

## Corporate Governance

### Introduction

A good system of Corporate Governance puts the Board of Directors at the center of the enterprise as the main body delegated to manage the Company in the interests of the shareholders. On the basis of this system, a proper practice for disclosure of the choices and formative processes of corporate decisions must be established, along with an effective internal control system and rigorous monitoring of potential conflicts of interest. There must also be solid principles of conduct governing interactions with related parties.

These benchmarks are firmly inscribed in the system of values Pirelli has established for the definition, preparation and adoption of codes, principles and procedures regulating corporate life.

In 2005, these codes, principles and procedures were carefully reviewed and, where necessary, updated to account for legislative and regulatory innovations, changes in the international best practices, and developments in the Company's operations.

At the meeting on November 11, 2005, the Board of Directors, in order further to valorize the role of independent directors (currently 10 out of a total of 20), decided to introduce the role of Lead Independent Director, identified as the Chairman of the Committee for Internal Control and Corporate Governance, Carlo Secchi.

At the same meeting, the Board of Directors, exercising the powers it has been granted via the bylaws pursuant to the law and in accordance with the statutory obligation to facilitate participation in corporate life, minimizing the related costs and charges, modified Article 7 (General Meeting) of the Company bylaws. In order to intervene in the Company's general meetings, it is now sufficient that the intermediary concerned gives notice of this intention without the shareholder needing to produce any certification.

In the course of the financial period, finally, the system of slate voting for the election of Board members was fully applied, introduced with a decision at the general meeting on May 11, 2004 and made applicable thanks to the Board of Directors' members resigning for that purpose on March 22, 2005. The minority was therefore able to appoint four directors, equal to a fifth of the total number.

Pirelli & C. has adhered to the Code of Self-Discipline drawn up by the Committee for Corporate Governance of the Listed Companies (the "Code") since it was issued. In compliance with the Instructions accompanying the Rules of the markets operated by Borsa Italiana and accounting for the indications contained in the Guidelines for the Preparation of the Report on Corporate Governance published by Borsa Italiana and in the Handbook on Corporate Governance Reports published by Assonime, the remainder of this report describes the main features of the Company's corporate governance system and how it functioned during the year.

## GOVERNANCE STRUCTURE

### 1. Board of Directors

#### 1.1 The role of the Board of Directors

Efficient and correct corporate governance requires the Board of Directors to have an active role in strategic guidance of the Company as well as in the effective control of management, with the power to set policies for the entire administration and to intervene directly in a variety of decisions. At Pirelli & C., the principle that the Board of Directors has the general power (as well as the duty) to manage the Company's activities pursuing the final and primary objective of creating value for shareholders is particularly established.

Pursuant to Article 11 of the bylaws, the Board is responsible for the operation of the business

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and to this end has the broadest possible management powers, except for matters that are reserved to the shareholders' meeting by law or the bylaws.

In practice, the Board of Directors exercises its powers in accordance with Article 1.2 of the Code, that is, it:

- examines and approves the Company's strategic, organizational, business and financial plans and the corporate structure of the group it heads;
- delegates powers to the managing directors and the executive committee (if established) and revokes them; it specifies the limits of such delegated powers, the manner in which they are to be exercised and their frequency, as a general rule, not less than once every three months, with which such bodies must report to the Board on the activity performed in the exercise of the powers delegated to them;
- determines, after examining the remuneration committee proposals and consulting the Board of Statutory Auditors, the remuneration of the managing directors and of those directors who are entrusted with particular duties and, where the shareholders' meeting has not already done so, allocates the total amount to which the directors are entitled among the members of the Board of Directors and the executive committee (if established);
- supervises the company's general performance, with special reference to conflicts of interest, paying particular attention to the information received from the executive committee (if established), the managing directors and the internal control and corporate governance committee and periodically comparing the results achieved with those planned;
- examines and approves transactions having a significant impact on the company's profitability, assets and liabilities or financial position, with special reference to transactions with related parties;
- checks the adequacy of the general organizational and administrative structure established by the managing directors for the Company and the group;
- reports to the shareholders at shareholders' meetings.

In addition, the exclusive tasks carried out by the Board include:

- preparation and adoption of Company rules of corporate governance and definition of the Group's corporate governance guidelines;
- establishment of the supervisory body, pursuant to Legislative Decree 231 of June 8, 2001;
- assessment and approval of periodic reports.

