of more than 10 million euros (in the latter cases another Managing Director must co-sign with the Chairman);

Furthermore, the Board confirmed that the Chairman, Marco Tronchetti Provera, should exercise the following organizational functions:

- relations with shareholders and the information provided to them;
- coordination of the Managing Directors' activities;
- formulation, in agreement with the Managing Directors, of the general strategies and development policy for the Company and the Group, to be submitted to the Board of Directors together with extraordinary corporate actions;
- proposals, to be submitted to the Board of Directors in agreement with the Managing Directors, for the appointment of members of the General Managers' Departments and, after consulting the Remuneration Committee, for their compensation;
- chairmanship of the managing committees with strategic functions;

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

Managing Directors and other Managers

Powers pertaining to their specific functions, subject to certain quantitative limits, have been granted to Claudio De Conto, Chief Operating Officer, and to Luciano Gobbi, Chief Finance and Strategic Planning Officer³¹.

Less broad powers have been granted to other managers of the Company to be used in their individual spheres of competence.

As in the past, in 2007 the Chairman, the Managing Directors, the General Managers and the Managers used their delegated powers only for the ordinary management of the activities of the Company (in regard to which the directors were periodically informed) and submitted the transactions which were more important from an operational or financial perspective to the Board of Directors.

In fact, delegation does not mean the assignment of exclusive powers but is rather the solution adopted by the Company to ensure, in terms of the organization of the senior management team, the greatest degree of operational flexibility, both within the Company and in relation to third parties.

Information to the Board

Pursuant to Article 11 of the bylaws and the prescriptions of Article 150, subsection 1 of the FSA, the Board of Directors and the Board of Statutory Auditors are kept informed, inter alia by the persons with delegated powers, about the performance of the Company, its general management, its prospects and the transactions of greatest significance for its profitability, financial position or assets and liabilities carried out by the Company or its subsidiaries; in particular, such persons report any transactions in which they have an interest, for their own account or on behalf of third parties, or that are influenced by the person, if any, who performs management and coordination activities. Such reports are made promptly and at least once every three months, on occasion of the Board of Directors meetings (and the Executive Committee, if established) or by means of a written communication.

In order to favour the orderly organization of the flow of information, in July 2002, the Company adopted a procedure with the rules to be followed to ensure compliance with the above-mentioned Article 150 with regard to the activities of the executive directors, both in exercising their delegated powers and in carrying out the transactions approved by the Board of Directors.

This procedure has been subject to a review that involved Company governance frameworks. The Board of Directors meeting on 12 March 2007 actually decided to adopt a general procedure on information flows to the Directors and Auditors, which incorporates more widely the procedure adopted to fulfil the obligations of art. 150 of the Financial Services Act. The new procedure aims at regulating and coordinating the various types of data flowing to Directors and Auditors, so that they all have the common aim of continuously making available to the members of these Boards the data needed to properly fulfil their directional, policy and control responsibilities.

The text of this new policy, shown at the end of this report is also available on the website of the Company at www.pirelli.com, under the section entitled "Governance".

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

5.4. Other executive Board Members

The Board of Directors has considered the Chairman of the Board of Directors, Marco Tronchetti Provera, and the two Vice Chairmen, Carlo Alessandro Puri Negri (also Vice Chairman and Managing Director of subsidiary Pirelli RE) and Alberto Pirelli (also director and manager of a business unit of subsidiary Pirelli Tyre and director of other subsidiaries of Pirelli Tyre) to be executive directors.

During the year, in accordance with the recommendations of the Self Regulatory Code³², to extend the knowledge of all directors about the reality and dynamics of the company, a visit was organised to Modular Integrated Robotized System (MIRS) to better understand all the phases of the tyre production cycle from raw material to finished product..

5.5. Independent Directors

The Board of Directors of the Company evaluate the requisites for independence specified in the Self Regulatory Code and the FSA for non-executive directors qualified as independent upon their appointment and during their mandate.

In the light of a substantial evaluation of the information provided by the Directors and that available to the Company, the Board of Directors confirmed, in the Board meeting on 26 March 2008, that the eleven directors who, on appointment, were qualified as independent (Carlo Acutis; Carlo Angelici; Alberto Bombassei; Franco Bruni; Mario Garraffo; Dino Piero Giarda; Berardino Libonati; Giampiero Pesenti; Luigi Roth; Aldo Roveri and Carlo Secchi), continue to maintain these requisites. A further six Board members (Gilberto Benetton; Enrico Tommaso Cucchiani; Gabriele Galateri di Genola; Giulia Maria Ligresti; Massimo Moratti; Giovanni Perissinotto) could be qualified as non-executive members. It follows that the percentage of independent directors on the Board as currently composed is 55%. It should also be noted that the Board of Directors has ascertained that all directors who can be qualified as independent are also independent in terms of the requisites of the FSA for members of the Board of Statutory Auditors.

In accordance with the recommendations of the Self Regulatory Code³³, the Board of Statutory Auditors has checked that the criteria and ascertainment procedures adopted by the Board to assess the independence of its members are correctly applied.

The Board of Directors performed this evaluation based on the most rigorous requirements in the Self Regulatory Code³⁴ which states that a director may not – by law – be considered independent:

- a) if they, directly or indirectly or on behalf of subsidiaries, trust companies or through third parties, control the issuer or are able to exercise considerable influence on said issuer, or are a participant in a shareholder agreement through which one or more subjects can exercise control or significant influence on the issuer;
- b) if they have or have been in the past three financial years a prominent exponent³⁵ of the issuer, or one of its strategic subsidiaries or a company under joint control with the issuer, or a company or a body that, alone or together with others in accordance with shareholders agreements, control the issuer or are able to exercise considerable influence on said issuer;
- c) if directly or indirectly (e.g. through subsidiaries or bodies of which they are a significant exponent, or as a partner in a law firm or a consultancy company) they have, in the previous financial year, had a close business, financial or professional relationship with the following:
 - the issuer, one of its subsidiaries, or any related prominent exponent thereof;
 - a subject who, alone or together with others within a shareholder agreement, controls the issuer, or – in the case of a company or body – with their significant exponents ;

³² Self Regulatory Code: Criterion of application 2.C.2.

³³ Self-Regulatory Code. Criterion of application 3.C.5

³⁴ Criterion of application 3.C.1 and 3.C.2

³⁵ The following may be considered "prominent exponents" of a company or body: the chairman of the body, the legal representative, the chairman of the Board of Directors, the executive directors and managers with strategic responsibilities in the company or body considered.

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

Meetings of the independent directors

During the financial year, in line with the recommendation of the Self-Regulatory Code³⁶, the independent directors met twice in the absence of the other directors. The topics of the meetings were matters inherent to the corporate governance system of the Company (specifically, the in-depth consideration of the board evaluation), the role of the independent Directors, the valuation in the balance sheet of the Company investment in Olimpia S.p.A. During 2008, one meeting of the independent directors has already been held.

5.6. Lead independent director

As of November 2005, in order to increase further the role of the independent directors, the Board of Directors decided to introduce a Lead Independent Director.

The *Lead Independent Director* (Carlo Secchi, the Chairman of the Committee for Internal Control and Corporate Governance, was chosen) coordinates and acts as a point of reference for the requirements and contributions of the independent Directors.

The *Lead Independent Director* may also convene – on his own initiative or upon the request of other Directors – specific meetings solely for independent Directors in order to discuss subjects occasionally felt to be of interest to the functioning of the Board of Directors or management of the firm. Please note that the Lead Independent Director may collaborate with the Chairman of the Board of Directors for the better functioning of the Board of Directors.

The *Lead independent director* attended all meetings of the Committee for Internal Control and Corporate governance (which he Chairs), all meetings of the Board of Directors, the two shareholders' meetings that were held during the 2007 financial year, and the special meeting of savings shareholders.

6. HANDLING OF COMPANY INFORMATION

6.1 Internal management and disclosure of documents and information

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

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

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

6.2 Insider dealing

Matters regarding the transparency of transactions on Company shares or financial instruments underlying or linked to shares made directly or by third parties for relevant persons or by persons closely related or linked to them (i.e. insider dealing) are currently fully governed by law and by regulations established by Consob (art. 114 of the Financial Services Act and art. 152-sexies and following amendments of the Issuer's Regulation), as of April 1st, 2006 over-riding the Code of Conduct of the Company regarding insider dealing, adopted as from December 2002.

Pursuant to the law, Directors and statutory auditors of the issuing Company, as well as “persons who carry out administrative [...] functions in an issuing company and managers that have regular access to sensitive information [...] and have the power to make management decisions that could affect the performance and the future prospects of an issuing company...” are obliged to disclose to the market any insider dealing transactions made on Company shares or financial instruments linked to these shares having a value of more than Euros 5,000 annually. The Company opted to identify these managers as its General Managers, and – as an example of self-regulation – the Managing Director and General Manager of the subsidiary Pirelli Tyre S.p.A. (who was the Managing Director of the Company until 30 June 2006). Similar disclosure obligations have also been undertaken by Pirelli RE., a company that is also listed on regulated markets.

Within the more general auditing process for the corporate governance instruments, despite being not obliged by law, the Board of Directors decided to institute a black out period for the persons mentioned above who must adhere to insider dealing regulations; they shall therefore abstain from making transactions on Company shares or on financial instruments linked to these shares. These periods may moreover be extended or suspended by the Board of Directors in exceptional cases.

The text of this procedure shown at the end of this Report, is also available on the website of the Company at *www.pirelli.com*, under the section entitled “Governance”.

7. BOARD COMMITTEES

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

8. APPOINTMENTS COMMITTEE

The Board of Directors has decided not to establish committee charged with nominating candidates for the position of Director, since at present the conditions envisaged by the Code for its establishment do not exist, because of the current ownership structure and, above all, the By-laws provision for the slate system, in view of the transparency this mechanism ensures in the selection of candidates.

Since the Board considers the above arguments are still valid, it has not felt that the constitution of a specific elections committee is necessary. Moreover, it has given the Committee for Internal Control and Corporate Governance the power to identify candidates to propose to the Board in the event that an independent Director replaced pursuant to article 2386, subsection 1 of the Civil Code.

9. REMUNERATION COMMITTEE

The Board established the “Remuneration Committee”, a subcommittee from among its members, charged with fact-finding and advisory functions, in 2000.

In full compliance with the provisions of the Self-Regulatory Code³⁷, the Remuneration Committee is composed exclusively of independent Directors:

- Bernardino Libonati (Chairman);
- Giampiero Pesenti
- Aldo Roveri

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

The meetings of the Remuneration Committee are regularly minuted by the secretary and the minutes are transcribed into a specific register³⁸.

Functions of the Remuneration Committee

The Board of Directors, in its meeting on 12 March 2007, acted to adapt the tasks of the Remuneration Committee as specified in the Self-Regulatory Code.

The function of the Remuneration Committee is to investigate and consult on the following matters, and specifically:

- to formulate proposals to the Board regarding the remuneration of the Managing Directors and those persons who hold certain offices to ensure that they align with the objective of shareholder value creation in the medium-long term;
- to periodically evaluate the remuneration criteria for the senior management of the Company and, as requested by the Managing Directors, formulate proposals and recommendations, with specific reference to the adoption of possible stock option plans or stock bonuses;
- to monitor the application of the decisions made by the competent bodies and company policies regarding top management compensation.

The Committee – which may also request the assistance of external consultants in fulfilling its mandate – meets whenever its Chairman deems it appropriate or when a meeting has been requested by another member of the committee or by a Managing Director. The Board of Statutory Auditors or, if deemed appropriate, other Company and/or Group representatives attend the meetings of the Committee.

