

# PIRELLI & C.

Società per Azioni (Public Limited Company)

Headquarters in Milan, Via G. Negri 10

Milan Companies Register n. 00860340157

## Minutes of the General Meeting held on the 21<sup>st</sup> of April 2006

PIRELLI & C. SOCIETÀ PER AZIONI (Public Limited Company)

GENERAL MEETING, 21st of APRIL 2006

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On the 21st of April 2006 , 10.50 am, in viale Sarca n. 214, the general meeting of **PIRELLI & C. S.p.A.** begins it's session.

Mr. Marco Tronchetti Provera assumes the presidency of the meeting as per the corporate charter and based on the unanimous consensus of those present, he proposes that Mr. Piergaetano Marchetti be nominated Secretary.

The President, first of all dedicates a minute of silence to Mr. Sergio La Macchia, who has recently passed away, then he states that:

- The meeting has been called upon to decide on the following:

### Agenda

1. Balance sheet as on the 31st of December 2005. Decisions regarding or following from the same.

2. Appointment of the Board of Auditors

- nomination of regular auditors as well as substitute auditors;
- nomination of the President of the Board of Auditors;
- decide upon compensation for members of the Board of Auditors.

3. Proposal of buy-back operations and share disposal mechanisms, by retraction of the decision made regarding the issue on the 28<sup>th</sup> of April 2005, as it has not been utilized. Inherent and successive deliberations. Attribution of powers.

- Notice of the convocation of the General meeting was published on the Official Gazette n. 65 on the 18<sup>th</sup> of March 2006; a correction to the notice was published on the official Gazette n.71 on the 25<sup>th</sup> of March 2006;

- The Notice of convocation was published also on the, Il Sole 24 Ore, MF and Finanza & Mercati on the same date, 18th of March 2006;

- the firm has not received any request to add issues to the Agenda, as required by art.

126-*bis* of the Legislative Decree n. 58/1998, as underlined by the law enacted on the 28<sup>th</sup> of December 2005 n. 262(the so called protections of savers/investors law);

- Based on the minutes, an insufficient number of shareholders were present at the first call convened on the 20th of April 2006. This shall be recorded on the minutes of the meeting logbook/Company meeting register.

With regard to the attendance of shareholders:

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- as stated in the documentation provided on the 18th of April 2006, corporate capital is equal to Euro 2,764,715,575.44 divided into 5,316,760,722 shares with a nominal value of 0.52 each, of which 5,181,996,293 common shares and 134,764,429 savings shares;

- as to date the firm holds 2,617,500 treasury shares.

Informs that at 10.50 am, the total number of shareholders attending the general meeting are 224 on their own behalf or by proxy representing 2,902,808,302 common shares. Thus participants present represent 56.02% of the common stock.

The President then ascertains and acknowledges that the Meeting is regularly constituted and can discuss and resolve points on the Agenda.

Following on, he observes and recalls that:

- the documentation regarding the different points on the agenda has been adequately circulated as per norms related to the issue and has been published on the company's website; specially, the file containing the firm's draft budget and the consolidated financial statement as on the 31<sup>st</sup> of December 2005, with the related director's reports has been made available to the public at the firm's head office and at the Italian stock exchange on the 31<sup>st</sup> of March 2006. The reports of the Board of Auditors and the auditing company as well as reports related to all other topics on the agenda have been filed using the same modality on the 4<sup>th</sup> of April 2006. The aforementioned documentation has also been provided on the firm's website;

- the same documentation is provided in the file with the printed financial statement that has been distributed to everybody at the entrance (that includes, besides other documentation, resolutions proposed by the Board); the said file has been sent to all Pirelli & C. S.p.A. shareholders on the 18<sup>th</sup> of April, to those who participated in the last three meetings and to those who requested a copy;

- on the 4<sup>th</sup> of April 2007 financial statements of the subsidiaries and essential data of related companies have been filed at the firm's office;

- another file has been distributed upon entry in this room, it contains the *curricula vitae* of the candidates for the auditor positions, presented in a united manner by the participants of the Pirelli & C. voting trust, it has been provided as per the rules on the 4<sup>th</sup> of April 2006;

- based on records of the register of shareholders that has been updated with the information received as per art.120 of the Legislative Decree n. 58/1998 and other available information, those with voting rights assessed higher than 2% of capital stock:

		Number of Shares	% of capital in terms of common stock
1	<b>MARCO TRONCHETTI PROVERA</b> Of which directly And indirectly through CAMFIN S.P.A. And indirectly through Cam Partecipazioni S.r.l.	<b>1,324,830,437</b> 13,764 1,323,599,275 1,217,398	<b>25.57</b> 0.00 25.54 0.02
2	<b>GRUPPO ASSICURAZIONI GENERALI S.P.A.</b>  GENERALI VITA SPA – No. 106,135,159 shares (2.05%)  INA VITA SPA – No. 104,949,245 shares (2.03%)  LA FÉDÉRATION CONTINENTALE COMPAGNIE D'ASSURANCES SUR LA VIE S.A – No. 57,400,000 shares (1.11%)  ALLEANZA ASSICURAZIONI SPA – No. 964,282 shares (0.02%)  INTESA VITA SPA – No. 842,952 shares (0.02%)  LA VENEZIA ASSICURAZIONI SPA – No. 38,640 shares (0%)	<b>270,330,278</b>	<b>5.22</b>
3	<b>RAGIONE DI GILBERTO BENETTON &amp; C.</b> Indirectly held, through EDIZIONE HOLDING S.p.A.	<b>241,614,636</b>	<b>4.66</b>
4	<b>MEDIOBANCA S.P.A.</b>	<b>233,001,859</b>	<b>4.50</b>
5	<b>PREMAFIN FINANZIARIA S.P.A.</b> Of which, indirectly held through FONDIARIA - S.A.I. S.p.A.	<b>226,586,994</b>  <b>225,260,998</b>	<b>4.37</b>  <b>4.35</b>

	MILANO ASSICURAZIONI S.p.A. 1,296,000 shares (0.03%) SASA VITA S.p.A. – No. 3,332 shares (0%) SASA ASSICURAZIONI S.p.A. – No. 26,664 shares (0%)		
6	<b>ALLIANZ AG HOLDING</b> Indirectly held, through R.A.S. S.p.A.	<b>223,000,000</b>	<b>4.30</b>

4- Furthermore 2,617,500 common shares, equal to 0.05% of share capital is held by Pirelli & C. S.p.A. itself, whilst no subsidiaries have shares of Pirelli & C. S.p.A.;

- the registered list of shareholders participating in the meeting will be available following entry in the room, once it's printed, it will then be attached to the minutes;

- shareholders are requested to kindly inform in case of their lack of legitimacy to vote as per the current rules of procedure;

- with regard to the semi-social agreements, as per art. 122 of the Legislative Decree 58/1998, there is a Pirelli & C. S.p.A. shareholder's voting syndicate; the following shareholders adhere to the agreement, the participation percentage based on common stock issues is specified for each:

	Number of shares allotted	% of total common stock issues
<b>CAMFIN S.p.A.</b>	<b>1,027,455,727</b>	<b>19.83</b>
<b>MEDIOBANCA S.p.A.</b>	<b>233,001,859</b>	<b>4.50</b>
<b>EDIZIONE HOLDING S.p.A.</b>	<b>232,992,911</b>	<b>4.50</b>
<b>FONDIARIA - SAI S.p.A.</b>	<b>223,543,498</b>	<b>4.31</b>
<b>R.A.S. S.p.A.</b>	<b>222,958,537</b>	<b>4.30</b>
<b>ASSICURAZIONI GENERALI S.p.A.</b> of which No. 57,400,000 shares through La Fédération Continentale Compagnie d'Assurances Sur la Vie S.A.  No. 82,779,265 shares through Ina Vita S.p.A.  No. 82,779,266 shares through Generali Vita S.p.A.	<b>222,958,531</b>	<b>4.30</b>
<b>BANCA INTESA S.p.A.</b>	<b>81,665,400</b>	<b>1.58</b>
<b>CAPITALIA S.p.A.</b>	<b>81,665,400</b>	<b>1.58</b>
<b>MASSIMO MORATTI</b>  of which No. 37,420,339 shares through CMC S.p.A. and No. 11,328,318 shares held by the trustee Istifid S.p.A.	<b>60,300,084</b>	<b>1.16</b>
<b>SINPAR HOLDING S.A. - SINPAR S.p.A.</b> No. 19,797,563 shares assigned by Sinpar Holding S.A. and No. 12,251,000 shares assigned by Sinpar S.p.A.	<b>32,048,563</b>	<b>0.62</b>