## 1.2 The composition of the Board of Directors

The Company's Board of Directors, as established by the bylaws, consists of not less than seven and not more than 23 members.

The Board of Directors, in office up to April 28, 2005, consisted of the following 20 members (of which eight fulfilled the requirements for independence): Marco Tronchetti Provera (Chairman), Alberto Pirelli (Deputy Chairman), Carlo Alessandro Puri Negri (Deputy Chairman), Carlo Buora (Managing Director), Carlo Acutis, Gilberto Benetton, Carlo De Benedetti, Gabriele Galateri di Genola, Giuseppe Gazzoni Frascara, Mario Greco, Georg F. Krayner, Giulia Maria Ligresti, Massimo Moratti, Luigi Orlando, Giovanni Perissinotto, Giampiero Pesenti, Ennio Presutti, Carlo Secchi, Vincenzo Sozzani and Frank Vischer.

As mentioned in the introduction to this report, in order immediately to apply the system of slate voting, provided by Article 10 of the bylaws, by means of which the minority - in cases where at least two slates are presented - is guaranteed nomination of one-fifth of the board members, all of the directors, during the Board meeting of March 22, 2005, resigned their positions as of the shareholders' meeting of April 28, 2005, one year prior to the natural expiry of their mandates.

By means of the adoption of slate voting, the minority was therefore able to appoint four directors, equal to one-fifth of the total number. Two lists were presented, one by the participants in the Pirelli & C. S.p.A. Share Block Syndicate and the other by various savings management companies. The slates proposers made the candidates' profiles available so that the candidates' personal and professional characteristics, as well as some candidates' qualifications as

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independents, were made known prior to voting. The curricula vitae presented when the slates were filed were promptly published on the Company's website ([www.pirelli.com](http://www.pirelli.com)), where they remain available.

The aforementioned meeting of April 28, 2005 established the duration of the entire Board of Directors as lasting for three financial periods (and therefore until approval of the profit and loss account on December 31, 2007) and determined the number of Board of Directors' members as being 20, currently consisting of the following<sup>1</sup>:

Marco Tronchetti Provera	Chairman
Alberto Pirelli	Deputy Chairman
Carlo Alessandro Puri Negri	Deputy Chairman
Carlo Buora	Managing Director
Carlo Acutis	
Carlo Angelici	Member of the Internal Control and Corporate Governance Committee
Gilberto Benetton	
Franco Bruni	Member of the Internal Control and Corporate Governance Committee
Carlo De Benedetti	
Gabriele Galateri di Genola	
Mario Garraffo	
Dino Piero Giarda	
Berardino Libonati	Chairman of the Remuneration Committee
Giulia Maria Ligresti	
Massimo Moratti	
Giovanni Perissinotto	
Giampiero Pesenti	Member of the Remuneration Committee
Aldo Roveri	Member of the Remuneration Committee
Carlo Secchi	Member of the Internal Control and Corporate Governance Committee
Paolo Vagnone	

Leopoldo Pirelli is Honorary Chairman of the Company.

Carlo Angelici, Franco Bruni, Mario Garraffo and Aldo Roveri were minority candidates.

Two of the members of the Board are executive directors as defined in Article 2.1 of the Code: the Chairman, Marco Tronchetti Provera, and the Managing Director/General Manager, Carlo Buora.

Article 3.1 of the Code defines independent directors as those who:

- a) do not entertain, directly or indirectly or on behalf of third parties, nor have recently entertained business relationships with the company, its subsidiaries, the executive directors or the shareholder or group of shareholders who controls the company in a significant manner able to influence their independent judgment;
- b) neither own, directly or indirectly or on behalf of third parties, a quantity of shares enabling them to control the company or exercise a significant influence over it nor participate in shareholders' agreements to control the company;

<sup>1</sup> The members have been able to express themselves, in accordance with best international practices, with separate voting with respect to: (i) determination of the number of members of the Board of Directors; (ii) nomination of the directors by means of voting on the two slates presented; (iii) determination of the duration of the Board of Directors' mandate; and (iv) determination of the compensation due the directors.

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c) are not close relatives of executive directors of the company or of persons in the situations referred to in points a) and b).

On the basis of the above definition, the Board has agreed that 10 of the remaining 18 directors (Carlo Acutis, Carlo Angelici, Franco Bruni, Carlo De Benedetti, Mario Garraffo, Dino Piero Giarda, Bernardino Libonati, Giampiero Pesenti, Aldo Roveri and Carlo Secchi) can be considered independent, while the other 6 (Gilberto Benetton, Gabriele Galateri di Genola, Giulia Maria Ligresti, Massimo Moratti, Giovanni Perissinotto and Paolo Vagnone) can be considered non-executive.