In line with the recommendations of the Self Regulatory Code³⁹, directors vested with special offices do not attend Remuneration Committee meetings. The available information and documents required for informed deliberation of the material submitted to the committee have always been circulated to all members reasonably in advance.

The Committee has full independence of expense for the performance of its tasks.

The Committee also has the right⁴⁰ to access information and company departments as necessary for the execution of the tasks allocated to it, making use of the support of the Secretary of the Board of Directors.

During 2007, the Remuneration Committee held a single meeting, attended by all members, during which it examined – and presented to the Board – the pay packages of the Chairman and the General Managers, also disclosing the criteria underlying its decisions. The Committee was also informed about the decisions made by Pirelli Tyre concerning the compensation of the Managing Director and General Manager, Dr. Francesco Gori, and the adoption of a system of 2007/2008 Long Term Cash Incentive for the Senior Management of the Pirelli Tyre Group.

The Remuneration Committee has already met twice in 2008, in order, among other things, to formulate its proposals for the attribution of compensation to the Managing Directors of the Company for the 2008 financial year, postponing the pay package of those directors who, after the renewal of the Board, are vested with special offices for the consideration of the “new Remuneration Committee”.

³⁷ Self Regulatory Code: Principle 7.P.3.

³⁸ Also in accordance with the recommendations of the Self Regulatory Code : Criterion of application 5.C.1, lett. d).

³⁹ Self Regulatory Code: Criterion of application 7.C.4.

⁴⁰ Also in line with the provisions of the Self Regulatory Code. Criterion of application 5.C.1, lett. e)..

10. REMUNERATION OF DIRECTORS

In addition to reimbursement for expenses incurred in performing their duties, Directors receive annual fees determined by the shareholders' meeting⁴¹.

The meeting of 28 April 2005 decided *"to establish a maximum of 1,200,000 euros as the total annual compensation of the Board of Directors pursuant to Art. 2389, subsection 1, of the Civil Code, said amount to be distributed among its members in accordance with the decisions taken in this regard by the Board."*

At the same meeting, on 28 April 2005, the Board of Directors established the distribution of the compensation as follows:

- 50,000 euros per annum for each of the members of the Board of Directors;
- 25,000 euros per annum for each of the members of the Committee for Internal Control and Corporate Governance;
- 20,000 euros per annum for each of the members of the Remuneration Committee, reserving the right to use the residual amount (65,000 euros) in the future, to give the Board a margin of organizational flexibility, including for the adoption of any new governance solutions. A fee 10,000 euros per annum is also made to the Board member called on to be a member of the Supervisory Body as per legislative decree no. 231/2001 (Carlo Secchi).

The Board of Directors upon consultation with the Board of Statutory Auditors establishes remuneration for directors given particular tasks, as proposed by the Remuneration Committee. The current remuneration system provides⁴² for payments to comprise a fixed amount and an additional bonus linked to the performance of the Group, and to be related to the attainment of specific objectives set by the Board.

Information on the remuneration of the directors vested with special powers and managers with strategic responsibilities can be found in a chart in the notes to the financial statements for 2007. It should be noted that the Board of Directors of the Company has identified the managers with strategic responsibilities insofar as they "hold the power to take decisions which may impact on the future development and evolution" of the Company as its General Managers (Claudio De Conto and Luciano Gobbi) as well as – for self-regulatory purposes – the Managing Director and General Manager of subsidiary Pirelli Tyre (Francesco Gori). It should be noted that, for the 2008 financial year, the (fixed and variable) proposals to revise the compensation of the General Managers⁴³ of the Company were developed after an indepth comparative analysis by a major consultancy on market positioning in terms of the compensation of General Managers compared to a sample of over 200 FTE 500 European companies. Lastly, it should be noted that there are no stock-option plans for either the executive or the non-executive directors⁴⁴.

11. THE COMMITTEE FOR INTERNAL CONTROL AND CORPORATE GOVERNANCE

The Board of Directors established⁴⁵ the Committee for Internal Control and Corporate Governance, which is charged with fact-finding and advisory functions, from amongst its members, in 2000.

In line with best practices and in full compliance with the recommendations in the Self Regulatory Code, the Committee is exclusively composed of the following independent Directors:

- Carlo Secchi (Chairman)
- Carlo Angelici
- Franco Bruni

two of whom⁴⁶, as ascertained by the Board of Directors convened on 12 March 2007, possess adequate accounting and financial experience.

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

⁴¹ Article 14 of the company bylaws.

⁴² Also in line with the provisions of the Self Regulatory Code. Criterion of application 7.C.1.

⁴³ Cf. Note 31.

⁴⁴ Vice Chairman Carlo Alessandro Puri Negri is an exception to this, since he is a recipient of stock options in his capacity as Chief Executive Officer of Pirelli RE.

⁴⁵ Also in line with the provisions of the Self Regulatory Code. Criterion of application 8.P.4.

⁴⁶ Specifically, Mr Bruni and Mr Secchi.

The meetings of the Committee for Internal Control and Corporate Governance are regularly minuted by the secretary and the minutes are transcribed into a specific register⁴⁷.

Functions attributed to the internal control committee

Similarly to the Remunerations Committee, the Board of Directors that convened on 12 March 2007 provided for the adjustment of the tasks mentioned of the Committee for Internal Control and Corporate Governance to those specified in the Self-Regulatory Code, and also specified that the Committee should continue to maintain the corporate governance prerogatives that have characterised it since its establishment.

The Committee for Internal Control and Corporate Governance performs investigative and consultation tasks on the following matters, and specifically:

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

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

requested by another member of the committee or by a Managing Director. The Board of Statutory Auditors⁴⁸ and, if deemed appropriate, other Company and/or Group representatives, and the External Auditors attend the meetings of the Committee.

The available information and documents required for informed deliberation of the material submitted to the committee have always been circulated to all members reasonably in advance. The Committee has full independence of expense for the performance of its tasks.

In accordance with the provisions of the Self Regulatory Code⁴⁹, the Committee also has the right to access information and company departments as necessary for the execution of the tasks allocated to it, making use of the support of the Secretary of the Board of Directors. During 2007, the Committee for Internal Control and Corporate Governance met 5 times and all members participated in these meetings. The average duration of the meetings was over two and a half hours.

The Committee actively contributed to the implementation process and the updating of Company corporate governance instruments.

In particular, during the year considered, it proceeded to approve the actions necessary to incorporate the provisions of the Self Regulatory Code, submitting them to the approval of the Board of Directors:

- the definition of some issues reserved to the exclusive competence of the Board of Directors;
- the updating of the duties assigned to the Remuneration Committee and the Committee for Internal Control and Corporate Governance
- the identification of the Director responsible for supervising the operation of the Company internal control system, including attribution of the duties specified in the Self-Regulatory Code;
- the identification of the black-out periods applicable to subjects required to respect the insider dealing regulations;
- some changes to the rules of conduct for execution of transactions with related parties;
- the adoption of a new “procedure for information flows to board members and auditors”;
- definition of general criteria to identify transactions of significant impact for the company and its subsidiaries to submit to the prior examination of the Board;
- definition of an orientation for the maximum number of appointments considered compatible with serving as a director of the company.

The Committee has also proposed some changes to the Company bylaws and Rules for shareholders’ meetings, principally to implement the legal provisions for the protection of savings and the regulatory standards, and intended to improve their clarity, providing more systematic and complete rules, and to take the policies formed over time in response to legislative initiatives into account.

Also during 2007, the internal control officer of the Company (who is the head of the Internal Auditing Department) was able to refer his actions to the Committee for Internal Control and Corporate Governance through the submission of four reports. The Committee also monitored the work carried out by the Internal Audit Department of the Company, specifically examining the result of work carried out to implement the 2006 Audit Plan (approved by the Committee in its meeting of 12 March 2007) and has approved the Audit Plan for 2008.

The Responsible Officer also reported on his activity to the Committee: please see the section entitled “Officer responsible for the preparation of the company accounting documents”. The Committee approved the new version of the “231 Organisational model” and the subsequent modifications to this (see the corresponding section for further details), and was also constantly informed about the implementation of the project called “Project 262”, and checked the audit activity plan with external auditors PriceWaterhouseCoopers

The Committee was also constantly updated about the process that will lead the Board of Auditors to formulate its proposal pursuant to article 159 of the FSA, concerning the appointment of external auditors of the financial statements and consolidated financial reports of the Company for the years 2008-2016 to the shareholders’ meeting called upon to approve the financial reports for the year ended on 31 December 2007⁵⁰.

⁴⁸ Also in accordance with the recommendations of the Self Regulatory Code : Criterion of application 8.C.4.

⁴⁹ Self Regulatory Code: Criterion of application 5.C.1, lett. e).

⁵⁰ Cf. Note 6.

Lastly, it was felt opportune to give an account of the development of the actions, legal and otherwise, that involved two ex-heads of Company Security that were reported in the corporate governance report for 2006 and have been the subject of an investigation by the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors. In particular, the Committee was informed that the Company continues to actively assist the legal authorities, providing them with all documents that might be useful for the investigation to proceed.

The Committee was also brought up to date on the completion by the Company of the selection process to appoint a new Security department manager reporting directly to the General Operations Manager. The person appointed started on 1 October 2007 and, on the basis of the two audit reports issued by the Internal Audit Department of the Company, appointed by the Committee (as described in the previous report) to investigate the security services required by the various departments of the company over recent years, and analysis of the documents produced by the departmental managers concerning the security duties they assign, no substantial irregularities were found in terms of the organisational profile and procedures of the company.

Finally, it should be noted that the Company is proceeding with the civil action started against the security service suppliers involved in the investigations in order to be compensated for services that were not contractually fulfilled or were even illegal.

The Committee for Internal Control and Corporate Governance and the Board of Directors, taking into account the comments of the Board of Statutory Auditors, judged the internal control system of the Company and of the Group it controls to be adequate⁵¹.

12. INTERNAL CONTROL SYSTEM

The internal control system of Pirelli & C. and the Group it heads is designed to ensure the provision of correct information and adequate control cover for all the activities of the Group, with special reference to those areas that are considered to be potentially at risk. It has developed as a process intended to achieve substantial and procedural fairness, transparency and accountability by ensuring that transactions and, more generally, business related activities are efficient and can be known and verified, that financial information and accounting and operational data are accurate, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to prevent the perpetration of fraud against the Company and financial markets.

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

- i) the separation of roles in the performance of the main activities involved in each operating process;
- ii) the traceability and constant visibility of choices;
- iii) the management of decision-making processes according to objective criteria.

12.1. Executive director responsible for the internal control system

Responsibility for the internal control system lies with the Board of Directors, which lays down the guidelines for the system and periodically verifies that it is adequate and working effectively. To this end, the Board avails itself of the Committee for Internal Control and Corporate Governance, as well as an Internal Control Officer, who is given an adequate level of independence and appropriate means in order to carry out this mandate, and who carries out typical audit functions to verify the adequacy and efficiency of this system; and, if anomalies are detected, who proposes the necessary corrective solutions.

A specifically delegated Director (currently the Chairman of the Board of Directors) is charged with⁵² identifying the main company risks that must periodically be examined by the Board and the execution of the policy lines defined by said Board, seeing to the planning,

⁵¹ Cf. Paragraph headed "Internal control system and governance system" in the section entitled "Role of the Board of Directors"

⁵² Also in line with the provisions of the Self Regulatory Code. Criterion of application 8.C.1, lett. b).