<b>Total</b>	<b>2,418,590,510</b>	<b>46.68</b>
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- And he states that:
- all directors of the board are present except Mr, Angelici, Mr. Benetton, Mr. Moratti, Mr. Perissinotto, Mr. Roveri and Mr. Secchi who justified their absence;
- the entire board of auditors is present ;
- the representative of the savings shareholders, the lawyer, Mr. Giovanni Pecorella is present;
- the representatives of the auditing company, information organs, experts and financial analysts and meeting assistance staff are all present ;
- recalls that that the meeting on the 11th of March 2004 approved the meeting regulations, a copy of which is provided on page. 81 and 82 in the financial statement file;
- based on the legal right and the rules of procedure, in order to allow the participation of all those present, recommends that only statements pertaining to the agenda item should be made, as well as reminding the audience that each speaker is allotted 15 minutes and is to respect this limit so as to allow for a smooth and correct functioning of the session;
- reminds all shareholders who wish to address the points of the agenda, to sign up using the relevant forms that are provided upon entry. When called, they should speak from the mike placed on the right-hand side of the President and not start speaking from the galleries, in order to allow everybody the chance to listen;
- those who wish to leave the room at any point, even briefly during the meeting, are requested to
- point that out at the check desks placed at the exit and
- to give back their participation tags to personnel in charge;
- informs that in order to facilitate the recording of those present at the meeting and the voting procedures , the firm shall be using an optical reading system for the poll cards provided with the forms given to all shareholders upon entry into the room;
- informs, that there is a recording device that is working, in order to assist in drafting the minutes of the meeting . A simultaneous translation service from Italian to English and English to Italian is also available. (headphones are available at the entrance doors);
- clarifies that all personal data that has been collected for registration shall be used only for the smooth functioning of the meeting and the minutes. All personal data shall be used with respect to privacy norms.
- reminds that shareholders are not allowed to make audio and video recordings of the sessions;

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- As all the documentation regarding the points on the agenda have been provided to the public (through the website) and sent to those who participated in at least one of the last three meetings and been provided to all upon entry, the President informs that as per custom, the reading of the material shall be foregone.

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Before moving to the first point on the agenda, that states “. **Balance sheet as on the 31st of December 2005. Decisions regarding or following from the same**” informs that PricewaterhouseCoopers S.p.A’s charges.

- for the auditing of the 2005 final accounts of Pirelli & C. S.p.A. are equal to 85.000 Euros for a total of 960 hours;
- for the auditing of the 2005 consolidated balance sheet of the Pirelli & C. S.p.A. Group are equal to 151.000 Euros for a total of 1.580 hours;
- for the limited review of the Pirelli & C. S.p.A six-monthly report is equal to 74.000 Euros for a total of 790 hours.

the hours and the charges for the account auditing also include activities as article 155, comma 1, letter a) of the Legislative Decree n.58/1998 specifies, related to the inspection throughout the year of the correct keeping of the books.

Compared to the decision of the General meeting, dated the 28<sup>th</sup> of April 2005, the mentioned charges are different as they take into account the reduction applied following the sale of the Cavi (Cables) segment to Goldman Sachs Capital Partners. In particular, the revision of compensations,

as decided by the Board of Directors in the meeting on the 12<sup>th</sup> of September 2005, following consent of the Committee for corporate governance and Internal Control and the Board of Auditors, in the 2005 financial year saw a reduction of 25,000 Euros for the controlling company Pirelli & C. (precisely from Euro 335,000 to Euro 310,000) and Euro 1,110,000 for its subsidiaries (Precisely from Euro 3,760,000 to Euro 2,650,000).

As for 2006 and 2007, the modifications will lead to fee reductions worth Euro 35,000 for the controlling company Pirelli & C. (precisely from Euro 335, 000 to Euro 300,000) and Euro 1,611,000 for its subsidiaries (precisely from Euro 3,760,000 to Euro 2,149,000).

Having said that the President declares the debate open and recommends that statements made should be pertaining to the agenda item. He reminds the audience that each speaker is allotted 15 minutes; at the end of the question and answer process and after eventually exercising a right to reply, it will be possible to express voting preferences.

**Mr. Gola**, as a first point, states that authorization could have been granted to shareholders to enter the meeting location by car. He notes, that having read the President's letter and the manager's report, it seems that the firm is doing very well. Net profit is 327 million Euros (+ 30%), indebtedness has decreased by 424 million Euros and is equal to 1,177 million Euros, sales proceeds have grown by 14.6% to 4,546 million Euros. The major stakes in the tyre, real-estate sectors, Olimpia and even the two start-ups, Pirelli Broadband Solution and Pirelli Ambiente (Environment) seem to promise interesting results in the future, once the initial start-up phase comes to an end. Everything then, seems to be going fine.

However, he states that he wishes to make some observations, with the spirit of providing some constructive criticism, hoping that Mr. Tronchetti Provera will conduct the meeting with the same calm and composure which he displayed at the last Telecom Italia meeting.

Mr. Gola starts by addressing the share price, which he believes is disappointing: the annual increase has been limited to just 1.82%. Moreover, the dividend has remained stable at 0.021 Euros and a yield of 2.66%.

Indebtedness has fallen by 424 million Euros, by using earnings from the transfer of the Cavi e sistemi (Cable and Systems) segment, which led to takings worth 1.2 billion Euros, of which 700 for deconsolidation of 700 million Euros worth of debt.

According to Gola, another point requiring attention is the stake in Olimpia, increased to 60.5% (percentage calculated as per IAS/IFRS) from 50.4%. Plus, upcoming acquisitions such as the stakes held by Banca Intesa and UniCredito Italiano, will require investments worth 1,170 million Euros, of which 80% will have to be borne by Pirelli. The stake held by HOPA- around 16%- will also have to be acquired, the price has still to be set by the two parties, but approximately it will be around 650 million Euros. He asks for more information on this point.

Mr. Gola affirms that Olimpia "incorporates" further problems, such as: the initial cost of the stake in Telecom Italia, more than 4.6 Euros/share, that is nearly double the current price. He recalls that some changes had already been made, but the residual value of 4.2 Euros per share is still far from the current price. In the future, for many years, it will not be possible to pay dividends with Olimpia's profits (equal to 152 million Euros in 2005) but they will have to be used to devalue the cost of Telecom Italia.

Furthermore, as it is a stake, Mr. Gola requests that a balance sheet and a profit and loss statement be included in the file given to shareholders in the future.

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On the same issue, he comments again that the shares directly acquired by Pirelli are equal to 2.62 Euro per share, that is, however higher than the market value.

In any case, according to him, the situation seems to be under control, as two strategic choices are being currently made, which will provide the firm with liquidity to face the liabilities required to acquire Olimpia's shares, without worsening the indebtedness. Mr. Gola reminds that the forecasted takings from the listing of Pirelli tyres on the stock markets are around 1.2-1.3 billion Euros and 400 million are expected from the transfer of non-strategic financial stakes. However, according to him, the fact remains that in two years, the firm has grown poorer, as it has had to transfer the

Cavi e Sistemi (Cable and systems) segment, and about 35% of Pirelli's historical tyre sector. Carrying on, Mr. Gola reiterates that he does not wish to generate any alarm with his words, as he believes that the firm has a great driving force behind it, that is Mr. Tronchetti Provera, who deserves the maximum trust. In this context, he also adds that there needs to be maximum control/check on expenditures. Regarding expenditures, he notes how the 19.50% stake in Internazionale F.C is a waste, last year losses were equal to 118 million of which, 24 were borne by Pirelli. Each year about 50 billion of the old Liras have to be paid for expenses, with results that, do not require a comment. He notes that besides expenditures, the team is also heavily sponsored by Pirelli and Telecom Italia as well as TIM, all this for a team with 11 foreign players and that has produced disappointing results for a long time.

Thus, Mr. Gola, hopes that the President will put the Inter stake among the list of stakes to be sold off, considering that it is a non-strategic investment. He wishes that the President will make the move to sell Inter even if the takings will be just one Euro, at least it will mean that there wont be any losses to cover in the next financial year.

The shareholder states that he read in the newspapers and some shareholders also mentioned that Mr. Tronchetti Provera would be the ideal man to take up the presidency of Inter, in case Mr. Moratti, disappointed by the team, the fans and the whole technical staff were to decide to sell off his share. In any case, in all cases, he urges the President to stay away from Inter: Pirelli, he states, has enough problems within its own Group. He asks for an answer on this point.