Alberto Pirelli and Carlo Alessandro Puri Negri, in view of the executive positions they hold, respectively, at Pirelli Pneumatici S.p.A. and Pirelli & C. Real Estate S.p.A., are considered not to be independent.

It is pointed out that all of the directors qualifiable as independent are also qualifiable as independents according to the requirements provided by Legislative Decree 58/1998, as modified by Law 262/2005 on savings, for the statutory auditors.

A table at the end of this chapter shows the positions which the Company's directors hold as director or member of the board of statutory auditors in other listed companies in Italy and abroad, in financial, banking and insurance companies, and in other large companies.

### 1.3 *Lead Independent Director*

As referred to in the introduction to this report, at its meeting of November 11, 2005, the Board of Directors, in order further to valorize the role of the 10 independent directors, decided to introduce the role of Lead Independent Director. The Lead Independent Director, identified as the Chairman of the Committee for Internal Control and Corporate Governance, Carlo Secchi, will be the point of reference and co-ordination for the independent directors' requests and contributions.

The Lead Independent Director will be able, among other things, to convene – autonomously or at the request of other directors – meetings of independent directors only (known as independent directors' executive sessions) for the discussion of matters deemed to be of interest from time to time with respect to the functioning of the Board of Directors and to management of the Company.

So far, during 2006, one independent directors' executive session has been held.

## 2. Shareholders' meetings

### **How shareholders' meetings work**

The shareholders' meetings, which may be held in Italy in places other than the Company's registered office, must be called within 120 days, or in special circumstances within 180 days, of the close of the fiscal year; if the meeting is called within 180 days, the directors must give the reason for the delay in their report on operations.

In addition to the law and the bylaws, business in meetings is governed by the Rules of Proceeding for Shareholders' Meetings, which were approved by the shareholders' meeting held on May 11, 2004 and are attached hereto; they are also available on the Internet at [www.pirelli.com](http://www.pirelli.com).

Shareholders' meetings are chaired, in the following order, by the Chairman of the Board of Directors, a Deputy Chairman or a Managing Director; if there are two or more Deputy Chairmen or Managing Directors, they are chaired by the senior in age. In the absence of such persons, shareholders' meetings are chaired by another person chosen by the shareholders with the favorable vote of the majority of the capital represented at the meeting.

The Chairman of the meeting – among other things – verifies that the meeting has been duly convened; checks the identity of the persons present and their right to attend, including by way of proxies; verifies that there is a quorum; and directs the proceedings, with the faculty to change

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the order of the items on the agenda indicated in the notice convening the meeting.

The Chairman also takes appropriate action to ensure orderly discussion and voting, defining the procedures and verifying the results.

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

The minutes of extraordinary shareholders' meetings must be prepared by a notary public nominated by the Chairman of the meeting.

### 3. The Board of Statutory Auditors

The Company's bylaws provide that the Board of Statutory Auditors consists of three statutory auditors and for there to be two alternates. In order to allow minority shareholders to elect one statutory auditor and one alternate, Article 16 of the bylaws provides for use of the slate system, with one statutory auditor and one alternate elected from the slate that obtains the second largest number of votes (the minority slate). The other two statutory auditors and the other alternate are elected from the slate that obtains the largest number of votes (the majority slate). Shareholders may present slates who, alone or together with others, hold at least 2 per cent of the share capital entitled to vote at the ordinary shareholders' meeting, subject to their proving ownership of the necessary number of shares not later than two days before the date set for the shareholders' meeting at the first call. Each shareholder may present or participate in the presentation of only one slate.

In accordance with Article 14.1 of the Code, Article 16 of the bylaws requires that the slates, signed by the persons who present them, be deposited at the Company's registered office at least ten days before the date set for the shareholders' meeting at the first call and made available to anyone who requests a copy. The slates must be accompanied by a curriculum vitae for each candidate and the declarations in which the candidates individually accept their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and the bylaws.

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

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

In addition, persons may not be elected if they do not satisfy the legal requirements for membership of a board of statutory auditors or are already statutory auditors in more than five companies listed on the Italian regulated markets other than subsidiaries of Pirelli & C. S.p.A. Slates must be divided into two sections: one for candidates for the position of statutory auditor and the other for candidates for the position of alternate. The first candidate in each section must be selected from among persons entered in the register of statutory 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's bylaws, the chairmanship of the Board of Statutory Auditors is to be given to the statutory auditor at the top of the slate which obtains the largest number of votes.