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

12.2. Internal control officer

The internal control officer – that the Board of Directors, with the approval of the Committee for Internal Control and Corporate Governance and in accordance with best practice, identified as the head of the Internal Audit Department (Maurizio Bonzi) and also decided his remuneration for this task – reports to the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors and is hierarchically answerable to the Chairman of Pirelli & C.

The Internal Audit Department has a significantly important role in the internal control system and, also for activities performed regarding subsidiaries, it has the main task of assessing the adequacy and functionality of control, risk management and corporate governance processes throughout the entire Group by means of independent assurance and consultancy. The work of the Internal Audit Department is carried out in accordance with its mandate and is approved by the Committee for Internal Control and Corporate Governance, regarding the following aspects:

- mission;
- objectives and responsibilities (independence, complete access to information, activity framework, communication of results);
- improvement in the quality of internal audits; principles of professional ethics;
- professional reference standards.

During 2007, as requested by the Institute of *Internal Audit (IIA)*, the Management of the *Internal Audit* department underwent an *External Quality Assessment* to evaluate its compliance of the activities it carries out with the *Standards for the Professional Practice of Internal Auditing* issued by the IIA, and was found to generally comply, the maximum mark attributable under the *standards* mentioned.

The Company also has in place a planning and control system that focuses on individual sectors and operating units and produces a detailed monthly report for the General Management teams, so that they have a useful tool with which to monitor specific activities.

To promote compliance with the strategies and guidelines adopted by the parent company, the General Managers and senior executives with responsibilities for the specific businesses and functions sit on the Boards of Directors of the largest subsidiaries.

Also regarding internal control, please note that – in order to comply with provisions in art. 154-bis of the Financial Services Act (as amended by the Savings Law, and more recently, by Legislative Decree no.303/2006), the Company initiated a project (named “Project 262”), guided by a specific steering committee, with the objective of making a system of controls for administrative and accounting procedures available to the administrative boards and the managers involved in the preparation of corporate accounts for the preparation and the validation of periodic accounting reports, which allow these individuals to make the declarations required by law.

12.3. Organisational Model ex Legislative Decree 231/2001

The internal control system described above has been further strengthened by the introduction of an organizational model that the Board of Directors approved on July 31st, 2003 and which was revised and modified according to updated regulations (with a resolution of the Board of Directors on 12 March 2007 to incorporate the legislative innovations introduced by law no. 123/2007 of 9 November 2007). The updated Organisational Model is available on the website www.pirelli.com.

The *organisational model*, which is intended to ensure the creation of a system responding to the specific requirements deriving from the entry into force of Legislative Decree 231/2001 on the administrative liability of companies for criminal offences committed by their employees,

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

- a Group Code of Ethics, which formulates the general principles (transparency, correctness and fairness) inspiring the conduct of business. It indicates the objectives and the values informing business activity in relation to the main stakeholders with which Pirelli & C. interacts on a daily basis: the shareholders, the financial market, customers, staff and the community,
- general principles of internal control, which qualify the Internal Control System and the field of application, and which extend uniformly across the various organizational levels;
- lines of conduct, which set out specific rules aiming to avoid the creation of environmental situations that favour criminal activity in general, and in particular, crimes covered under legislative decree no. 231/2001, and translate the principles established by the Group Code of Ethics into operational terms.
- internal control checklists, which set out the main phases of each high and medium risk process and of the instrumental processes, the specific checks to be performed with a view to reasonably anticipating the risks of any criminal offence, and specify the reports to be transmitted to the Supervisory Body to draw attention to situations of possible non-compliance with the procedures established in the organizational model.

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

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

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

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

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

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

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

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

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

12.4. External auditors

The audit of the company accounts is carried out by an external auditors appointed by the Shareholders' Meeting and chosen from the firms listed in the appropriate register kept by Consob.

For the financial years 2005-2007 the Shareholders' Meeting held on April 28th, appointed PricewaterhouseCoopers S.p.A., which was also appointed by other major Group companies to audit their accounts.

The fees paid to PricewaterhouseCoopers S.p.A. (and the other companies that are part of its network) are reported in detail in the notes to the consolidated financial statements of Pirelli & C at 31 December 2007.

The Shareholders Meeting called to approve the financial reports for the year ending 31 December 2007⁵³, pursuant to 159 of the FSA, at the reasoned proposal of the Board of Statutory Auditors, must award the task of auditing the financial reports and consolidated financial statements to a new External Auditor for the 2008 – 2016 financial years, and approve the fees for this work.

The Board of Statutory Auditors has kept the Committee for Internal Control and Corporate Governance constantly informed about the selection process and the technical and economic evaluation – performed independently of the Board of Statutory Auditors with the assistance of the competent company departments – and on completion has communicated its opinion also to ensure that article 165 of the FSA concerning the “auditing of groups” is complied with.

12.5. Officer responsible for preparing the company accounting documents

The Company bylaws⁵⁴ attribute the power to appoint the Responsible Officer to the Board of Directors, after having received the opinion of the Board of Statutory Auditors; they also establish that this appointment expires when the term of the Board of Directors making the appointment expires. The Responsible Officer must be an expert on administration and control matters, and possess the proper requisites, as established for directors.

In its meeting on 10 May 2007, the Board of Directors, as proposed by the Committee for Internal Control and Corporate Governance, with the favourable opinion of the Board of Statutory Auditors, appointed Claudio De Conto, Chief Operating Officer of the Company, to whom all the administrative and tax structures of the Group report, as the Responsible Officer.

The Board of Directors, in compliance with the provisions of the FSA, has assigned the following duties to the Responsible Officer:

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

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

⁵³ Cf. Note 6.

⁵⁴ Article 11 of the company bylaws.

Taking into account the provisions of the bylaws, the appointment of Dr. De Conto as Responsible Officer will expire when the shareholders' meeting approves the financial statements for the year ending 31 December 2007⁵⁵.

The Responsible Officer has attended all the meetings of the Board of Directors of the Company for which the examination of the economic-financial data of the Company was on the agenda, and has issued, after his appointment, the attestations and declarations specified in article 154-bis of the FSA.

The Responsible Officer reported to the Committee for Internal Control and Corporate Governance and, when the budget was being approved, to the Board of Directors, concerning the adequacy and suitability of the powers and means conferred by the Board of Directors of the Company, confirming that he had had direct access to all the information necessary for the production of the accounting data, without need of any authorisation, shared the internal flows for accounting purposes and approved all the company procedures that had an impact on the economic, financial and equity situation of the Company.

13. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

The Company has also had rules of conduct for transactions with related parties, including intra-group business, in place since 2002. The purpose of these rules is to guarantee effective procedural and substantial correctness and transparency in transactions undertaken by Pirelli & C, directly or through subsidiaries, with parties related to Pirelli & C. itself.

On the basis of these rules, the Board is called on to approve transactions with related parties and infragroup transactions in advance, when the transactions are not typical or usual and concluded at standard conditions. To this end, the Board receives an adequate report on the nature of the relation, the ways in which the transaction is to be carried out, the conditions, including the economic conditions, for its execution, the evaluation procedure followed, and the underlying reasons and interest, as well as any risks for the company. If the relation is with a Director or with a related party through a Director, the Director concerned must – unless the Board decides otherwise - limit him or herself to supplying clarification, and does not participate in the Board Meeting that will deliberate the transaction. Depending on the nature, value or other characteristics of the transaction, the Board of Directors, to ensure that the transaction is not carried out at incongruous conditions, is assisted by one or more experts who express their opinion on the economic and/or legal and/or technical aspects of the transaction.

Finally, please note that in order to identify what constitutes a related party, the Company – as also indicated by Consob – defines the concept of “related party” according to the IAS/IFRS principles (specifically IAS 24).

The text of the main principles of conduct is shown at the bottom of this report, and is available on the website of the Company at www.pirelli.com under the section entitled “Governance”.

14. BOARD OF STATUTORY AUDITORS

According to the law and the Company bylaws, the Board of Statutory Auditors is entrusted with monitoring the following:

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

⁵⁵ Cf. Note 6.

— the adequacy of the instructions issued by the Company to its subsidiaries regarding the reporting of price sensitive information⁵⁶.

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

15. APPOINTMENT OF STATUTORY AUDITORS

The Company bylaws provide that the Board of Statutory Auditors consists of three Statutory Auditors and two Alternate Auditors. In order to allow minority shareholders to elect one Statutory Auditor and one Alternate, the Company bylaws⁵⁷ specify that they are appointed using the so-called the slate system, meaning that one Statutory Auditor and one Alternate Auditor are elected from the slate that obtains the second highest number of votes (the so-called the minority slate). The remaining members of the Board (i.e. two Statutory Auditors and the other Alternate Auditor) are elected from the slate that obtains the highest number of votes (the majority slate). Shareholders who, alone or together with others, hold at least 2 per cent of the share capital entitled to vote at the ordinary shareholders' meeting, may present slates, and in this context it seems necessary to point out that CONSOB⁵⁸ has determined the percentage shareholding required for presentation by the shareholders of the slates of candidates for election to the administration and control bodies of Pirelli & C for the 2008 financial year as 1.5% of the capital with voting rights in the ordinary shareholders' meeting.

Pursuant to the Issuer Regulations, as recently announced⁵⁹, the slates must be filed at the registered offices of the company at least 15 days before the date of the shareholders' meeting called to deliberate the matter. While the current regulations should be consulted for further details, it is pointed out that if a single slate is presented, or if the several slates presented by shareholders are found to be linked, then slates may be submitted up to five days after the expiry of the date for their presentation (15 days before the shareholders' meeting) and the thresholds for their presentation are reduced by half.

Each shareholder may present or participate in the presentation of only one slate.

The slates must be accompanied by the following, also pursuant to the current regulations:

- information on the identity of the shareholders who presented the slates, indicating their percentage holdings and a certificate proving that they own such a holding;
- a declaration by shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting that there are no links;
- a professional curriculum vitae for each candidate and declarations in which the candidates individually accept their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and the bylaws.

Slates presented in violation of the above rules are considered null.

Subject to ineligibility, each candidate may only appear on one slate.

Slates must be divided into two sections: one for candidates for the position of Statutory Auditors and the other for candidates for the position of Alternate Auditor. The first candidate in each section must be selected from among persons entered in the Register of Certified Auditors who have worked on statutory audits for a period of not less than three years.

Each person entitled to vote may vote for only one slate. Additionally, according to the Company bylaws, the Statutory Auditor at the top of the minority slate which obtains the largest number of votes is entitled to Chair the Board of Statutory Auditors.

⁵⁶ Now referred to as "sensitive information" (article 114 of the FSA)

⁵⁷ Article 16 of the company bylaws.

⁵⁸ CONSOB deliberation no. 16319 of 29 January 2008.

⁵⁹ Deliberation no. 15915 of 3 May 2007 introduced "Title V-bis" of the Issuer Regulation, which deals with "Administration and Control Bodies".

In the event of death, resignation or disqualification of a Statutory Auditor, he (or she) is replaced by the Alternate Auditor from the same slate. If the Chairman of the Board of Statutory Auditors is replaced, the other Statutory Auditor elected on the same slate takes the Chair; if it is not possible to proceed in the manner described above, a shareholders' meeting is called to fill the vacancy or vacancies by means of a resolution approved by a relative majority of the votes cast.