He mentions that his vote will be in favour, confirming his full trust with the president.

**Mr. Antolini**, makes it a point to state very clearly that his investment in Pirelli has been a reason of disappointment for him, and that is why he has decided, for the first time, to participate in the general meeting.

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With reference to his personal situation, he states that he is the holder of about 15.000 shares, the savings he has achieved thanks to his work: thus, his investment and his address at the general meeting will be about the protection of such savers as himself. He complains, that the firm very rarely has direct relations with the smaller shareholders, and that the relation has become like that between institutional investors and the firm.

On the other hand, Mr. Antolini, states that it is true that smaller shareholders cannot partake at the Board meetings or take part in the management of activities, but it is also true that they can participate at general meetings and provide positive and useful ideas: he hopes that the speeches made by shareholders will not be seen negatively or even as obstacles, but in the light of what they are able to offer.

Referring to some of the figures in the financial statement, Mr. Antolini notes how the net result for each share is 0.07 Euro. According to him this figure is quiet disappointing and that it shows Pirelli's inability to produce appreciable profits.

He then notes how the information provided in the financial statement has some discrepancies related to the number of factories/plants sold, as it is not clear if the number is 50 or 52. He then asks if it is the depreciation of these plants that has led to such disappointing results.

Mr. Antolini states that the ROS, ROE and ROI are equally disappointing. He addresses the President and renews his trust in him, however, he underlines that according to him, if the situation regarding Olimpia is not resolved, then Pirelli will find it difficult to get back to satisfying performance levels. He states that the price of Telecom Italia makes it impossible to retract or exit from the investment: he wonders if it would not be the case to propose a capital injection, bearing in mind the outflows that will have to be borne due to the release from the obligations with Hopa.

As the President calls him to respect speaking time, Mr. Antolini emphasizes how important it is to distinguish between shareholders who intervene to defend their savings and those who just want to disturb. As a conclusion, referring to the upcoming listing of the Tyre segment, he asks if there is any risk that what happened in other listed companies be repeated in Pirelli, that is , after the separation of the "good parts" of the activities, the share prices got worse.

**Mr. Cini**, notes how the profits are derived mainly from the tyre and real-estate sectors: thus, he thanks Mr. Puri Negri and Mr. Alberto Pirelli, emphasizing how the good results are also due to their personal efforts and qualities. He, however, states his disappointment about the proposed dividend, that has not changed for years, whilst other companies have paid out greater portions. He states that the share price is equally disappointing, even if the markets are growing and some shares have seen a substantial rise in their value.

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Carrying on, Mr. Cini states that the President has always re-assessed/re-valued different operational areas, from fibre optics, to cables and system, to tyres, always with a view to selling them off. Mr. Cini notes how, even in the letter to the shareholders 400 million Euros worth of sales are announced in the future. All operations however are meant to provide for the acquisition of 8% of Telecom Italia, which soon could rise up to 12%. If Edizione Holding, as per agreement were to retract from the investment it has made in Telecom Italia, another 431 million Euros of outlay would have to be considered. He notes that Mediobanca is among the investments that could be transferred.

Mr. Cini asks if there is any danger that even the building they are currently sitting in is about to be sold off. Pointing out that not even the Telecom Italia shares have appreciated, he hopes that no more intricate investments will be made in the future that go on to reward only the opposite parties. Mr. Cini addresses the Telecom Italia investment once more, noting how the price to be paid to the two banks that participated in the operation is about 580 million Euros, whilst the market value is about 120 million Euros. He claims that, Telecom Italia's recent acquisitions have always been "downwards", (€3.8 , then €2.60 and then again €2.32 Euro): there are indications from financial analysts, that point out that Telecom's future value could be around 1.70 Euros. He reminds the meeting how the President in the past had stated that the Telecom Italia share had an implicit value that was higher than the stock market price: however, today a correction worth 960 million Euros has been made. Considering that in the financial statement file there is a deficit balance of 66 million Euros for operations on Telecom Italia derivatives, Mr. Cini enquires if it is correct to say that the Telecom operation has been financially "destructive".

Relating to the rumours reported by the press, he states that according to some the Telecom Italia operation was begun by someone trying to assist the banks that were involved in financing Telecom, who saw a chance to take action by observing Pirelli's position and its liquidity reserves. Mr. Cini recalls, how the President himself recently claimed that if "there is any fraudulent activity it should come out: our lawyers have all the documents to proceed legally."

Recalling also some real-estate events in the near past, he calls on the president to be firm in case it becomes obvious that the firm has been "subject to fraud", with respect to the principle of creating value for the shareholders which has always been Mr. Tronchetti Provera's concern.

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Mr. Cini enquires if there is any chance of prolonging the expiry of the warrant and if the President will keep on acquiring Telecom shares personally. He also asks if there is any chance, in this concentration trend of major telecommunication groups, that the stake in Telecom Italia be sold. He also deems that there might be another cut in the chain of command: he hopes that it will not be once again the shareholders of Pirelli & C. who have to face the consequences of prejudice.

**Mr. Olivieri** states that he represents, Assogestioni, the Italian investment fund association that unites all the Italian SGR (savings management companies) and SICAV (open ended investment companies) as well as other banks and foreign financial intermediaries.

As is well known, Mr. Olivieri states, that for quite some time now Assogestioni, with its institutional aims in mind, has been participating actively at meetings of the major listed companies to promote and provide its guidance to improve corporate governance practices and their application in companies. Assogestioni appreciates the corporate governance system adopted by Pirelli, as it is among the select group of firms that fully apply the corporate governance code of listed companies, representing a good example for practice and good governance of the firm. The recent decision to immediately apply the norms introduced by the savings law, regarding the

appointment of the President of the Board of Auditors, providing an interpretation that is in line with that of the Assogestioni, is a proof of the above.

As for the application of the corporate governance code, Mr. Olivieri states that the corporate governance report attached to the financial statement also informs about the creation of a new figure, the Lead Independent Director, the office is now being held by Mr. Carlo Secchi.

Assogestioni views this decision as a good sign, as it believes that it clearly shows the firm's desire to involve its managers actively in the social life, both with general functions of control and monitoring but also for consultancy functions and as stimulants for management, always hand in hand with the task of having to see to the correct execution of the President's functions.

It is specially appreciated that this issue was already decided upon in a concrete manner in a first meeting dated in the year 2006.

Regarding the practices in other nations, that of assigning periodical self-assessment of the activities of the Board and that of its special committees to a specific committee, Assogestioni believes that it would be worthwhile to provide for such a system within Pirelli, as it is also included in the European Commission's recommendations of February 2005.

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Regarding the frequency of meetings of the Board of Directors and the Board of auditors, Assogestioni notes that the first one met 8 times during 2005 whilst the Board of Auditors held 5 meetings. The Assogestioni would like to know whether it would not be appropriate to increase the number of meetings of the Board of Auditors, with a view to the new and more serious responsibilities it is called to take up as per the new law on protection of investors/savers.

As a final point, with reference to the composition and frequency of meetings of the committees set up by the Board of Directors, Assogestioni notes that they have more rigorous procedures than not only the "old" corporate governance code, but also compared to the latest version that has been recently approved. As for the functioning of the committees, Assogestioni expresses its approval once again regarding the high level of participation at the meetings.

**Mr. Iaconcigh** expresses his compliments on behalf of the shareholders he represents for the results obtained in 2005, also appreciating the well documented and detailed financial statement file. He starts to address Olimpia's voting trust and the announced exit from Hopa, Banca Intesa and UniCredito Italiano, to express his appreciation for the strategy adopted by Pirelli, aimed at enhancing the value of its assets, especially through the IPO of Pirelli tyre, to then reinforce Pirelli's position in Telecom Italia: he continues by saying that the strategy will be successful. With regard to the aforementioned IPO, he questions whether a pre-emptive clause can be included into the informative prospectus for the current Pirelli shareholders and eventually also for the Group's employees.

Regarding the investments made in the tyre sector in the People's Republic of China, he asks for information regarding the level of appreciation that has been stated by the Group's managers and directors, about results in terms of production, quality and market penetration. Mr. Iaconcigh enquires whether there is any intention to localize the production of steel cords in China, which is a fundamental component involved in the production of tyres.

He also wishes to have more information about what are the prospected growth opportunities for Pirelli Ambiente (Environment) in a country like China, considering that the nation will have to increasingly pay more attention to its environmental problems.