This clause will not be applied when the Board of Statutory Auditors is next re-nominated.<sup>2</sup>

In the event of death, resignation or disqualification of a statutory auditor, he or she is replaced by the alternate elected on 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 (see the note at the end of this paragraph); 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 has to appoint statutory auditors and/or alternates to bring the

<sup>2</sup> The chairmanship of the Board is to be given to the member of the Board of Auditors taken from the minority slate, when existing; see paragraph 8 in the following section.

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board up to full complement as provided for above or in conformity with applicable law, it proceeds as follows: if statutory auditors elected from the majority slate are to be replaced, the appointment is made with the favorable votes of a relative majority without being tied to a slate; if, instead, statutory auditors elected from the minority slate are to be replaced, the shareholders' meeting replaces them with the favorable votes of a relative majority, choosing where possible from among the candidates on the slate from which the statutory auditor to be replaced was elected.

In appointing statutory auditors who for any reason are not appointed pursuant to the procedure specified above, the shareholders' meeting votes according to the majorities required by law.

Statutory auditors whose term of office has expired may be re-elected.

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

The Board of Statutory Auditors has a central role in the Company's corporate governance system. In particular, the Board has the duty to supervise:

- compliance with applicable law and the bylaws;
- conformity with the principles of correct management;
- the adequacy of the organizational structure for the matters falling within its sphere of competence, the adequacy of the internal control system and that of the administrative and accounting system and the latter's reliability in correctly representing transactions;
- the adequacy of the instructions the Company imparts to subsidiaries on the obligations concerning the communication of price-sensitive information<sup>3</sup>.

The Board of Statutory Auditors performs its duties by exercising all the powers authorized by law and by being able to count on a constant flow of detailed information from the Company, in addition to that obtained during the Board of Directors' meetings.

In carrying out its tasks, the Board of Statutory Auditors, besides attending all the meetings of the Board of Directors and the shareholders' meetings, participates in the meetings of the Remuneration Committee and the Internal Control and Corporate Governance Committee.

#### 4. Composition of the share capital

On April 18, 2006 the share capital of Pirelli & C. S.p.A. was equal to Euros 2,764,715,575.44, divided into 5,316,760,722 shares with a par value of Euros 0.52 each, of which 5,181,996,293 were ordinary shares and 134,764,429 non-convertible savings shares.

The foregoing data take into consideration shares deriving from requests for exercise of Pirelli & C. 2003-2006 ordinary share warrants (hereafter referred to as "warrants") presented in full on March 13, 2006 (the share capital as of the date of approval of this report amounts to Euros 2,764,555,822.60).

The share capital may increase further, up to a nominal maximum of Euros 2,819,827,565.88 by means of the issuing of a maximum of 105,984,597 ordinary shares for:

- the possible exercise of 207,034,990 warrants issuance pursuant to the resolution approved by the shareholders' meeting of May 7, 2003 on the basis of 4 warrants for one Pirelli & C. ordinary share at a price per share of Euros 0.52 (equal to the par value). The share capital indicated above already accounts for the exercise of 1,354,820,336 warrants;
- the issuance of up to 54,225,850 ordinary shares with a par value of Euros 0.52 each at a price of Euros 1.15 per share, with a premium of Euros 0.63 per share, for the possible exercise of

<sup>3</sup> Now "confidential."

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options granted to senior and junior managers of the Company and its subsidiaries and their subsidiaries as part of the “Pirelli to People” and “Group Senior Executives” stock-option plans set up by Pirelli S.p.A. in 2001.

To the best of the Company’s knowledge, no legal or natural person can exercise control pursuant to Article 93 of the Legislative Decree 58/1998.

Participants in the Pirelli & C. S.p.A. Block Share Syndicate, the purpose of which is to ensure Pirelli & C. share structure stability and uniformity in corporate management policy, are listed at the end of this chapter, along with an extract from the agreement’s text, and are also available on the Company’s website: [www.pirelli.com](http://www.pirelli.com).