When the Shareholders' Meeting must appoint the Statutory and/or Alternate Auditors needed to complete the Board of Statutory Auditors, pursuant to the previous paragraph, or to the law, the following procedure must be used:

If Auditors elected from the majority slate are to be replaced, the appointment is made with the favourable votes of a relative majority without being tied to a slate; if, instead, Auditors elected from the minority slate are to be replaced, the shareholders' meeting replaces them with the favourable votes of a relative majority, choosing where possible from among the candidates on the slate from which the Auditor to be replaced was elected. The principle of necessary representation of minorities is respected, since the bylaws assure the right to participate in the appointment of the Board of Statutory Auditors, in case of the appointment of Auditors who have been candidates on the minority slate or slates other than those that obtained the highest number of votes in the procedure to appoint the Board of Statutory Auditors⁶⁰.

For the appointment of Auditors for any reason not appointed according to the procedure described above, then the shareholders' meeting decides with the legal majorities.

Outgoing Auditors may be re-elected.

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

16. STATUTORY AUDITORS

The Shareholders' Meeting held on 21 April 2006 resolved to renew the Board of Statutory Auditors for the 2006-2008 period, appointing Luigi Guatri, Enrico Laghi and Paolo Francesco Lazzati as Statutory Auditors.

Luigi Guerra and Franco Ghiringhelli were appointed alternate auditors.

The appointments were made with the slate system. The single slate was presented by members of the Pirelli & C Block Shares Syndicate. The Company considers that the reason why no alternative slate was presented by the minorities is the authoritative and known character of the candidates proposed.

In the absence of members of the Board of Statutory Auditors from the minority slate, the Shareholders' Meeting decided to confirm the appointment of Luigi Guatri as Chairman of the Board of Statutory Auditors.

The Shareholders' Meeting also determined that the annual gross fee for each of the Statutory Auditors should be 41,500 euros, and that the gross annual fee of the Chairman of the Board of Statutory Auditors should be 62,000 euros; it also established that the Auditor called on to be a member of the Supervisory Board as specified in legislative decree no. 231/2001 (Paolo Francesco Lazzati) should receive an additional gross annual fee of 10,000 euros.

During 2007 the Board of Statutory Auditors held 7 meetings attended by all members of the Board, with a single absence at a single meeting. However, it should be noted that the members of this Board also attended the Shareholders' Meetings and the meetings of the Board of Directors of the Company, all of the meetings of the Committee for Internal Control and Corporate Governance held during the year, and the meeting of Remuneration Committee, as required by the corporate governance rules adopted by the Company, which offer the whole Board of Statutory Auditors the possibility of directly following the activities of the Committees and performing their control functions more efficaciously.

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

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

LEGEND

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

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

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

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

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

Auditor Lazzati resigned his office from the date of the shareholders' meeting that approved the financial statements for the year ending 31 December 2007⁶¹. Pursuant to the bylaws, on that occasion the shareholders' meeting deliberated with the legal majority without invoking use of the slate voting mechanism, since the conditions to do so did not occur.

In line with the provisions of the Self Regulatory Code⁶² and as expressly ascertained by the Board of Statutory Auditors, all Auditors may be defined as independent based on criteria contained in the Code regarding directors.

In accordance with international accounting principles, Pirelli & C. qualifies its Auditors as related parties for the Company, and this if an Auditor has an interest in a specific transaction of the Company the "rules of conduct for transactions with related parties" described in the preceding section "Interests of Directors and transactions with related parties" become applicable. It follows that, in accordance with the provisions of the Self-Regulatory Code⁶³, the Board receives an adequate report on the nature of the relation and the ways in which the transaction will be executed..

The Board of Statutory Auditors has monitored⁶⁴ the independence of the external auditors, checking that their instructions in terms of both the nature and entity of the services other than accounts monitoring provided to Pirelli & C, and its subsidiaries by the firm and its network are respected.

The Board of Statutory Auditors⁶⁵ coordinated its activities with the Internal Audit department and, as stated, staff from the latter participated in all the meetings of the Committee for Internal Control and Corporate Governance.

17. RELATIONS WITH SHAREHOLDERS

In line with its tradition of transparency and fairness, the Company actively promotes relations with shareholders, institutional and private investors and with financial analysts, with other market operators and with the financial community in general within the proper limits of their respective roles, and periodically organizes meetings both in Italy and abroad.

In March 1999, the Company established an Investor Relations Department to foster continuous dialogue with the financial market. The Investor Relations Department, which reports directly to Finance and Strategic Planning General Manager, is headed by Alberto Borgia and has its own section in the website of the Company at www.pirelli.com for both institutional

⁶¹ Cf. Note 6.

⁶² Self-Regulatory Code. Criterion of application 10.C.2

⁶³ Self-Regulatory Code. Criterion of application 10.C.4

⁶⁴ Also in accordance with the recommendations of the Self Regulatory Code : Criterion of application 10.C.5.

⁶⁵ (Criterion of application 10.C.6. and 10.C.7.)

and private (or retail) investors. Specifically, for the latter, a subsection (at the “Private Investors” link) has been created providing guidelines for more detailed knowledge of the activities of the Pirelli Group and other useful information on the performance of its shares.

While in the *Investor Relations* section, investors can find every document of interest published by the Company, in English as well as in Italian, related to financial reporting (e.g. the annual financial statements and the half-yearly and quarterly reports) and the corporate governance system of the Company (e.g., the bylaws, the regulations for Shareholders’ meetings, the Rules of conduct for transactions with related parties, the procedure for information flows to Directors and Auditors, the procedure for the management and communication to the public of sensitive information and the minutes of Shareholders’ Meetings). The section also gives access to press releases distributed by the Company and the documentation that the Company makes available to the financial community in presentations and/or meetings and information on the share capital of the Company and shareholders (including the publication of shareholders’ agreements).

To facilitate dissemination of its data, Pirelli & C. has taken action in several directions: during 2007, it has held regular meetings with the financial community and has taken part in conferences in the Auto/Autoparts sector during which it has been able to present the activity and progress of the Group in detail. The Company also participates in a number of sustainability indices, and has thus obtained many acknowledgements in the field of CSR.

Finally, it should be recalled that Pirelli & C. was one of the first companies in Italy and Europe to publish specific inserts giving economic and financial data in the mass media, as well as one of the first to set up a kit on its website for small investors.

Investor queries may be sent to:

e-mail: ir@pirelli.com; tel.: +39 02 64422949; fax: +39 02.64424686.

18. SHAREHOLDERS’ MEETINGS

The Shareholders’ meeting – that may be ordinary or extraordinary – has the competence, according to the law, for resolving upon a series of specified matters such as the approval of the financial statements, the appointment and the revocation of directors and auditors, their fees and responsibilities, the purchase or sale of own shares, the modification of the Company bylaws, the issuance of convertible bonds, and, except for restricted cases, merger and division transactions.

An ordinary Shareholders’ Meeting – which may be held in Italy, not necessarily in the registered office – may be convened within 120 days after the end of the financial year. The Shareholders’ Meeting to approve the financial reports for the year ended on 31 December 2007⁶⁶ will also be called to deliberate the modification of article 7 of the company bylaws, to incorporate the variations made to the FSA by Legislative Decree no. 195 of 6 November 2007, incorporating directive 2004/109/EC concerning the harmonisation of the requirements for transparency in information on issuer whose securities are traded in a regulated market. Specifically listed companies may not benefit from the possibility envisaged in subsection two of article 2364 of the Civil Code to derogate to the end of the period of one hundred and twenty days for the approval of the financial statements by the Shareholders’ Meeting, and thus the Shareholders’ Meeting is called on to eliminate from the bylaws the provision concerning the possibility of calling an ordinary shareholders’ meeting within one hundred and eighty days of the end of the financial year, when required by particular needs and after reporting the reasons for the extension of time in the report on operations provided with the financial statements. For full details of these proposals, please see the report that was drafted by the Directors regarding this matter that will be made available on the Company website, www.pirelli.com.

In addition to the law and the bylaws, shareholders’ meetings are governed by the Rules for Shareholders’ Meetings, which were approved by the shareholders’ meeting held on 11 May 2004, appended to this report and available on the website of the Company www.pirelli.com in the section entitled “Governance”. To allow supplementary agenda items to be raised by the shareholders, as introduced by the Savings Law, the Shareholders’ Meeting held on 23 April

⁶⁶ Cf. Note 6.

2007 deliberated some modifications to the rules, and in particular, granted the Chairman the right to provide those shareholders who have formulated a request pursuant to the law and bylaws, to raise supplementary items for discussion at the Shareholders' Meeting, granting them a period of no longer than 15 minutes to illustrate their proposals and explain the reasons for their inclusion. The possibility that shareholders may propose additional agenda items is also taken into account in the interventions proposed in renumbered item 12, intended to assure the shareholders proposing this right, recognised to the Board of Directors, to modify or supplement its own proposals. This also includes further formal modifications intended to provide greater presentational clarity.

The Shareholders' Meeting is chaired, in the following order, by the Chairman of the Board of Directors, by a Deputy Chairman or a Managing Director; if there are two or more Deputy Chairmen or Managing Directors, the meeting is chaired by the senior in age. In the absence of the aforementioned individuals, the Shareholders' Meeting is chaired by another person elected by the shareholders with the favourable vote of the majority of the capital represented at the meeting.

The Chairman of the shareholders' meeting – among other things – verifies that the meeting has been validly constituted, ascertains the identity of those present and their right to attend, including by way of proxies, ascertains the legal quorum and governs the proceedings, with the faculty to establish a different order for the discussion of the topics indicated in the notice convening the meeting. The Chairman also takes appropriate action to ensure orderly discussion and voting, establishing the procedures and verifying the results.

The decisions of the meeting are recorded in minutes signed by the Chairman of the meeting and the Secretary or by the Notary public.

The minutes of extraordinary Shareholders' Meetings must be prepared by a Notary public appointed by the Chairman of the meeting.

Article 7 of the Company bylaws specifies that shareholders' interventions for which the communication specified in article 2370 subsection 2 of the Civil Code, within two days of the date of the particular shareholders' meeting, are legitimate.

The bylaws do not envisage the non-availability of the actions for which the communications mentioned in the aforementioned article 2370, subsection 2 of the Civil Code until the 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 for shareholders' meetings provide that the Chairman determines the period of time available to each speaker at the start of the meeting, taking the importance of the individual items on the agenda into account, but in any event no less than 15 minutes. Persons who wish to speak must ask the Chairman or the Secretary, indicating the topic to which the speech refers. The request may be presented up to the moment the Chairman has declared closed the discussion of the matter which the demand to speak refers. Participants may ask to speak a second time during the discussion, for a period of no more than five minutes, solely for the purpose of replying or formulating voting intentions.