Once again, with regard to Pirelli Ambiente's (Environment) activities, he asks what are the Group's prospects regarding the agreement reached with RE Energy, and what will be the results in terms of turnover and regional choices.

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With reference to Pirelli Ambiente (Environment), Mr. Iaconcigh states that the production of the anti-particle filter is something that can guarantee greater protection of the environment in the future, he asks what are the opportunities of this kind of activity in Italy, Europe and the rest of the world.

**Mr. Cavalli**, first of all recalls how during a general meeting held two years ago the President had, according to him, not allowed to talk about certain news items that the press had reported regarding Pirelli S.p.A., a behaviour which he condemns even today. As an ex- Pirelli S.p.A. shareholder he once again complains, that shareholders of the above mentioned company were penalized during the merger with Pirelli & C., claiming that he does not have any more hope of recovering the losses he faced. Mr. Cavalli claims that Pirelli today is nothing but an expression of Telecom, which moreover has been acquired at a price that has turned out to be excessive: regarding this he wishes to know also from the Board of Auditors whether the President aims to verify if Pirelli has been subject to fraud in the aforementioned acquisition case, anyhow he states that, according to him, the operation has not been carried out in a correct manner.

He carries on by reminding that the President, when talking to the press about RCS, had stated that everybody is free to invest wherever they wish, as long as the industrial projects have the ability to produce profits and wealth: Thus, he wishes to enquire in what way the Telecom Italia operation has generated wealth for Pirelli shareholders. He renews once again his request to the President to resign, stating that in the 15 years of Presidency of Mr. Tronchetti Provera, the value of the share, bearing in mind inflation, has not seen any substantial growth. He claims that the old Pirelli S.p.A., distributed total dividends worth 1 billion Euros. In other areas, however, Mr. Cavalli notes how the change in management usually helped to push up the share price.

In Pirelli's recent operations, according to him, those who benefited are actually the managers, those who, he states, received compensations worth 600 million Euros: referring to the proposal made by a shareholder for new capital increase - Mr. Cavalli states that he does not agree - he points out that the only capital increase that can be allowed should probably be underwritten by the managers themselves, who should put to use the compensations they have received to this purpose. He also asks for information regarding the actress who has been employed by Pirelli film, specifically asking to know how much she cost the firm, compared to for example a physicist who works at Pirelli's laboratory. He speaks quite strongly against the Pirelli Film initiative, according to him it has not produced significant returns.

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Mr. Cavalli, expresses his criticism against the investment in Internazionale F.C., recalling that next year the company will ask for a recapitalization of 200 million Euros, due to the fact that the "amortisation spread decree" has not come about.

Moving to the closure of his address and by referring to a recent article on the Il Sole 24 Ore, he asks the President what advantages his management has brought to the shareholders, pointing out that, even if Pirelli's share value were to be double of what it is today, for the shareholder it would just mean that he could benefit only by the equivalent value derived from the transfer to Corning.

**Mr. Girelli Consolaro** asks how many Telecom Italia shares and derivatives are held by Pirelli, and what percentage is that of the company's total NAV, in terms of the stake in Olimpia and the direct stake in Telecom Italia. He questions what is the current book price of Telecom Italia ordinary shares held by Olimpia and the price of the shares held by Pirelli and then again how much is the pro-quota of the potential capital loss of Pirelli for Telecom Italia and Olimpia shares. Mr. Girelli Consolaro carries on to ask questions regarding relations with Telecom Italia, he asks how much is the adjustment that has already been made for Olimpia and Telecom Italia, how much is Olimpia's current financial indebtedness and how many Telecom Italia shares have been given to the banks as a guarantee.

His final question is whether a capital increase is expected during the course of this year and whether the President has personally acquired Pirelli & C. shares.

**Mr. Le Pera** enquires about the composition of the real estate capital held by Pirelli and Pirelli & C. Real Estate S.p.A. ("Pirelli RE"), asking specifically for a table with the list of real-estate properties, their book value, their location and other additional information.

**Mr. D'Atri**, first of all thanks for the availability of the simultaneous translation service this year, a very important service considering the increasing links and exchanges with a country like China. He expresses his appreciation for the good governance of the firm: he affirms that Pirelli's interaction with the public is ahead of its time.

However, Mr. d'Atri, states that the same amount of attention, in terms of communication, should also be given to the subsidiaries: according to him Telecom Italia does not have a similar level of corporate governance.

According to Mr. d'Atri, Pirelli's financial statements can also be improved in some areas, especially with regard to the more financial typology of information. He asks, for example, to have an assessment of Pirelli Cavi (Cables) based on the cash flow, an assessment he states, that was at the basis of the sale negotiations. He also asks for an evaluation of Pirelli RE and Olimpia.

Carrying on he states that he wishes to know what is the real contribution of the independent managers.

Recalling that there is a call option on Convertible Telecom Italia bonds 2001 – 2010, he points out that according to him, those who hold bonds today, could have been asked to participate at the general assembly of Telecom Italia bond-holders.

Mr. D'Atri, asks for more information regarding the norms and procedures for internal control and governance that have been adopted as per D.Lgs. 231/2001 ("231"), also with regard to the greater responsibilities that managers will be bearing. He asks what are the rules of conduct the top managers of the firm will have to observe, noting how it is important for small shareholders to know not only the rules imposed by law, but also the so called "self-imposed" rules internal to the organisation.

With reference to the subsidiary Pirelli RE, he asks to be informed about the value of the recent real-estate property transferred by the Tecla Fund (Fondo Tecla), with capital gains worth €5 million.

Mr. d'Atri questions why the firm does not have any stock option plans for its managers, he also wishes to know the entity of the negative effect caused by the performance of Telecom Italia's share value on the firm's value, plus the exact assessment of Olimpia and Telecom Italia and who carried out the assessment based on the impairment test, so as to gauge the reliability as well as the independence of the subject.

Once again with reference to the stake in Olimpia and Telecom Italia, he enquires about the Board of Director's general strategy, as it is not enough to just hope that Telecom Italia's share price will improve. After all, he notes that there are many rumours, for example some suggest a forthcoming involvement of Banca Intesa in the telephone company: thus it is the duty of the Pirelli Board to explain and clarify its strategy.

As no one else asks to take the floor, the President provides the answers that are reported here below.

Starting off with a general overview of the firm's current situation, Mr. Tronchetti Provera underlines that positive results have been reached in all of Pirelli's business areas. The performance of real-estate has improved, results have improved also in the tyre sector, whilst results at Olimpia have significantly improved. Plus, a very important activity has begun in the environment sector, with the development of a Pirelli RDF. Activities have started for Pirelli Broadband Solutions in the product areas for access to broad band and second generation photonic products. The latter company will be able to make the best out of the collaboration between Pirelli Labs and the Telecom Italia Labs which will allow Pirelli to develop and Telecom Italia to use new, avant-garde technologies in the field of telecommunications. From an industrial point of view, all sectors assure good results, equally positive results have been recorded also with investments in the banking and publishing sector.

The President continues to state that on the other hand, the share performance cannot be called satisfactory, also due to the effect of negative Telecom Italia share prices. The latter company, after

all, is operating in a sector where for the last couple of years, the companies have always given signs of fear, related to the uncertainty regarding new technologies.

Thus, although Telecom Italia's results have improved, although the integration and technological convergence with TIM has been successful, Telecom Italia share and that of Pirelli keep on suffering.

Regarding this, Mr. Tronchetti Provera emphasizes however actually the integration operation between Telecom Italia and Tim has come ahead of the technological convergence that the whole telecommunication world is pursuing: The future of Telecom Italia is not just limited to providing telephone services, but a series of value adding services based on one unique platform represented by the internet protocol and broad band. However, today's market situation is one of uncertainty, where each operator's announcement promoting telephone services at competitive prices helps to produce a negative reaction in the share value. Actually Telecom Italia's technological offer is extremely competitive and thus, there are reasons to believe that in the future, share multiples will fall in line with the other sectors. The investment in Telecom Italia is quite far from what some shareholders have called it, a "disaster", it was an investment in a company that today has become the best company of its sector in Europe: when the trust will come back in the future, the markets will also recognize it.

Once again with regards to Telecom Italia and a shareholder who spoke earlier, Mr. Tronchetti Provera states that the day the firm has negative results due to management mistakes, he will be the first person to leave his position: but Telecom Italia, as for its management is concerned, has kept on improving its results to date. And the management must be given credit for that.

After all, the recent increase in Telecom Italia's indebtedness was due to its merger with TIM, it means, he underlines, that it was due to a strategic reason, which means that even if the operation is looked at strictly from a financial point of view, it has allowed to increase Telecom Italia's revenue thanks to the dividends provided by Tim, which before the fusion were meant for other, third parties.