## Information on the implementation of the code

### 1. Board of Directors

#### 1.1 Election of directors

Pursuant to Article 7 of the Code and Article 10 of the bylaws (already in compliance with the nomination procedures introduced by a recent law, 262/2005, which requires a maximum quorum of 2.5% of the capital with voting rights for the presentation of slates and that at least one director be nominated by the minority slate having obtained the greatest number of votes<sup>4</sup>), the Board of Directors is renewed using the slate system, which, if more than one slate is presented, allows minority shareholders to elect a fifth of the directors.

The slates presented by shareholders, signed by the persons who introduced them, must be deposited at the Company’s registered office at least ten days prior the date set for the shareholders’ meeting at the 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, upon pain of ineligibility.

Only 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, subject to their proving ownership of the necessary number of shares not later than two days prior the date set for the shareholders’ meeting at the first call.

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 together with the slates within the time limit specified above. The declarations must be accompanied by a curriculum vitae for each candidate, with an indication, where appropriate, of the fact that the candidate qualifies as independent.

#### 1.2 Meetings of the Board of Directors

The bylaws do not provide for a minimum frequency of Board of Directors meetings.

It is, however, the practice for the Board to convene on June 30 to examine the preliminary data, the budget project and the quarterly and biannual reports. As a general rule, at the end of the last Board meeting of each financial period, the market is informed of the timing of major company events (that is, Board and shareholders’ meetings) planned for the following financial period. Any changes are promptly communicated to the market.

In November 2005, the Company distributed a schedule for five meetings in 2006. The schedule confirms the advance publication, also in 2006, of the budget documentation and the biannual report (making it possible, among other things, to take advantage of the exemption from the drawing up of the fourth 2005 quarterly report and of the second 2006 quarterly report).

<sup>4</sup> See paragraph 8 in the following section.

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The Board meetings may take place by means of telecommunication, 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 case of emergency, at least six hours prior) to the meetings. Each director and statutory auditor in office is called to the meetings.

In 2005, eight Board meetings were held, of which six were held subsequent to April 28, 2005. More than 76% of all the directors appointed on April 28, 2005 attended on average and more than 81% of the independent directors.

Apart from exceptional cases, the directors were provided with the documentation needed to express an informed opinion on the items on the agenda reasonably in advance of meetings.

Three Board meetings have already been held in 2006 and at least another four are planned.

### 1.3 Directors' remuneration

In addition to reimbursement for expenses incurred in performing their duties, directors receive annual fees determined by the shareholders' meeting (Article 14 of the bylaws).

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

Considering the fees paid to members of the exiting Board of Directors (equal to 50,000 for each director), the Board of Directors, at the same meeting held on April 28, 2005, established the distribution of the compensation as follows:

- euros 50,000 annually for each of the 20 members of the Board of Directors;
- euros 25,000 annually for each of the members of the Committee for Internal Control and Corporate Governance;
- euros 20,000 annually for each member of the Committee for Remuneration, with the right being reserved to use the residual amount (euros 65,000) in the future to give the Board a margin of organizational flexibility, including for the adoption of any new governance solutions.

Remuneration for directors given particular tasks is established, as proposed by the Committee for Remuneration, by the Board of Directors upon consultation with the Board of Statutory Auditors. At the present time, this applies to only one member, the Chairman and the Managing Director, having renounced the variable part of their compensation for the 2005 financial period. Information on the remuneration of the directors entrusted with special powers can be found in a chart in the notes to the financial statements for 2005.

Lastly, it should be noted that there are no stock-option plans for either the executive or the non-executive directors<sup>5</sup>.

### 1.4 Delegated powers

In light of and in accordance with the new corporate regulations established by Legislative Decree 6/2003, the Chairman and the Managing Director were equally recognized as the Company's legal representatives, each being authorized to carry out any act pertinent to corporate activity in its various manifestations. In addition, the limits to the powers conferred – in line with those decided upon in the previous mandate (reference is made to the previous annual report on corporate governance) – were qualified as limits within the relationship between the Board's delegating body and the parties delegated.

<sup>5</sup> Deputy Chairman Carlo Alessandro Puri Negri and Managing Director Carlo Buora are exceptions in this respect. The former has stock options as the General Manager of Pirelli & C. Real Estate S.p.A. and the latter as General Manager of Pirelli & C. S.p.A.

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Furthermore, the Chairman, Marco Tronchetti Provera, was confirmed as having 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 provided by the procedure for the management and communication to the market of privileged information, as approved by the Board on March 13, 2006;
- 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.