19. CHANGES AFTER THE CLOSURE OF THE FINANCIAL YEAR

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

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

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

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

LIST OF OFFICES HELD BY STATUTORY AUDITORS IN OTHER COMPANIES

Luigi Guatri	Banco di Desio e della Brianza S.p.A.	Director
	ACBGroup S.p.A.	Chairman of Supervisory Committee
	Centrobanca S.p.A.	Chairman of Board of Statutory Auditors
	Italmobiliare S.p.A.	Chairman of Board of Statutory Auditors
	Negri Bossi S.p.A.	Director
	RHFIM S.p.A.	Chairman of Board of Statutory Auditors
	Medinvest International S.c.a.	Director
Enrico Laghi	Banca Finnat S.p.A.	Director
	Beni Stabili S.p.A.	Director
	Nomura SIM Italia S.p.A.	Director
	Gruppo Editoriale Espresso S.p.A.	Auditor
	Alitalia – Linee Aeree Italiane S.p.A.	Chairman of Board of Statutory Auditors
	Alitalia Servizi S.p.A.	Chairman of Board of Statutory Auditors
	Raffinerie di Gela S.p.A.	Chairman of Board of Statutory Auditors
	RaiCinema S.p.A.	Chairman of Board of Statutory Auditors
	Sarbit S.p.A.	Chairman of Board of Statutory Auditors
	O1 Distribution S.r.l.	Statutory Auditor
	Rainet S.p.A.	Statutory Auditor
	Fendi S.r.l.	Statutory Auditor
	Servizi Aerei S.p.A.	Statutory Auditor
	IT Telecom S.p.A.	Statutory Auditor
	TM News S.p.A.	Statutory Auditor
	Iridium in liquidazione S.p.A.	Statutory Auditor
	Manzano Sviluppo S.r.l.	Statutory Auditor
Paolo Francesco Lazzati ⁶⁷	A.F.I S.p.A.	Chairman of Board of Statutory Auditors
	Acquario S.r.l. in liquidazione	Statutory Auditor
	Alfa S.r.l.	Statutory Auditor
	Amiata Energia S.p.A.	Chairman of Board of Statutory Auditors
	Antonio Cerruti & C. SAPA	Statutory Auditor
	APOGEO S.r.l.	Chairman of Board of Statutory Auditors
	Aree Urbane S.r.l.	Chairman of Board of Statutory Auditors
	Baleri Italia S.p.A.	Chairman of Board of Statutory Auditors
	Backdoor S.r.l.	Director
	Cam Partecipazioni S.r.l.	Statutory Auditor
	Capitolotre S.p.A.	Chairman of Board of Statutory Auditors
	Casaclick S.r.l.	Chairman of Board of Statutory Auditors
	Castello S.r.l.	Statutory Auditor
	CO.RE.COM	Statutory Auditor
	Credito Artigiano	Statutory Auditor
	Creval Banking S.p.A.	Chairman of Board of Statutory Auditor
	Dear S.p.A.	Statutory Auditor
	Dixia S.r.l.	Statutory Auditor
	Ecla Rete S.r.l.	Chairman of Board of Statutory Auditor
	Ecla S.p.A.	Chairman of Board of Statutory Auditor
	Edilnord Gestioni S.p.A.	Statutory Auditor
	Effe 2005 Finanziaria Feltrinelli S.p.A.	Statutory Auditor
	Elesa S.p.A.	Statutory Auditor
Elle Servizi S.r.l.	Director	
Erogasmet Holding S.p.A.	Statutory Auditor	

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

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

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

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

1. *Type and objective of the agreement*

The purpose of the Pirelli & C. shareholders agreement is to ensure a stable shareholder base and a uniform strategy in the management of the company.

2. *Parties to the shareholders agreement and Pirelli & C. shares transferred to the agreement:*

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

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

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

3. *The party, if any, which, through the agreement, can exercise control over the company*

There is no party which, through the agreement, can exercise control over Pirelli & C..

4. *Restrictions on the sale of the shares transferred and on the subscription and the purchase of new shares.*

The sale of the shares to third parties (and option rights in the event of a capital increase) is prohibited. Shares can be sold freely and pre-emptively to subsidiaries, according to article 2359, paragraph 1, point 1 of the Italian Civil Code, and to the parent companies as well as other participants to the shareholders agreement.

Each participant may buy or sell additional shares for an amount not in excess of the higher of 20% of the shares already transferred by the participant itself and 2% of the ordinary share capital issued; purchases of greater amounts are permitted only with the intent of reaching a holding equal to 5% of the ordinary share capital issued, on condition that the amount in excess of the above limits came under the shareholders agreement.

CAMFIN S.p.A. is authorized to freely purchase additional Pirelli & C. shares; it can transfer shares to the shareholders agreement, but to the extent that, at any one time, the shares do not exceed 49.99% of total shares transferred by all the participants in the shareholders agreement. This has been decided so that a stable predominate position is not assumed in the shareholders agreement or a stable veto power is not exercised over common decisions.

Except where the Pirelli & C. ordinary shares in the shareholders agreement correspond to the majority of the voting rights in the ordinary shareholders' meetings, each participant (also through parent companies and/or subsidiaries) intending to purchase shares of that category shall inform the President in writing beforehand and the President shall inform the participant if, taking into account the laws in force concerning tender offers, the participant can proceed, in whole or in part, with the proposed purchase. buy or sell the shares.

5. *Availability of the shares*

The shares transferred shall remain at disposal of the participants in the shareholders agreement.

6. *Bodies governing the agreement, composition, meetings and powers*

The Body governing the agreement is the Shareholders Agreement Executive Committee. The Shareholders Agreement Executive Committee shall consist of a president and vice-president, in the form of the president and the longest serving vice-president of Pirelli & C., and by a member representing each participant unless a participant has deposited more than 10% of ordinary share capital, in which case another member may be designated: for this purpose, in the event the shareholders agreement is composed of several companies related by a controlling relationship or belonging to the same parent company, their aggregate shall be considered for this purpose as one sole participant in the shareholders agreement.

The Shareholders Agreement Executive Committee shall be convened to evaluate the proposals to be submitted to the shareholders' meetings, for the possible earlier termination of the agreement and for the admission of new participants. The Shareholders Agreement Executive Committee shall also meet at least twice a year to examine the semiannual performance, the annual results, the general guidelines for the company's development, the investment policy and proposed significant divestitures and more in general, all the relevant matters of discussion by both the ordinary and extraordinary sessions of the shareholders' meetings.

7. *Matters covered by the Agreement*

Those contemplated in points 4 and 6 above.

8. *Majorities needed to reach decisions regarding the issues governed by the Agreement*

The Shareholders Agreement Executive Committee approves its resolutions with the favourable vote of the majority of the shares transferred; the Shareholders Agreement Executive Committee can designate a trusted person to represent the shares in the shareholders agreement at the shareholders' meetings in order to vote according to its instructions. Whenever the decisions of the Shareholders Agreement Executive Committee are not voted unanimously, the dissenting participant shall have the right to freely vote at the shareholders' meeting.

9. *Term, renewal and cancellation of the agreement*

The agreement shall be valid until April 15, 2010 and shall be tacitly renewed for a period of three years except for withdrawal, which can be exercised between December 15 and January 15 prior to the expiration date. In case of withdrawal, the shares transferred by the withdrawing party shall be automatically offered pro quota to the other participants. The agreement shall remain in force, whenever it is possible, at every expiration date, to renew the agreement for a percentage of Pirelli & C.'s subscribed ordinary share capital of not less than 33%.

10. *Penalties for breach of the commitments contained in the agreement*

They are not envisaged by the agreement.

11. *Registration of the agreement at the Company Registry*

The agreement is registered at the office of the Milan Companies Registry.

Milan, 16 November 2007

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

In principle, serving as a director or auditor of more than five companies other than those directed and coordinated by Pirelli & C S.p.A, or controlled or affiliated to such companies, is not considered compatible with serving as a director of the Company, when the companies are (i) listed companies included in the S&P/MIB index (or equivalent foreign indices), or (ii) companies operating prevalently in the retail finance sector (members of the lists specified in article 107 of legislative decree no. 385 of 1 September 1993) or (iii) companies that undertake banking or insurance activities; nor it is considered compatible for a director to hold more than three executive positions in companies described in (i), (ii) or (iii).

Offices held in more than one company in the same group are considered a single office, and executive positions prevail over non-executive ones.

The Board of Directors retains the right to form a different opinion, and this will be made public in the annual report on corporate governance, together with the congruent grounds for doing so.

Procedure for information flows to directors and auditors

1. INTRODUCTION

- 1.1 – The completeness of the available information to directors is essential for the proper fulfilment of their duties and responsibilities regarding the management, the direction and the monitoring of the business activities of Pirelli & C. S.p.A. (henceforth “Pirelli” or “the Company”) and of the Group.
- 1.2 – Similar appropriate information is due to the Board of Statutory Auditors.
- 1.3 – In compliance with the legal and the bylaws’ provisions, non-executive Directors and Auditors are therefore the receivers of a permanent information flows from the Executive Directors, who are coordinated by the Chairman of the Board of Directors who, if necessary, can refer to the Secretary to the Board of Directors of the Company.
- 1.4 – The purpose of the current procedure is to regulate the above-mentioned information flows in order to:
 - guarantee the transparency of the management of the Company;
 - ensure good conditions for efficacious and effective actions of direction and monitoring of the Company activities and management by the Board of Directors;
 - supply the Board of Statutory Auditors with the requisite tools for an efficient fulfilment of its role.

2. TERMS AND PROCEDURES

- 2.1 – The information flows to Directors and Auditors is preferably provided with written documents, specifically:
 - notes, memoranda, presentations and reports drawn up by Company offices or consultants, including those prepared for Board of Directors meetings;
 - other documents, published and un-published, available to the Company;
 - documents of accounting period of the Company that are intended for publication;
 - quarterly financial reports including external information, drawn up according to specific guidelines.
- 2.2 – The above-mentioned documentation is promptly transmitted to non-executive Directors and Auditors and, in any case:
 - with a sufficient frequency in order to ensure that legal and bylaws data provisions are respected;
 - according to coherent deadlines with the scheduling of the single Board of Directors meeting.
- 2.3 – The information reproduced according to the procedures above are integrated (or, if necessary, omitted for reasons of privacy) with the comments made orally by the Chairman, the Executive Directors or by members of the management of the Group during Board of Directors meetings or specific informal meetings, open to Directors’ or Auditors’ participation, and organized in order to go into topics about the management of the Company.
- 2.4 – The transmission of documents and any other material to Directors and Auditors is coordinated by the Secretary to the Board of Directors of the Company, in agreement with the manager responsible for of the accounting documents of the Company, as per his competence.

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

3. CONTENTS

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

4. GENERAL RESULTS AND DEVELOPMENT OF OPERATIONS

- 4.1 – The corporate activities of the Group are the focus of background information about management.
- 4.2 – Corporate activities are considered in a strategic perspective of planning and direction, as well as in terms of the attainment of results and in comparison with industrial and budget forecasts.
- 4.3 – General results and development of operations are regularly examined by the Board of Directors of the Company when they approve the accounting period reports. The attained results are compared:
- with historic figures (opportunistically reconstructed using pro forma figures in order to obtain homogeneous comparisons with previous periods);
 - with budget objectives, indicating the causes of possible variances, also in order to evaluate the effects of these variances on strategic or anticipatory objectives and/or on forecasts regarding following periods;
 - with the general trend of the sector and peers, in order to benchmark.

5. BUSINESS ACTIVITY

- 5.1 – General information about the completed business activity concern executive businesses and developments of operations already decided by the Board of Directors, as well as activities performed by Executive Directors – also through units and subsidiaries of the Company – in the exercise of their delegated powers).
- 5.2 – General information about the business activities are completed with a specific report of details regarding:
- transactions with significant impact on the profitability, assets or financial position of the company;
 - operations with related parties;
 - atypical or unusual transactions.