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However, efforts will be continued in the management of Telecom Italia, so as to improve the results that have been obtained to date. Between 2002 and 2005 records show that production increased by 25%, these are results which neither the European competitors, nor any other company has been able to achieve. Mr. Tronchetti Provera emphasizes that if such efforts and results are kept up, sooner or later, the market will start appreciating the shares again, with a consequent benefit for Pirelli. As for the reasons why he has personally invested in Telecom Italia and not in Pirelli, the President clarifies that his choice was made in order to display his faith in the telephone company, a sign that indirectly also has its effects on Pirelli: he clarifies that he acquired common shares at 2.58 Euro each and savings shares at 2.18 Euros each: he is convinced that it was an excellent investment.

Moving to a topic raised by quiet a few of the shareholders, that of a hypothetical intention to exit the tyre sector, the President emphasizes that there is no such intention: Pirelli has a high technological level in this sector and it is positioned in the higher segment and it has activities in China and Romania. The decision to open up the firm to the market is a choice that is above all aimed at emphasizing the value of the tyre sector. The current phase, after all, is a moment where there is a lot of liquidity in the market and the listing on the stock market will be a further encouragement for those working in the firm. Hence, he repeats that there is no will to leave the sector, which after all has a high technological content, a characteristic that the group constantly seeks for, in each one of its investments.

Moving to the individual questions posed by the shareholders, the President first of all answers Mr. Gola, telling him that the organization of parking spaces at the meeting location was dependent on the uncertain presence at the meeting. The number of presences confirmed was quiet high (471), thus, it was deemed correct not to authorize the entry by car. However, in the future alternative solutions will be provided, so as to avoid this inconvenience.

As for the liabilities the firm will have depending on Hopa's exit from Olimpia (Answering to Mr.Gola), the President reminds how when the two parties break-up it will be Pirelli that will decide whether to go for a cash settlement or a split. If the first option were chosen, then 80% of the sum as mentioned by the shareholder, of the €650 million total, a figure that still needs to be set, will be covered by Pirelli.

The book value of Telecom Italia shares are transparently reported in the Pirelli financial statement at about 4 Euros per share: he restates that, if the listing multiples of the media sector were in line with that of the other sectors, then that book value would surely not have been far from the current value. However the value of the investment remains the same. As all figures on the Telecom Italia balance sheet are constantly improving, emphasizing the overall solidity. The President further reminds that if Pirelli has decided to invest its liquidity in fibre optics, today it would be recording a permanent value loss of about 80%.

As for the requests to have a summary of Olimpia's balance sheet, he points out that it is provided in the additional notes to the financial statement (page.242 of the file that has been distributed), as required by the IAS.

Carrying on with the answers to the questions raised by Mr.Gola, The President reminds that sponsoring costs for Inter were equal to 7.7 million Euros in 2005; Pirelli has also participated in the capital increase with 15.3 million Euros and it has carried out a write-down to cover losses worth 15 million Euros. These figures are much lower than the gross value of advertising returns from the press and television, that, based on an evaluation carried out by a foreign entity, has been valued at 128 million Euros. He also reminds that the games the team played with Pirelli written in Chinese on their shirts were viewed by 150 million people. Mr. Tronchetti Provera closes the topic by saying that he has no intention to take over the company.

Responding to Mr.Antolini, the President points out that the procedures that impose the use of a financial intermediary to gain legitimacy to participate in a meeting is due to the law. Pirelli shares, just like that of all listed companies are dematerialized and the exercise of rights (including, he repeats, that of participating at the meeting) requires a confirmation from the financial intermediary, that the person is actually the true holder of those shares. The firm does not have other evidence about the type of shareholder it is faced with. In any case, the documentation of such qualities is defined by Consob rules and regulations which the firm must respect.

As for the complaints about limited involvement of minority shareholders, the President assures that the firm adopts every means necessary to increase their participation.

As for Mr.Antolini's views regarding the excessive modesty of Pirelli's net result per share, The President reminds all 7 cents per share, considering the current market trends, is quite a good result, 9%. He clarifies that Pirelli has 24 plants after having opened an additional two tyre units in Romania and China.

Carrying on with the answer, The president points out that with regard to the shortening of the chain of command, the only exceptional operation that is foreseen is the listing of Pirelli tyres. During the course of the year the transfer of other financial stakes will be considered; he adds that no capital increase is planned.

The ROS, ROE and ROI ratios have constantly improved through the years. However it must be pointed out that the ROI seen in the financial statement is what is generally taken into account by the financial community. He reminds that results of a significant part of invested capital, as this part is recorded as returns from shareholdings are not included in the result, not used for the calculation of the ratio. Hence the adjusted ROI ratio would be around 9%.

Rerating to the observations made by Assogestioni, The President first of all expresses his thanks for the positive words on Pirelli's corporate governance system. As for the hopes of further improvement, to be an avant-garde company in all the nation, he points out that a self-assessment carried out by the Board of Directors is a well known idea, as it is currently being studied for application in Pirelli itself.

Regarding the meetings of the Board of auditors, the President underlines that besides the formal meetings and regular participation at the Board of Directors' meeting and sitting in at committee meetings, the auditors keep constant relations with the internal control committee, with managers who have the responsibility to draft periodical financial reports and with the auditing company. All these activities aim to allow the internal auditors to carry out their tasks precisely and efficiently, and their efforts or performance should not be measured by merely looking at the number of Board of Auditor meetings.

Mr. Guatri also expresses his agreement with the President's words.

The President carries on with his answers, with reference to a question posed by Mr. Cini about the investment in Pirelli RE., he states that the stake is considered as strategic. Moreover, the head quarter has already been sold with a view to the continuous and numerous real estate activities that take place. After reminding what he said regarding the value of Telecom in Pirelli and the current state of special operations, Mr. Tronchetti Provera points out, with relation to the Pirelli & C. warrant, as per regulations the expiry date is the 30<sup>th</sup> of June 2006 with the right to exercise by the 20<sup>th</sup> of June 2006, without any possibility to modify the mentioned rule. However it has to be taken into account that the number of warrants that are still in circulation amount to 207 million, which is equal to about 5.17 million conversion shares.

As for the hypothesis suggesting further acquisition of Telecom Italia (answering Mr. Cini) shares, he points out that Pirelli currently holds about 182 million shares, equal to 1.36% of the common capital. Further decisions will be evaluated in the future, also regarding the evolution of the body of shareholders of Olimpia.

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The President takes his time to discuss the acquisition of Telecom Italia, to confirm that, following the news reported in the press, the firm's lawyers have been given the mandate to protect Pirelli's position. The share packet was bought based on the objective data that was available at that point. Unforeseen facts emerged afterwards which then led to devaluations.

The President states that Pirelli's yield has been equal to 5.10% from 1998 to 2006, 4.29% if the 1994 to 2006 period is considered and 3.94% if the time frame is extended to 1992 to 2006. Hence, there has been no destruction of original value.

After stating that he has never stopped shareholders at the general meeting from discussing issues related to the firm or the Pirelli Group, he states with reference to Pirelli FILM, how more than 2 million people have seen the entire film on the web. The film cost about 2.5 million Euros and the female actress's fee was lower than 100,000 Euros: the initiative was considered as a significant success and the cost was quite contained compared to the visibility of the initiative.

Finally he states, with reference to Mr. Cavalli, that decisions regarding Inter's recapitalization requirements shall be made as and when such requests are made by the football club.

As for the questions posed by Mr. Iaconcigh, first of all, the President assures that in defining the listing modality for Pirelli Tyre, the firm will evaluate the suggestion made by the shareholder regarding the opportunity to reserve a part of Pirelli Tyre shares for Pirelli & C. shareholders, who in any case are free to adhere to the global offer that will be promoted.

As for the steel cords, he points out that to date the production volume of tyres in China is not enough to justify the construction of a special steel cord plant in that country. When the volumes increase, then obviously the possibility of a specific investment will be taken into account. On the other hand Pirelli is constructing a steel cord plant in Romania, a very good export base.

The chance of producing RDF in China is being studied as it is seen as a very interesting market also from this point of view.

With reference to Mr. Iaconcigh's questions on Pirelli Ambiente (Environment), the President states that the anti-particle filter allows for an innovative exhaust fume treatment system with the ability to reduce 90% of polluting elements from a diesel motor. The system comes with an oxidizing catalyst that can reduce emission of polluting hydrocarbons to up to 60% and 90% of carbon monoxide. Considering the problems related to pollution, the market is surely interested:

Pirelli Ambiente is already providing trucks and bulk vehicles with the filter in Lombardy and it is participating in national bids to supply the product across the nation.