Powers pertinent to their positions have been granted, subject to certain limits, to Claudio De Conto, General Manager of Administration and Control, Luciano Gobbi, General Manager of Finance, and Francesco Gori, General Manager of the Tyres Sector.<sup>6</sup>

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 2005 the Chairman, the Managing Director, the General Managers and the Managers used their delegated powers only for the ordinary management of the Company's activities (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 Board's organization, the best degree of operational flexibility, both within the Company and in relation to third parties.

### 1.5 Provision of information to the Board of Directors

Pursuant to Article 11 of the bylaws (which incorporates the prescriptions of Article 150.1 of Legislative Decree 58/1998), 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 prospects and the transactions of greatest significance for its profitability, financial position or assets and liabilities effected 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 foster the orderly organization of the flow of information, in July, 2002 the Company adopted a procedure (included at the end of this section and available on the Company's website at [www.pirelli.com](http://www.pirelli.com)) 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.

<sup>6</sup> Analogous powers had been granted to the General Manager of the Cables and Systems Sector, Valerio Battista, who resigned in July 2005 when the sector was transferred.

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## 1.6 Rules of conduct for transactions with related parties

The Company has also established the rules of conduct (included at the end of this section and available on the Company's website at [www.pirelli.com](http://www.pirelli.com)) for transactions with related parties, including intra-group business. The aim of the rules is to guarantee substantial and procedural fairness and transparency by involving the Board of Directors in the related decisions. In fact, under the rules, the Board of Directors is required to give advance approval of transactions with related parties, including intra-group transactions, apart from those of a customary nature and those to be concluded at arms-length conditions. To this end, a provision is made for the Board to be adequately informed of all the relevant aspects: the nature of the relationship, the manner of carrying out the transaction, the economic and other conditions, the evaluation procedures used, the rationale for the transaction and the Company's interest in its implementation and the associated risks. If the related party is a director or a party related via a director, the director in question may only provide clarifications and must leave the meeting when the motion is examined and put to a vote. Depending on the nature, value and other aspects of related-party transactions, the Board may be assisted by one or more outside experts in order to prevent contracts from being concluded at inappropriate conditions. According to the circumstances, such experts express an opinion on the economic and/or legal and/or technical aspects of the transaction.

## 2. Committees

### 2.1 The Remuneration Committee

The Board has established the Remuneration Committee from among its members, charged with fact-finding and advisory functions.

In particular, this committee:

- a) formulates proposals for the remuneration of the Managing Directors (the variable part of which, when existing, is connected to the economic results achieved by the Group and, in some cases, to the achievement of specific objectives) and the directors who are entrusted with particular duties and, on the basis of indications provided by the Managing Directors, proposals for determining the remuneration of the Company's senior management;
- b) conducts preliminary examinations of proposals for the adoption of stock-option plans.

The Committee may also request the assistance of external consultants. The Remuneration Committee meets whenever its chairman deems it to be desirable or a meeting has been requested by another member of the committee or by a Managing Director. The rules for calling meetings, for their due constitution and for decision-making are the same as those established in the bylaws for the meetings of the Board of Directors. The Board of Statutory Auditors and, when considered appropriate, other Company representatives participate in the Committee meetings.

In full compliance with what is provided by Art. 8.1 of the Code, the Committee for Remuneration consists exclusively of non-executive and independent directors: Bernardino Libonati (Chairman), Giampiero Pesenti and Aldo Roveri (until April 28, 2005, the Committee consisted of Ennio Presutti, as Chairman, and of Luigi Orlando and Giampiero Pesenti). In 2005 the Remuneration Committee held three meetings.

The Committee examined and proposed for Board approval the retribution packages for executive directors and for the general managers, agreeing with the criteria followed in order to determine them.

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## 2.2 The Internal Control and Corporate Governance Committee

The Board has established the Internal Control and Corporate Governance Committee from among its members, charged with fact-finding and advisory functions. In particular, this committee:

- a) assists the Board of Directors in establishing the guidelines for the internal control system and periodically verifying its adequacy and effective working, so as to ensure that the risks facing the Company are managed appropriately;
- b) evaluates the work plan prepared by the persons responsible for internal control, from whom it receives periodic reports;
- c) assesses, together with the Company's financial officers and the external auditors, the appropriateness of the accounting standards applied and their homogeneity for the purpose of preparing the consolidated financial statements;
- d) evaluates the proposals made by external auditors in order to be awarded the appointment, the audit plan and the results set out in the auditors' report and in the letter of suggestions;
- e) reports to the Board of Directors at least once every half year, on the occasion of the approval of the draft of annual financial statements and the half-yearly report on the activity performed and the adequacy of the internal control system;
- f) performs the additional tasks that may be assigned to it by the Board of Directors, particularly in regards to relations with the external auditors; and
- g) monitors compliance with the rules of corporate governance and their periodic updating and compliance with the rules of conduct adopted by the Company and its subsidiaries.