6. SIGNIFICANT TRANSACTIONS

- 6.1 – The following – besides operations reserved to the Board of Directors according to the art. 2381 of the Italian Civil Code and the bylaws of the Company – are considered transactions involving significant economic, financial and equity aspects when Pirelli or subsidiaries carry out:
- the issue of financial instruments for a total value higher than Euro100 million;
 - the granting of personal and collateral securities in the interest of subsidiary companies (and in the interest of Pirelli regarding collateral securities) against bonds having a unit value higher than Euro 25 million;
 - the granting of loans or securities in favour or in the interest of third parties for amounts higher than Euro 10 million;
 - the granting of loans in favour of subsidiary companies and the investment or disinvestment transactions, also real estate transactions, transactions for the purchase and the assignment of share, of company and company branches, of assets and other activity, for amounts higher than Euro 100 million;
 - merger and division transactions, when at least one of the parties is a listed company or when subsidiary companies are involved if at least one of the parameters indicated below, in case of application, come out equal or higher than 15% of:
 1. the total assets of the merged company, or of the business submitted to division/ the total assets of the Company (figures taken from consolidated balance sheet, if reported).
 2. the earnings before taxes and extraordinary items of the merged/incorporated company, or of the business submitted to division/the earnings before taxes and extraordinary items of the Company (figures taken from consolidated balance sheet, if reported);
 3. the total equity capital of the merged/incorporated company, or of the company branch submitted to division/the total equity capital of the Company (figures taken from consolidated balance sheet, if reported).
- 6.2 – Informative report on transactions with significant impact on the profitability, assets or financial position of the company shall highlight the strategic aims, the budget and the industrial plan coherence, the executive procedures (including economic terms and conditions for their fulfilment), the developments as well as the possible changes and implications for the activities of the Pirelli Group.
- 6.3 – Informative reports shall also be made for transactions that, even if they are individually smaller than the above-mentioned threshold value, are associated within the same strategic plan or executive programme and therefore, considered altogether, exceed the threshold values.

7. TRANSACTIONS WITH RELATED PARTIES:

- 7.1 – For the purpose of this policy, “related parties” refers to those subjects defined as such in the international accounting standards for the financial reporting of transactions with related parties, adopted in accordance with art. 6 of EC Regulation n. 1606/2002 as indicated in the “Information collection procedure”.
- 7.2 – The Company adopted this specific procedure in order to ensure that the principle of fairness is respected in substance and form for all transactions made directly or through subsidiaries with related parties with Pirelli.
- 7.3 – In addition to those transactions with related parties that are subject to the approval of the Board according to the above-mentioned procedure (atypical, unusual or 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 Euro50 million, and those with associated non infra-Group parties if they involve amounts higher than Euro 500.000. For each of these transactions, the following points must be indicated:

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

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

8. ATYPICAL OR UNUSUAL TRANSACTIONS

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

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

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

9. DIRECTION AND COORDINATION

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

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

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

INFORMATION COLLECTION PROCEDURE

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

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

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

“Front Line”) through the General Manager and Chief Operating Officer transmit, on a quarterly basis, to the Chairman and the Managing Directors, with an apposite note, the activities that the competent structure carried out in the period, highlighting specifically the transactions with significant impact on the profitability, assets or financial position of the company, the infra-Group transactions higher than Euro 50 million; non-standard, atypical or unusual transactions; the executive businesses and developments of operations already decided by the Board of Directors; as well as the main business activities carried out within the powers attributed to Managing Directors, including the most important launched projects and the most significant undertaken initiatives.

Informative reports shall also be made for transactions that, even if they are individually smaller than the above-mentioned threshold values or the values that reserve them to the exclusive competence of the Board of Directors, are associated within the same strategic plan or executive programme and therefore, considered altogether, exceed the threshold values.

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

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

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

At the frequency stated in point 1 above, General Operations Management collects and transmits to the Chairman and to the Managing Directors declarations from the subjects mentioned under letters a) to d) above, in which they provide evidence that the transactions involving amounts of Euro 500,000 or lesser amounts but non-standard conditions, executed directly by or through one of the subjects indicated in letters g) to k) above, including through third parties, with Pirelli or its subsidiaries, by themselves or, in the case of physical persons, by their spouse or dependents, as indicated in civic records.

In supplying this information, those transactions that, even if individually for smaller amounts than the above-mentioned threshold value, are linked as part of a single relationship and therefore, considered altogether, exceed the threshold value, must be highlighted.

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

Rules of conduct for effecting transactions with related parties

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

Procedure for the management and public disclosure of inside information

1. INTRODUCTION

- 1.1 — Information – in the sense of news about events, facts, figures or initiatives having a specific significance in relation to an entity’s activity – is a strategic component of a company’s assets and essential for its success. The appropriate and timely sharing of information is a necessary condition for the effective pursuit of business objectives, and underlies the most important corporate processes.
- 1.2 — Without prejudice to the provisions of applicable law concerning the protection and dissemination of particular categories of information, such as the personal and sensitive data referred to in the Code for the Protection of Personal Data (Legislative Decree 196/2003), the use of information must observe the general principles regarding the efficient exploitation and safeguarding of a company’s resources, which can be expressed in the case in question as the “need to know”. The use of information for purposes other than the activity of the business is to be considered an abuse and, on a general basis, all those who work to promote the interest of the Pirelli Group (the “Group”) are subject to confidentiality requirements concerning the information they acquire in or for the performance of their duties.
- 1.3 — However, the law imposes an obligation to disclose information not known to the public concerning a company and its subsidiaries which is of a precise nature and which, if it were made public, would be likely to have a significant effect on the price of that company’s financial instruments (inside information). The law also requires informational equality to be restored if inside information is disclosed prematurely to third parties who are not subject to confidentiality requirements under laws, regulations, bylaws or agreements.
- 1.4 — This explains the great delicacy of the stage preceding the “perfection” of inside information in which not only is it necessary to impose a confidentiality regime on inside information “in the making,” so as to avoid triggering the immediate disclosure obligation, but above all there is the fact that premature disclosure could be misleading for the market and/or harmful for the business.
- 1.5 — This procedure covers the handling – including the public disclosure – not only of inside information but also of information which could become such; it seeks to reconcile the fluidity of internal information processes with safeguarding information, especially as regards the give and take between the disclosure of inside information and the need to keep it confidential while it is being perfected. In this respect the procedure ties in with the internal rules of general application concerning the classification and management of information from the standpoint of confidentiality.

2. PURPOSE AND SCOPE

- 2.1 — This procedure (the “Procedure”) establishes:
- a) the requirements and responsibilities for the classification of inside information;
 - b) the manner of tracing access to inside information in the making, with special regard to the creation of the register referred to in Article 115-bis of Legislative Decree 58/1998 and Article 152-bis of Consob Regulation 11971 of 14 May 1999, as amended;
 - c) the instruments and rules for safeguarding inside information in the making;
 - d) the operational rules for the disclosure of inside information to the market and in general for public announcements and/or communications to analysts/investors.
- 2.2 — The Procedure is an essential component of the Pirelli Group’s system of internal control. It directly regulates inside information concerning Pirelli, its unlisted subsidiaries and the Group’s listed securities and serves as a template for the similar

measures that the other Group issuers of securities listed on regulated markets are independently required to adopt (including the companies that promote and manage shares of listed real estate investment funds).

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

3. PERSONS SUBJECT TO THE PROCEDURE

- 3.1 — The Procedure applies to all the members of the governing bodies of Group companies and those of their employees who have access to information that is likely to become inside information. In particular, all the senior managers are required to make a written declaration at the time of their appointment attesting that they have examined the Procedure and are aware of the responsibilities it entails for them.
- 3.2 — The conduct of persons external to the Group who, for any reason whatsoever, have similar access is governed by the rules laid down in the confidentiality agreement referred to below.
- 3.3 — The Procedure also serves as instructions to Pirelli's subsidiaries to provide, without delay, all the information needed to permit the prompt fulfilment of the public disclosure obligations laid down in applicable laws and regulations and, exclusively as regards listed subsidiaries or subsidiaries with financial instruments listed on controlled Italian markets or that promote and manage shares of listed real estate investment funds, to adopt equivalent measures.

4. BASIS

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

5. DEFINITIONS

— "Inside information" – As provided for by law, inside information concerning Pirelli means information of a precise nature which has not been made public relating to the Company or to its subsidiaries and which, if it were made public would be likely to have a significant effect on the prices of securities they have issued. Once inside information has been perfected, there is a general obligation to disclose it immediately to the public in the manner laid down in the Procedure.

— "Market sensitive information" – For the purposes of the Procedure, market sensitive information means information that could become inside information, i.e. inside information in the making. The following are examples of market sensitive information as defined here: operational results or forecasts, commercial offers, projects, contracts, events, including those of an organizational nature, corporate actions and business decisions. Market sensitive information is subject to the confidentiality regime laid down in the Procedure. This does not exclude the possibility of the same information also being classified as confidential under the standard method of classification, governed by the relevant internal rules, in light of the potential harm to which its inappropriate circulation would expose the Group.

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

6. REQUIREMENTS FOR INSIDE INFORMATION

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

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

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

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

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

- 6.4 — Inside information of “voluntary” origin is perfected when the fact (transaction, unilateral decision or agreement) to which the information refers is defined in the manner provided for by the applicable principles of corporate governance, laid down in laws and regulations, bylaws or internal rules. In this case the disclosure of inside information follows the adoption of the decision by the body competent for the matter that is the subject of the information (the Board of Directors or a body with delegated powers).
- 6.5 — As for agreements, the relevant moment is that of their substantial definition, in terms of content and legal bindingness, rather than that of their formal execution: the inside information is perfected as soon as there is a meeting of the wills of the parties with regard to the essential elements of the contract, with further negotiations not excluded. It remains necessary for the “will” of the Company (or its subsidiaries) to be expressed by a person authorized to commit the Company (or its subsidiaries), so as to ensure that the “will” – and hence the information – can be related to the Company (or its subsidiaries).
- 6.6 — In the case of inside information of “external” origin, i.e. information consisting of the verification of facts, events or circumstances of an objective nature, if the fact is instantaneous (e.g. the notification of a sanction or the resignation of a top manager) and not open to interpretation, the time at which it is received by the competent

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

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

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

7. CLASSIFICATION OF MARKET SENSITIVE INFORMATION

- 7.1 — In the case of inside information of “voluntary” origin, information may be classified as market sensitive by persons authorized to submit the event, transaction or process to the body competent to decide on it. Accordingly,
- in the case of initiatives of a strategic nature and those for which the Board of Directors is competent (e.g. extraordinary financial actions), information is classified as market sensitive by the Chairman of the Board of Directors, who may delegate the task to the Secretary of the Board of Directors, who may consult with the Managing Director and/or the General Directors;
 - in the case of decisions entrusted to bodies with delegated powers (e.g. a commercial agreement or the launch of a new product), the decision on the market sensitive nature of information is taken by the senior manager directly under the managing director.
- 7.2 — It is also possible for the classification to be made directly by the body competent to decide (i.e. by the Board of Directors or the bodies with delegated powers).
- 7.3 — Once information has been classified as market sensitive, the competent person must activate the procedures to cordon off the relevant informational context, so as to prevent the inappropriate internal and, above all, external circulation of the information.
- 7.4 — In the case of inside information of “external” origin – apart from that concerning instantaneous events not open to interpretation, the mere reception of which triggers the disclosure obligation – information becomes market sensitive (and subject to the corresponding confidentiality regime):
- if the informational content is the subject of a process of verification or construction that has already been formalized (e.g. the calculation of data to be included in a financial report), starting from the stage of the process specified by the senior manager responsible for the process. The specification of this critical stage must reconcile the organizational need for elementary data to flow freely with the need to counter the risk of leakage in good time (through suitable instruments and conduct);
 - if the process of interpreting and evaluating the event or circumstance has not already been formalized (e.g. the notification of a sanction), starting from the time the event or circumstance becomes related to the company, with the act of the competent senior manager if and when he considers that the information in question may become inside information.
- 7.5 — Before information is classified as market sensitive, it is at a preliminary stage to which the Procedure does not apply. This obviously does not exclude the possibility of the information being classified as confidential under the Group’s policy for the classification and handling of information, which also continues to apply after information has been classified as market sensitive.
- 7.6 — In carrying out their evaluations, the persons charged with classifying information as market sensitive may have recourse to the technical support of the Market Sensitivity Support Group, which, for example, may also draw up lists of facts and circumstances that would normally be considered relevant, in light of their nature, characteristics and scale.