As for the agreement with RE Energy, the President points out that the investment is being made in Great Britain and is aimed at developing RDF, refuse derived fuel invented and copyrighted by Pirelli. After all 35% of electricity in Great Britain is still produced by plants running on coal and the prospects of developing RDF seem to be particularly interesting.

Mr. Tronchetti Provera moves on to answer Mr. Girelli Consolaro's enquiries by pointing out that the stake in Olimpia represents 55% of net invested capital in the Group's consolidated financial statement as on the 31<sup>st</sup> of December 2005. The book value of the common Telecom Italia shares held by Pirelli equal to 1.36% and are in line with current market trends. Olimpia holds 2.4 billion Telecom shares ( 18% of the voting capital) valued at 4.2 Euros each. He repeats that in Pirelli's Financial statement the transparent value is about 4 Euros per share: there is a difference with regard to the Pirelli share and the actual stock market values, this is equal to about 2.1 billion Euros. Olimpia (with reference to the question posed by Mr. Girelli Consolaro) has currently provided 1.448 million Telecom Italia shares as a guarantee for financing, this represents about 60% of total shares.

Recalling what he has already mentioned about his personal acquisition of Telecom Italia shares, the President underlines how the acquisition demonstrates his faith in the investment, a faith that is further confirmed by Camfin's deep financial involvement: economic and industrial results however justify such efforts and trust.

The increase in investment in Pirelli by the President and companies of the Camfin Group are clearly shown in the table printed on page 51 of the financial statement report, this has been possible mainly due to the capital increase decided in January 2005.

In response to Mr. Le Pera's enquiries, Mr. Tronchetti Provera informs that the real-estate portfolio managed by Pirelli RE includes ( data in millions of Euros):

- residential real-estate: 1,186 in book value and 1,476 in market value;
- tertiary real-estate: 7,051 in book value and 8,618 in market value;
- areas: 136 in book value and 163 in market value;
- funds managed for third parties: 1,262 in book value and 1,413 in market value;
- total assets: 9,635 in book value and 11,670 in terms of market value, with a total pro quota for Pirelli RE, at a market value of 2,211 million Euros.

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As for the distribution and geographic location of the real-estate portfolio, the President points out that the spread is as following:

- greater area of Milan: 32%;
- Rome: 19%;
- Naples: 4%;
- Florence: 3%;
- Turin: 5%;
- Other: 37%.

Responding to Mr. D'Atri, Mr. Tronchetti Provera states that the role of independent managers in the Board of Directors' operations is described in the section on corporate governance included in the financial statement. He however takes pleasure in pointing out that the authority and professional characteristics of these managers- who represent about half the number of Directors- helps to make the debates more interesting and efficient at Board meetings and in committees with obvious advantage of their individual competencies. Plus, the introduction of the Lead Independent Director has amplified the importance of this figure.

As for procedures related to "231", he reminds that apical individuals make decisions each day as per the normal criteria as foreseen by the organisational criteria in the "231" itself. Rules regarding apical subjects are based on two elements: first of all the traceability of acts and secondly of

information flows towards control organs in order to choose or decide, for reasons of urgency or secrecy could determine different procedures than those foreseen by the organizational model.

To answer the question posed by Mr. d'Atri, the President informs him that real-estate property sold yesterday by the Tecla fund is located in Milan via Caviglia 11. The buying company is called Sireo Immobilienfonds and the price was equal to 28.9 million Euros (which represents a 6.6% capitalization rate on the rent); the gross capital gains are equal to 5.6 million Euros.

The President points out a last piece of information on the Telecom Italia, Pirelli, Camfin relation, a sensitivity estimate for the Pirelli shares when the Telecom Italia shares vary shows a correlation, in case both the put options of the banks are exercised, of about one, or in other words a change in Telecom would lead to an equal rise in Pirelli shares. However, one must bear in mind that it is just a theoretical model, with all the simplifications of the case. He adds that the performance sensibility of Camfin towards Pirelli is of 1.4%.

As a final point the President informs that the independent expert who carried out the evaluation for the impairment value is Prof. Mauro Bini, professor of corporate finance at the Bocconi University of Milan. The evaluation was carried out through the application of two types of models (the firm's multiples and comparable transactions and option pricing models). Out of the two, none suggested the need to devalue the asset.

The President gives the floor back to the speakers for eventual replies.

Mr. Antolini, referring to the Olivetti acquisition operation, states how a part of the wealth its key players enjoy are derived, according to him, from the pockets of small shareholders/savers. He claims that the President probably more for Olivetti than it was worth, due to his strong desire to put an end to the acquisition. He recalls how after the public purchase offer for Olivetti, its share value fell: when a capital increase was proposed at €2.6 per share he decided not to join, but rather bought shares on the market at €2.5 per share. According to Mr. Antolini, this is the value that the market had already recognized for Telecom Italia in those days. He, thus hopes that the President's guess about Telecom's potential in riding the technological wave will be successful and that the share price of Telecom Italia will rise up to 5 Euros per share. Mr. Antolini concludes by saying, that if that happens then the President would be right and the price paid at the time of purchase will be justified.

Mr. D'Atri, once again talks about the Group's corporate governance, he reaffirms that according to him the controlling company's standards are not used in subsidiaries and associated companies: he asks the President if he shares his view.

As for his questions regarding the real-estate sector, he clarifies that he wishes to know the value that was attributed to the real-estate property recently sold by the Fondo Tecla, in other words its value after evaluation. He hopes that a way can be found to involve smaller shareholders in the sale procedure of real-estate assets. He wishes to know what was the assessment of Cavi e Sistemi (Cables and Systems) before the transfer and the exact value of Telecom. He further recalls the questions made about the convertible Telecom Italia 2001-2010 debenture loan, and the reasons why the Board of Directors does not deem it right to adopt a stock option plan for its managers.

Mr. d'Atri carries on, acknowledging that Board believes that the share is not adequately appreciated by the market, he asks why the warrant cannot be extended and other forms of capital increase are not considered, maybe through the conversion of bonds or other financial instruments.

Mr. Gola, asks if Olimpia intends to have a dividend distribution policy, or if its intentions are to use the income to write-off the book value of Telecom Italia shares.

Mr. Cini, notes that maybe there has not been a destruction of value, but some sort of a "creation destruction". He asks if Olimpia has or has not distributed its profits and if it is possible to take action for unfair competition practices, referring to the behaviour of some telephonic competitors. In the end he enquires whether it is correct to say that Pirelli Ambiente had a turnover of just 66 million Euros.

With reference to Mr. Antolini's comments, the President reaffirms that the Telecom Italia acquisition had nothing to do with "passion": the company had and still has important goals and the

price that was paid, was backed by various analyses carried out by important investment banks and judged as correct related to the majority premium implied in the share block deal.

He goes on to state that the Group applies the same rules of Governance in all its subsidiaries, respecting naturally the various levels the norms allow space for.

After confirming that there is no stock option plan for managers, the President reminds that the market provides a wide variety of instruments to those who have faith in the company, to invest in it with a limited financial commitment.

He specifies to Mr.Gola that this year Olimpia has not had profits, 'because it went on with the devaluation of Telecom Italia shares based on the expectation of share performance, which however were not maintained. The choices in future will obviously be based on the evolution of these expectations. Points out to the meeting that Pirelli Ambiente is in a start-up phase: the 66 million turnover figure is thus, a first step. He clarifies that for Pirelli the exact value of Telecom Italia stands at 4.02 Euros per share.

The President calls on the Vice President Puri Negri to take the floor, the latter states that Pirelli has a 5% stake in the Tecla Fund. The sale procedures need the approval of the advisory board, which is assisted by an independent technical committee. The exact value of the appraisal to which Mr. d'Atri was referring to was equal to 27.6 million Euros, faced with a selling price of 28.9 million. In any case, sales take place as per market dynamics.

After taking back the floor Mr. Tronchetti Provera notifies that when unfair competition is reported legal procedures are adopted immediately. It must be mentioned that many a time wrong conduct is not something competitors do, but also external resellers/retailers. He clarifies that as of 31 December 2005 Pirelli only has an option on the convertible Telecom Italia 2001-2010 bonds, thus he is not able to indicate to the possessor anything regarding the participation in bondholder's meetings.

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As no one asks for the floor, the President:

- declares the debate under agenda item one as closed and urges all shareholders who wish not to participate in the vote, to communicate their intentions to the appointed personnel giving them the relative forms, which will be given back at the end of the voting procedure. The President reminds that, in this case, the relative shares will not be included in the calculation of the *quorum*;
- the President informs that, with regard to the decision, at 1,23 pm, the shareholders that participate on their own behalf or by proxy are 225 and represent 2.902.923. common shares being entitled to a relative numbers of votes, which correspond to 56,02% of the total amount of the ordinary shares;
- at 1,23 pm, he starts the voting procedure by show of hands on the proposal to approve the financial statement and the assignment of the 2005, as per page 87 of the file distributed upon entry, for which voting form n.1 will be used The proposal is reported hereinafter:

*“The Shareholder’s meeting:*

- *acknowledges the BoD’s management report;*
- *acknowledges the Board of Auditors and auditing company’s report;*
- *having viewed the balance sheet as on the 31st of December 2005 that ends with profits worth Euro 139,769,313*

### **DECIDES**

*a) to approve:*

- *the BoD’s management report;*
- *the balance sheet, the profit and loss statement, notes to the financial statement of the closing of the financial period on the 31<sup>st</sup> of December 2005 that show profits worth Euro 139,769, 313 as presented in totality by the Board of Director, in their single records, with the proposed assignment;*

*b)to allocate the yearly profits Euro 139,769,313 as following*

• 5% to the legal reserve	Euro	6,988,466
• to the shareholders:		
Euro 0, 0210 to 5,179,378,793 (*) common shares, for a total of	Euro	108,766,955
Euro 0,0364 to 134,764,429 (*) savings shares, for a total of	Euro	4,905,425
• profit surplus	Euro	19,108,467

(\*) net of: 2,617,500 common shares currently held by the company. The number of shares considers the warrants till the 12<sup>th</sup> of March 2006;

c) "To authorize managers in case before the maturity of the dividend b) buying and selling operations of treasury stock take place to be aimed at and/or withdraw from last years profits for the dividends that are due for these shares, as well as attributing to the same entry the balance of the rounding that could result at payment of the dividend."

The meeting approves with a majority.

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Against: n. 327,100 shares.

Abstain: n. 67.550.752 shares.

The remaining in favour: n. 2.835.045.882 shares.

The details of the voting process are attached.

The President announces the result and confirms approval of:

- the balance sheets of Pirelli & C. S.p.A., closed on the 31st of December 2005;
- the allocation of the 2005 yearly profits.

The dividends shall be put in payment starting from the 25<sup>th</sup> of May 2006, with dividend warrant dated 22<sup>nd</sup> May 2006

\* \* \*

The President moves to the second point on the agenda, **“Appointment of the Board of Auditors; nomination of regular auditors as well as substitute auditors; nomination of the President of the Board of Auditors; decide upon compensation for members of the Board of Auditors.”**

As communicated at the beginning of the meeting only one list has been presented by the united Pirelli & C. S.p.A. voting trust. The list has been presented as per the modalities required in the charter and as per the recommendations contained in the new corporate governance code of listed companies, dated 4 April 2006 and quickly made public by the firm on its website and in the section dedicated to the meeting. Along with the list, the participants of the voting trust have also proposed to set at Euro 41,500 the gross annual compensation for every regular auditor, Euro 62,000 for the gross annual compensation of the President of the Board of Auditors and Euro 10,000, as the additional annual gross compensation for the auditor who is called to be a part of the controlling organ as per al D. Lgs. 231/2001.

He thus reads the list as provided below:

Section1 Regular auditors

1. Luigi Guatri
2. Paolo Francesco Lazzati
3. Enrico Laghi

Section 2 Substituting auditors

1. Luigi Guerra
2. Franco Ghiringhelli

The President also points out that besides the list, the following have also been deposited at the firm’s headquarters:

- The declaration of acceptance of candidacy, the certifications required as per the charter and current rules, as well *curricula vitae of the candidates*, with evidence of managerial and control positions they have held in other companies;

- copy of the document proving that the members have the right to present the list.

Given the stature of the candidates, and by consensus of those who spoke, he omits the reading of the *curricula vitae* and the list of managerial and control positions held by them in other companies; both *curricula* and the jobs – up to date- are also available in the file handed over upon entrance, which is also attached to the minutes, as per article 2400, last comma of the civil code

After expressing his thanks to Mr.. Bracchetti, the outgoing auditor, for the professionalism with which he has carried out his task through all these years, the President states that the floor is open and ready to discuss the second point on the agenda, he recommends that statements made should be pertaining to the agenda item. He reminds the audience that each speaker is allotted 15 minutes.

Mr. D'Atri, first of all notes how various directors leave the room during the course of the meeting and states that there should be a record of the same.

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Regarding the issue at hand, he points out that as there is a just one list of auditors, it is impossible to nominate a President as expression of the minority. He states that according to him the Firm should also bear some responsibility for the fact that there is no other list is, it should do more to encourage participation of smaller shareholders. He asks what kind of strategy the Board of Directors intends to pursue to ease, for example, the entry of a minority auditor in to the Board of Auditors.

He announces that he will vote in favour of the list and consequently the candidacy of Mr. Guatri as President, however he also calls on all the new members of the Board of Auditors to collaborate with the Board of Directors, to enhance the active participation of minorities in all activities.

The President agrees with the words of Mr. d'Atri, regarding the impossibility to nominate a President as an expression of the minority, due to the presence of just one list, he states how the situation today regarding this matter is one at a pause, as the Consob has not yet issued a rule regarding the nomination of auditors, it is still expected. The firm is however always careful to walk on a path of improvement regarding its governance and sometime it anticipates normative innovations.

As no one asks for the Floor , the President :

- declares the debate under agenda item two closed;

- moves to the voting, by clarifying that three distinct voting procedures shall take place, respectively:

-- Appointment of regular and substitute auditors;

-- Appointment of the President of the Board of Auditors;

-- Deciding upon compensation for members of the Board of Auditors.

## **2. a Appointment of regular and substitute auditors.**

The President, passing to the next item, i.e.: the appointment of the regular and substitute auditors for the 2006, 2007 and 2008 financial years to be nominated by voting the lists, he reminds that only one list has been jointly filed by the members of the Pirelli & C. voting pact (the list has been previously read and is reported in the file distributed at the entrance).

The President then:

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- before starting the voting procedure, for which the "2a" form is used, and urges all shareholders who wish not to participate in the vote, to communicate their intentions to the appointed personnel giving them the relative forms, which will be given back at the end of the voting procedure. The President reminds that, in this case, the relative shares will not be included in the calculation of the quorum;

- because only one list has been filed, he reminds that the voting will take place by show of hands, as usual. The personnel appointed will gather only the forms from the votes against and the abstentions, as a counterproof;
- informs that, with regard to the decision, at 13:35, the shareholders participating on their own behalf or by proxy are 215 and represent 2,902,041,689 common shares being entitled to a relative numbers of votes, which correspond to 56.00% of the total amount of the common shares;
- at 13:35, he starts the voting by show of hands with regard to the appointment of Luigi Guatri, Paolo Francesco Lazzati and Enrico Laghi as regular auditors and Luigi Guerra and Franco Ghiringhelli as substitute auditors.

The proposal to appoint (as regular auditors):

- 1) Lugi Guatri, born in trezzo sull'Adda (MI), on 19 September 1927
- 2) Paolo Francesco Lazzati, born in Milan on 16 May 1958;
- 3) Enrico Laghi, born in Rome, on 23 February 1969

and (as substitute auditors);

- 4) Luigi Guerra, born in Milan, on 8 March 1962;
- 5) Franco Ghiringhelli, born in Varese, on 12 March 1949

is approved with the majority.

Against: n. 5,61,613 shares

Abstain: n. 715,968 shares.

The remaining in favour n.2,895,707,108 shares.

The details of the voting process are attached

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The President declares the results and highlights that, as already informed before, the detailed list of previous appointments (as directors and auditors in other companies) with regard to the auditors here appointed will be enclosed with the minutes of the meeting.

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## **2.b Appointment of the President of the Board of Auditors.**

The President highlights that, as reported in the relative file, the Board of Directors, in compliance to what provided by the amended art. 148 of the Legislative Decree 58/1988 (which requires that an auditor from the list filed by the minority groups is appointed as President of the Board of Auditors), the rule from the Articles of Association, providing, on the contrary, the appointment of the first name on the majority list as the President of the Committee, will not be applied.