8. REGISTER

- 8.1 — The register consists of a computerized system whereby access to the individual market sensitive informational contexts can be traced, so as to permit checks to be made on the data entered and any subsequent updates. Each person entered in the register is charged with ensuring the traceability of the handling of market sensitive information deriving from his sphere of activity and responsibility.
- 8.2 — Without prejudice to compliance with the regime laid down in laws and regulations, entries are made in the Register for:
- recurrent and continuous significant activities and processes (e.g. the preparation of financial reports, budgets, and forecasts);
 - specific projects and events (e.g. extraordinary corporate actions, acquisitions and disposals, and significant external events).
- 8.3 — Individual names are entered in the Register in connection with each recurrent or continuous process or each project or event (with the possibility of multiple entries in relation to different informational contexts), with an indication of the time the market sensitive information became available and, where appropriate, of the time it ceased to be available (entry to/exit from the relevant informational context).
- 8.4 — Responsibility for creating a new informational context and entering the necessary data (with an indication of the role played by each person with access to the information) coincides with the responsibility for classifying the information as market sensitive and is therefore allocated to the persons authorized to perform the classification (the Board of Directors, the Chairman of the Board of Directors, the Secretary of the Board of Directors if authorized by the Chairman, the Managing Director and the senior managers). The person who creates an informational context has primary responsibility for it and accordingly also decides on the reclassification of its content.
- 8.5 — At the time a new name is entered in the Register and of subsequent updates to the entry (either by the person primarily responsible for the informational context to which the market sensitive information belongs or by another person authorized to that end), the system automatically generates a message to the interested party, together with a document setting out the obligations, prohibitions and responsibilities connected with access to market sensitive information, including a policy for tracing individual information flows (see the document in Annex A).
- 8.6 — The definition of “roles” and the manner of keeping and updating the Register, the methods of retrieving data and the procedures for managing the database are set out in Annex B.

9. CONFIDENTIALITY MEASURES APPLIED TO MARKET SENSITIVE INFORMATION

- 9.1 — The Pirelli Group takes suitable measures to maintain the confidentiality of market sensitive information. In particular, without prejudice to the security measures laid down by the Group’s policy and the other safeguards suggested by experience and, in general, the prudence required to keep the risk of information leakage within reasonable limits, the organisational, physical and logical security measures set out below must be complied with.
- 9.2 — It is understood that the above-mentioned measures also apply:
- to inside information that has already been perfected but for which a delay in disclosure has been duly requested, until the information is actually disclosed;
 - subsequent to disclosure, to all the relevant preparatory material, without prejudice to the possibility of its reclassification by the person with primary responsibility for the informational context to which it belongs.

Organisational security

- 9.3 — The distribution of market sensitive information according to the guiding principle of the need to know is entrusted to the senior managers in Pirelli’s official organiza-

tion chart, who are required to inform recipients of the importance of the information transmitted and to make the necessary entries in the Register without delay.

- 9.4 — In the case of recurrent and continuous activities and processes, the identification of the persons authorized to have access to market sensitive information is a key aspect of the operational procedures governing such activities and processes. The Human Resources Function is responsible for updating the Register in line with developments in the internal organization.
- 9.5 — In order to access market sensitive information, persons external to the Group must first sign a confidentiality agreement. The template for this agreement, elements of which may be omitted only with the express authorization of the Chairman of the Board of Directors, the Secretary of the Board if authorized by the Chairman, or a Managing Director, is set out in Annex C.

Physical security

- 9.6 — The activity of producing material (including, but not limited to, the printing and photocopying of documents) containing market sensitive information must be overseen by personnel entered in the Register. The subsequent retention, distribution and management of such material are the responsibility of the persons possessing it, within the limits of such possession according to their entitlement in the Register. Each person is responsible for ensuring the traceability of the operations involved in the management of the material he has been entrusted with.
- 9.7 — Material must be labelled “market sensitive” to permit the nature of the information contained to be recognized; to this end, the names of any files, regardless of their extension, must include the code of the informational context to which they belong.
- 9.8 — Material containing market sensitive information must be kept in rooms with controlled physical access or placed in guarded or protected archives when no longer required and must never be left unguarded, especially when taken off the work premises.
- 9.9 — The destruction of material containing market sensitive information must be undertaken by the persons possessing it, in the most suitable way to prevent the improper recovery of the data.

Logical security

- 9.10 — When market sensitive information is processed, transmitted or stored in electronic form, it must be encrypted.
- 9.11 — The entry of data in the Register for a given informational context automatically results in corresponding entries being made in the database of authorizations to access the corresponding files, with the user profiles of the “roles” defined in the register, individually or by category.

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

- 10.1 — In the case of inside information of “voluntary” origin (i.e. inside information that is the subject of a process of verification), the person entitled to classify the informational context as market sensitive (i.e. the senior manager charged with the verification process) is responsible for promptly activating the preparation of the press release to be issued when the inside information is perfected.
- 10.2 — To this end, such person handles communications with the Media Relations Function (External Communication) and coordinates all the persons entered in the Register for the informational context in question who possess information that the Media Relations Function needs to prepare a draft press release. The Market Sensitivity Support Group checks the draft from the point of view of the congruence of the economic and financial data, its ability to meet the needs of investors and the financial community, its consistency with information already disclosed by the Company in financial reports or earlier press releases, and its compliance with applicable laws and regulations.

- 10.3 — The Information Officer decides whether to make ex ante checks with supervisory authorities (Borsa Italiana, Consob, etc.), where appropriate also with a view to submitting a duly formulated request to delay disclosure.
- 10.4 — The Media Relations Function then submits the draft press release resulting from the process described above for approval by top management (the Board of Directors as a whole if the Board is responsible for perfecting the inside information), incorporates any comments or changes and receives the competent director's authorization to make the disclosure. The Media Relations Function - after verifying the presence of the declaration by the General Manager and the manager responsible for preparing the Company's financial reports attesting the truthfulness of the press release if it contains information on the economic, equity, or financial conditions of the Group – issues the press release in accordance with applicable laws and regulations and immediately informs the Investor Relations Function and the Information Officer, so that they can perform the activities for which they are competent, as well as top management.
- 10.5 — After public disclosure, the Media Relations Function posts the press release without delay (and in any case before the market opens on the day following that on which it was issued) on the Company's website, with an indication of the date and time of the posting.
- 10.6 — In the case of inside information consisting of an instantaneous objective fact which is merely received, the process described above – *mutatis mutandis* – must be initiated by the member of the internal organization authorized to perform the necessary verification.

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

Rumours and requests by the authorities

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

Profit warnings

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

12. RELATIONS WITH THIRD PARTIES

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

Relations with the financial community

- 12.2 — Relations with the financial community are handled by the Investor Relations Function.
- 12.3 — On the occasion of meetings with the financial community (road shows, conference calls, conventions, etc.), the Investor Relations Function gives advance notice of the place, date and purpose of the meeting to the Market Sensitivity Support Group for its assessment of the aspects for which it is competent. It also provides draft versions of any documents that are to be presented/distributed to participants. Copies of the final versions of such documents must be sent to the Information Officer, so that any disclosures necessary may be made before the material is presented/distributed in the meeting.
- 12.4 — If the preliminary examination of the material finds it contains inside information, a suitable press release is prepared and issued at the initiative of the Information Officer. An analogous procedure is followed if inside information is unintentionally disclosed in a meeting.

Relations with the media

- 12.5 — The Media Relations Function (External Communication) is responsible for relations with the press.
- 12.6 — Interviews and statements concerning the Company, and meetings with reporters, may be given or made by the Chairman of the Board of Directors, the Managing Director after consulting with the Chairman, and other persons authorized by the Chairman, acting on a proposal from the Media Relations Function or otherwise. This Function clears the content of interviews and press conferences with the interested parties and keeps the Market Sensitivity Support Group constantly informed so that it may assess the aspects for which it is competent.
- 12.7 — If the preliminary examination of the material finds it contains inside information, a suitable press release is prepared and issued in the manner described above at the initiative of the Information Officer. An analogous Procedure is followed if inside information is unintentionally disclosed in an interview or at a press conference.

Conferences, meetings, courses and conventions

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

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

13. PUBLICATIONS

- 13.1 — The content of any document published by the Company (such as advertisements, advertising brochures, information booklets, company magazines, etc.) must be first checked by the External Communication, assisted by the Market Sensitivity Support Group, to ensure that the information is correct and consistent with the content of earlier publications and that it does not include inside information.
- 13.2 — If inside information is found during the above-mentioned check of the content of a document, a suitable press release is prepared and issued at the initiative of the Information Officer.
- 13.3 — Economic and financial information, corporate documents, presentations to the financial community and other documents concerning Pirelli are posted on the Company's website. Such posting, to be authorized by the heads of the competent Functions, may not take place until the Company has fulfilled the disclosure obligations imposed by applicable laws and regulations. For such purpose, the heads of the competent Functions sent such material to the Information Officer so that he may fulfil the obligations imposed by applicable laws and regulations.

ANNEX A

Notices to be sent to persons entered in the register

Pursuant to Article 115-*bis* of the Consolidated Law on Finance (Legislative Decree 58/1998, as amended, hereinafter the “CLF”), Pirelli & C S.p.A. has created a register of persons with access to information that is likely to become inside information as defined in Article 114 of the CLF (the “Information” and the “Register”).

Accordingly, this is to inform you, pursuant to Article 152-*quinquies* of Consob Regulation 11971/1999, as amended, that

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

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

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

Pursuant to Article 114 of the CLF, the Company must disclose inside information concerning the Company or its subsidiaries without delay to the public; it may delay the disclosure of such information, under its own responsibility, only in the cases and under the conditions established by Consob, provided that the Company is able to ensure the confidentiality of the information.

If Information is divulged to a third party who is not subject to a confidentiality requirement, the Company must disclose it in full to the public, simultaneously when it is divulged intentionally and without delay when it is divulged unintentionally.

It is therefore essential that persons entered in the Register observe the confidentiality requirements applying to Information to which they have access.