Therefore, the appointment of the President is entrusted to the meeting.

In this regard, taking into consideration that only one list has been filed, he proposes to vote for the appointment of Mr. Guatri as the President of the Committee; he has been already appointed and therefore it is unnecessary to stress his impartiality, professionalism and esteem received.

The President, therefore:

- before starting the voting procedure, for which the "2b" form is used, exhorts those shareholders that do not want to take part to the voting to inform the personnel in front of the stand and give them the relative forms, which will be given back at the end of the voting procedure. In this case, the relative shares will not be included in the calculation of the *quorum*;
- informs that, with regard to the decision, at 13:40, the shareholders that participate on their own behalf or appointed by third parties are 215 and their represent 2,902,041,689 common shares being entitled to a relative numbers of votes, which correspond to 56.00% of the total amount of the common shares;
- at 13:40, after having reminded that the personnel appointed will gather only the forms of the minority categories as counterproof, he starts the voting procedure by show of hands with regard to the appointment of Luigi Guatri as President of the Board of Statutory Auditors.

The proposal to appoint Luigi Guatri as President of the Board of Statutory Auditors is approved with the majority.

Against: n. 5,618,613 shares.

Abstain: n. 715,968 shares.

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The remaining in Favour: n. 2,895,707,108 shares.

The details of the voting process are attached

The President declares the result.

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## **2.c Deciding upon compensation for members of the Board of Auditors**

The President, with regard to the voting related to the yearly remuneration to the members of the Board of Statutory Auditors, reminds that the participants of the Pirelli & C voting pact have proposed to fix the yearly gross remuneration to each regular Auditor as 41, 500 Euros, the yearly gross remuneration to the President of the Board of Statutory Auditors as 62,000 Euros and the additional yearly gross remuneration to the auditor that might be asked to join the Inspection Body. These remunerations are in line with the previous one.

The President, therefore:

- before starting the voting procedure, for which the “2c” form is used, exhorts those shareholders that do not want to take part to the voting to inform the personnel in front of the stand and give them the relative forms, which will be given back at the end of the voting procedure. In this case, the relative shares will not be included in the calculation of the *quorum*;
- informs that, with regard to the decision, at 13:42, the shareholders that participate on their own behalf or appointed by third parties are 215 and their represent 2,902,041,689 common shares being entitled to a relative numbers of votes, which correspond to 56.00% of the total amount of the common shares;
- at 13:42, after having reminded that the personnel appointed will gather only the forms of the minority categories as counterproof, he starts the voting by show of hands with regard to remunerations proposed by the members of the Union.

The proposal to fix the yearly gross remuneration of each regular Auditor to 41, 500 Euros, the yearly gross remuneration of the President of the Board of Statutory Auditors at 62,000 Euros and the additional yearly €10,000 gross remuneration to the auditor that might be asked to join the Controlling Body is approved with the majority of the votes.

Against: n. 5.618,613 shares.

Abstain: n. 715,968 shares.

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The remaining in favour: n.2,895.707,108 shares.

The details of the voting process are attached

The President declares the result.

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Passing to the third item in the Agenda, called “**Proposal of buy-back operations and share disposal mechanisms, by retraction of the decision made regarding the issue on the 28<sup>th</sup> of April 2005, as it has not been utilized. Inherent and successive deliberations. Attribution of powers.**”, the President highlights that it is about the proposal to renovate, as per the previous authorisation, the purchase of both the common and savings shares of the Company, in compliance to the law, for an 18 month period, and the proposal to authorize the selling of treasury shares in the Company’s portfolio for an identical period. The President, therefore, opens the discussion and recommends that statements made should be pertaining to the agenda item. He reminds the audience that each speaker is allotted 15 minutes.

Mr. D’Atri proposes to reduce the discretionary margins provided in the proposed decision to the Board of Directors. Furthermore, he wishes that the Board of Directors itself, once it makes the decision, issues a regulation that provides more detailed methods of disposal of treasury shares to be then informed to the public. In case they undertake to do so, he declares that he will vote in favour. Mr. Antolini proposes to erase the wording “with the aim to trade” from the proposed decision. He reminds that today the Pirelli share needs to be constantly supported, proposes to allow the purchase

of treasury shares at a lower price than the average listing for a maximum percentage of 20 % instead of 15%.

The President assures that the Board will publicly display and inform about the procedure related to the operations on treasury shares as per the current law. With regard to the fluctuation related to the purchase price, Mr. Tronchetti Provera highlights that the “measure of 15%” can guarantee a flexible and efficient intervention, without being too excessive.

As no one else wishes to take the floor, the President:

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- declares the discussion on the third item in the Agenda closed and calls on shareholders who do not wish to participate in the voting to communicate their intentions to the personnel in charge, giving in the appropriate form, which will be given back at the end of the voting procedure, he points out that in this case the corresponding shares will not be used to calculate the *quorum*;

- informs that, with regard to the decision, at 13:50, the shareholders participating on their own behalf or by proxy are 214 and they represent 2,897,041,689 common shares being entitled to a relative number of votes, which correspond to 55.91% of the total amount of the common shares;

- at 13:50 he starts the voting procedure by show of hands with regard to the decision proposed, mentioned at pages 91 and 92 of the file distributed at the entrance, for which the n. 3 voting form is used. The proposal is reported hereinafter:

*“The meeting of the shareholders:*

- *having taken note of the Directors’ proposal;*
- *in compliance with the provisions of articles 2357 and 2357 third of the Civil Code;*
- *having taken note that, currently, the company owns n. 2,617,500 common shares that amount to approximately 0.05 % of the share capital, which amounts to 2,764,715,575.44 Euros;*
- *having read the balance sheet of 31 December 2005,*

#### **DECIDES**

*a) to revoke the decision taken by the ordinary meeting of 28 April 2005 with regard to the authorization to purchase (and the procedure of disposal) of treasury shares, for what not used;*

*b) to authorize the purchase of treasury shares (either ordinary or savings) whose single nominal value is equal to 0.52 Euros within the maximum limit provided by the art. 2357 of the Civil Code, i.e. 10% of the provisional share capital, being decided that:*

*- the purchase can be performed once or several times and at any time within the 18 months since the date of the present decision;*

*- the purchase price of each share must not be either inferior or superior of maximum 15% (in both cases) with regard to the weighed average of the official prices in the stock exchange of the shares of equal category recorded by Borsa Italiana S.p.A. in the three sessions prior to each single operation;*

*- the purchase must be made using the profits that can be distributed and the disposable reserves as shown in the latest balance sheet that has been regularly approved before the performing of the operation;*

*- the purchase can be made according to the procedures allowed by the current laws and regulations, on the discretion of the Board of Directors;*

*c) to authorize the selling of the entire or part of the Prielli & C. S.p.A common and/or saving shares in the Company’s portfolio, once or several times and at any time, for the same period of 18 months starting from the date of the present decision of the meeting. The selling, also of the Pirelli & C. S.p.A. treasury shares already owned before the date of the present decision, can be performed to the price fixed according to the criteria decided by the Board of Directors, taking into account the procedures applied, the trend of the share prices in the period prior to the operation and the Company’s best interest.*

*The selling can be performed according to the procedure allowed by the current laws and regulations, on the discretion of the Board of Directors;*

*d) to appoint the Board of Directors with the task to perform the necessary accounting adjustments following to the operations of purchase, selling, permutation or contribution of treasury shares, in compliance with what provided by the relevant law and the account rules, using and reconstituting the reserves used for the operations on treasury shares depending on the specific cases; in case of selling, permutation, contribution or depreciation, the relative amount can be re-used for further purchases until the expiration date of the authorization from the meeting, in compliance with the limits and conditions provided with the present decision;*

*e) to entrust the Board – and, on its behalf, the President, the Vice Presidents and the Managing Director, jointly – with the necessary powers to performs the purchases and the selling and, anyway, to implement the decisions above mentioned, also through some agents, in compliance to what provided by the competent authorities”.*

*The meeting approves with the majority.*

*Against: n. 100,010 shares*

*Abstain: n. 715,968 shares*

*The remaining in favour: n. 2,896,225,711 shares*

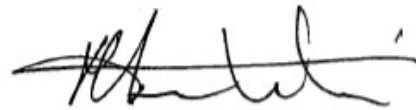
*Having settled all points on the agenda The President declares the meeting as closed and thanks all those who participated.*

*It is 1.54 pm.*

*The Secretary*

Handwritten signature of the Secretary, appearing to read "Celo Rucelli".

*The President*

Handwritten signature of the President, appearing to read "Antonio".