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

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

It should also be remembered that Title I-*bis* of the CLF provides for sanctions in the event of insider trading and market manipulation. In particular, Articles 184 and 187-*bis* provide

respectively for penal and administrative sanctions to be imposed on any person who, possessing inside information by virtue of his membership of the administrative, management or supervisory bodies of an issuer, his holding in the capital of an issuer or the exercise of his employment, profession, duties, including public duties, or position:

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

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

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

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

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

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

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

(The officer responsible for the Register)

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

Keeping the register; criteria for data management and retrieval

Design of the Register

Whereas:

- a) Article 115-*bis* of Legislative Decree 58/1998, as amended (hereinafter the “CLF”) provides for the creation of a register of persons who have access – on a regular or an occasional basis – to inside information “in the exercise of their employment, profession or duties”;
 - b) Article 152-*bis* of Consob Regulation on issuers, as most recently amended by Resolution no. 15232 of 29 November 2005 (the “Regulation”), specifies the information to be entered in the Register, with reference exclusively to the persons entered therein;
- the Register of Pirelli & C. S.p.A. (hereinafter, “Pirelli & C.” or the “Company”) is organized on subjective basis it is designed to hold data on natural and legal persons, entities and professional associations. For each person, the Register contains the nature of the relationship with the issuer in virtue of which he possesses information that may become inside information as defined in Article 114 of the CLF (“market sensitive information”). Persons are entered in the Register in accordance with their “Roles” under the relationship, of which there are potentially a great many, including:
- a) members of the administrative, management and supervisory bodies of the Company or Group companies;
 - b) employees of the Company or Group companies, in relation to the specific position held;
 - c) advisors, external auditors;
 - d) shareholders who provide direction and coordination, if any.

When specifying the profile of each Role, on the basis of the encryption program used by the Company, authorizations are issued to access the files related to the individual informational contexts for which the entry in the Register is being made.

Without prejudice to the above, entries may be made:

- on a regular basis, for recurrent and continuous activities and processes, such as the preparation of financial reports, budgets and forecasts and meetings of the governing bodies (“Recurrent Activities”);
- on an occasional basis, for specific projects and events, such as extraordinary corporate actions, acquisitions and disposals, and notifications of sanctions (“Projects/Events”).

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

Keeping the Register

A) Projects/Events

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

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

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

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

B) Recurrent Activities

At present the activities considered to be Recurrent Activities and as such to be entered in the Register are as follows:

- the preparation of periodic financial reports;
- the preparation of forecasts and the establishment of quantitative objectives;
- the preparation and holding of meetings of the governing bodies of the Company and its subsidiaries;
- the drafting of press releases pursuant to Article 114.1 of the CLF;
- relations with investors, analysts, and the media.

The analysis of the individual Recurrent Activities to identify the stage at which they must be entered in the Register is carried out by the Human Resources and Organisation Function with the assistance of the senior manager under the managing director competent for the activity in question. The Human Resources and Organisation Function is charged with the task of making and updating the entries in the Register, *inter alia* in line with developments in the internal Organisation.

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

Officer responsible for the Register

The officer responsible for the Register is the Secretary of Pirelli & C.'s Board of Directors, who, in addition to the duties specified in other parts of this document

- performs the general supervision of the keeping of the Register and may access all the

information it contains, with the right to retrieve data in any of the ways permitted by the system;

- handles relations with the judicial and supervisory authorities in the event of requests regarding the data contained in the Register;
- coordinates the Registering Officers and the settlement of any questions that may arise in the operation of the Register.

Data management and retrieval

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

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

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

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

The data contained in the Register can be searched using the following parameters:

- first name and family name;
- individual Projects/Events and Recurrent Activities;
- category of information (i.e. all the Projects/Events or all the Recurrent Activities);
- status (open, closed) of the Project/Event or Recurrent Activity.

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

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

.....

STRICTLY PRIVATE AND CONFIDENTIAL

Pirelli & C. S.p.A.
Via G. Negri 10
20123 Milan
Italy
To the attention of:.....

Re: confidentiality agreement related to:

.....
.....
.....
..... (“Transaction”)

Dear Sirs,

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

We acknowledge that, as a consequence of our involvement with the Transaction, you may make available to us data and information, in written, electronic or oral form, relating to:

- (a) the Transaction, including its existence;
- (b) Pirelli & C. S.p.A. (the “**Company**”) and/or its controlled companies and/or companies on which the Company exercises, directly or indirectly, a significant influence, and
- (c) the persons that own, directly or indirectly, a stake in the share capital of the Company (such data and information is collectively referred to as the “**Confidential Information**”)¹.

We hereby undertake to maintain the Confidential Information strictly private and confidential and not to disclose or disseminate the Confidential Information, without the prior written consent of the Company, to persons other than the following:

- (i) directors, managers or employees of [either] our company [or our affiliates (for the purposes hereof affiliates means the controlling companies or the companies controlled, also indirectly, by us and/or under common control, jointly the “Affiliates”)]²,
- (ii) legal counsels or other advisers or assistants or of either our company or the affiliates appointed with your prior written consent,
- (iii) partners, associates, advisers, employees or assistants of the undersigned firm and/or professional association,³

which are directly involved in the Transaction and need to know the Confidential Information.

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

¹ Delete any paragraph which is not applicable and or insert any further paragraph if appropriate;

² Insert reference to Affiliates if appropriate;

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

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

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

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

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

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

We further undertake to comply with the provisions set forth in the Decree, also taking into account that any of the Confidential Information may, pursuant to the Decree, become market sensitive information. In particular, we hereby represent:

- (i) to acknowledge any duties arising out the Decree; and
- (ii) to be aware of the sanctions set forth in the Decree also in the event of abuse of market sensitive information or market manipulation.

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

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

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

- (a) may terminate the agreements or contracts executed with us⁵ and still in force, if any, and
- (b) for a period of at least three years, will not enter into further agreements or contracts with us⁶.

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

[We acknowledge that all Confidential Information is, and will remain, the property of the Company and or its Affiliates. Upon request of the Company, all documentation containing Confidential Information, and all copies or excerpts thereof, shall be immediately returned to you and all and all electronic records of the Confidential Information shall be deleted or destroyed; we will give you written confirmation of such deletion or destruction as soon as it has occurred.

Without prejudice to any obligation under this agreement, we may keep a copy of the Confidential Information for recording purposes if expressly required by mandatory provisions of law, provided that we give you prior written communication.]⁷

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

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

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

Yours faithfully,

Consultant/Counterparty

.....

By:.....

Title:.....

⁵ Insert "and or our Affiliates" if appropriate;

⁶ Insert "and or our Affiliates" if appropriate;

⁷ Insert this paragraph if appropriate;

Insider dealing – Black-out periods

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

In particular, The Board of Directors decided that the relevant persons (“**Relevant Persons**”) (within the meaning specified in article 152-*sexies*, subsection 1, letters c.1 and c.3) of the Consob Regulation adopted in decision no. 11971/1999 and subsequent modifications¹, as well as those identified – including purely for self-regulatory purposes – by the Board itself, and the physical and legal persons² closely linked to the latter, shall abstain from carrying out transactions on Financial Instruments (as defined below) in the twenty days preceding the release of the economic and financial results of the period (definitive or preliminary).³

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

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

- (i) financial instruments listed in the Italian and foreign regulated stock exchange market, issued by Pirelli & C. S.p.A. and its subsidiary companies, excluding non-convertible bonds;
- (ii) financial instruments, even unlisted, attributing the right to subscribe, purchase or sell the instruments at point (i), including certificates representing the instruments at point (i);
- (iii) derivative financial instruments, including *covered warrants*, having as related asset the financial instruments at point (i), including when they are exercised by means of payment of a cash difference. Financial Instruments as defined in point (i) also include shares in real estate investment funds listed, promoted and managed by investment management company subsidiaries of Pirelli & C. Real Estate S.p.A.

¹ Article 152-*sexies* subsection 1 letters c.1 to c.3 of the Consob Regulation adopted with decision no. 11971/1999./

c.1) The members of the administrative and control bodies of a listed company;

c.2) The persons who act as directors of a listed company and the managers who regularly access privileged information and have the power to take decisions which may impact on the evolution and future prospects of the listed company

c.3) The members of administration and control bodies, those persons who act as directors of a listed company and the managers who regularly access to privileged information and have the power to take decisions which may impact on the evolution and future prospects of a company directly or indirectly controlled by a listed company, if the book value of the stake in the above mentioned subsidiary company represents more than fifty percent of the equity asset of the listed company, as resulting from the last approved Annual Report.

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

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

Regulations for shareholders' meetings

Article 1

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

Article 2

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

Article 3

— Meetings may be attended, with the right to take part in the discussion and to vote, by persons entitled to do so pursuant to the applicable provisions (hereinafter the "Participants").

— Unless stated otherwise in the notice convening the meeting, personal identification and verification of the right to attend the meeting shall begin at the place where it is to be held at least one hour before the time fixed for it to start. When the Participants have been identified and their right to attend verified, under the supervision of the Chairman, the auxiliary staff provided by the Company shall issue badges that serve for control purposes and to exercise the right to vote.

— The Participants shall be able to follow the discussion, take the floor during the discussion and exercise their right to vote, in the technical manner specified on each occasion by the Chairman.

— Participants who, after being admitted to the meeting, intend for any reason to leave the premises where it is being held, must inform the auxiliary staff.

Article 4

— Directors, senior executive and employees of the Company and of Group companies may attend the meetings, following also the course of actions decide by the Chairman, as may other persons whose presence is deemed useful in relation to the matters to be discussed.

— With the agreement of the Chairman and following the course of action decided by him, the proceedings may be followed by professionals, consultants, experts, financial analysts and suitably qualified journalists, accredited for a single meeting, in areas which could specifically be set aside for that purpose.

— Persons accredited to follow the proceedings must report for identification by the Company's appointees at the entrance of the premises where the meeting is to be held and collect a special badge to be exhibited upon request.

Article 5

— In accordance with the law and the bylaws, it is up to the Chairman to direct the meeting and ensure the best conditions for its orderly and effective conduct.

— The Chairman may authorize the use of audio-visual recording and transmission equipment.

Article 6

— In the conduct of the meeting and in the preparation of the minutes the Chairman shall be assisted by a Secretary, in case a Notary public is not present. The Secretary or the Notary public may in turn arrange to be assisted by persons of their trust.

— For the purposes of conducting the voting procedures, the Chairman shall be assisted by scrutineers; he may use auxiliary staff to provide the necessary technical support and to maintain order.

Article 7

— When the quorum for duly constituting the shareholders' meeting is not reached, after an appropriate period of time the Participants shall be informed of the fact and the discussion of the matters on the agenda shall be understood to be deferred until the next call of the meeting, if any.

— During a meeting the Chairman may, if he deems it desirable and the majority of the capital represented at the meeting does not object, suspend the proceedings for up to three hours.

Article 8

— Opening the proceeding of the meetings, the Chairman shall summarize all the items of the agenda.

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

Article 9

— The Chairman shall establish the order in which the items on the agenda are to be discussed, which may differ from that indicated in the notice convening the meeting.

— He may provide for several items to be discussed together or for the discussion to proceed item by item.

— The Chairman and, at his invitation, persons attending the meeting pursuant to the Article 4, paragraph 1, shall explain the items on the agenda.

Article 10

— It is up to the Chairman to conduct and moderate the discussion, ensure its correctness and prevent disturbances of the regular course of the meeting.

— The Chairman, taking account of the subject matter and importance of the individual items on the agenda, may establish at the start of the meeting the time - not less than 15 minutes - available to each speaker.

— The Chairman shall call on Participants to comply with the time limits for speaking established in advance and to keep to the matters stated in the agenda. In the event of an overrun and/or an abuse, the Chairman shall interrupt the speaker.

Article 11

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

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

Article 12

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

— The Chairman shall evaluate the compatibility of such proposals in relation to the agenda of the meeting and to the applicable provisions.

Article 13

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

Article 14

— The Chairman shall take appropriate measures to ensure the orderly conduct of voting and provide for the voting on an item to be held immediately after the close of the discussion thereof or at the end of the discussion of all the items on the agenda.

— The Chairman shall establish how each voting procedure is to be conducted and the procedures for identifying and counting the votes cast and shall be responsible for ascertaining the results.

Article 15

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