The Committee may also request the assistance of external consultants. This committee normally meets before the Board of Directors meetings are called for approval of the draft annual financial statements, the half-yearly report and the quarterly reports; it also meets whenever its chairman deems it to be desirable or a meeting has been requested by another member of the committee or by a Managing Director. The rules for calling meetings, for their due constitution and for decision-making are the same as those established in the bylaws for the meetings of the Board of Directors. The members of the Board of Statutory Auditors, the head of the Committee for Internal Control and if deemed necessary other company representatives participate in the meetings of the committee.

In full compliance with what is provided by Art. 10 of the Code, the Committee consists exclusively of independent directors: Carlo Secchi (Chairman), Carlo Angelici and Franco Bruni (until April 28, 2005, the Committee consisted of Giuseppe Gazzoni Frascara, as Chairman, and of Ennio Presutti and Carlo Secchi).

In 2005, the Committee for Internal Control and Corporate Governance met five times. All of its members, with the exception of one absence at one meeting, participated in all of the meetings. Also during 2005, the individual charged with internal control submitted four reports on his work to the Committee.

In 2005, the committee contributed significantly to implement the Company's corporate governance mechanisms, take part in the related analyses and in the drafting and updating of the relevant documents. In addition, the Committee participated in the process intended to improve implementation procedures concerning operations with related parties and was regularly informed on implementation of Organizational Model 231.

The committee also monitored the work of the Internal Audit Department and in particular reviewed the report on the implementation of the Audit Plan. The same Committee examined and approved the audit plan prepared by the Internal Audit Department for the 2006 financial period. Finally, the Committee examined the task proposals received from the auditing Company, PricewaterhouseCoopers S.p.A.

Lastly, 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 to be adequate.

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### 2.3 **Committee for the Nomination of Directors**

The Board of Directors has decided not to establish a nomination committee charged with putting forward proposals 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 statutory provision for the slate system, in view of the transparency this mechanism ensures the selection of candidates.

## 3. **Handling of confidential information**

### 3.1 **Disclosure of documents and information**

In compliance with Article 6 of the Code, the Chairman of the Board of Directors is directly responsible for dealing with confidential information, especially that which is of a price sensitive<sup>7</sup> nature.

The release of documents and information concerning the Company and its subsidiaries is handled – always in agreement with the Chairman – by the Secretary to the Board and the Corporate Secretary for disclosures to the authorities and shareholders; by the External Relations Department for communications to the press; and by the Investor Relations Department for communications to the financial market.

The Chairman and the persons referred to above are able to consult at all times in the event of an urgent need to disclose documents or information.

The Board of Directors, at its meeting of March 13, 2006, also approved a procedure for the management and communication to the market of privileged information in compliance with the relative regulation on market abuse and established a register (operative as of April 1, 2006) of persons having access to privileged information.

The adoption of the new procedure is the most evident result of the work done by the working group set up by the Company to assess the consequences of the national regulation (Community Law 2004) implementing the Community Directive on Market Abuse.

Both the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors were regularly updated on the working group's activity, and agreed with its results. The text of the procedure may be consulted at [www.pirelli.com](http://www.pirelli.com).

### 3.2 **Insider dealing**

The Company's current Code of Conduct relative to insider dealing was adopted at the end of December 2002. It established obligations on conduct and information inherent to operations on financial instruments issued by Group companies and carried out by persons who, due to their positions, have access to important information. The current Code is to be considered as terminated as of April 1, 2006. As of that date, a specific new regulation issued by CONSOB will take effect, in implementation of Legislative Decree 58/1998, as modified by the law on market abuse.

Pursuant to the law, directors and statutory auditors, among others, of the issuing company will be obliged to disclose to the market any insider dealing operations, as will "persons who carry out administrative, control and management functions in a quoted issuing company, as well as managers who have regular access to privileged information [...] and have the power to take management decisions that may affect the evolution and future prospects of the quoted issuing company." The Company opted to identify these managers as its Managing Directors.

<sup>7</sup> now "confidential"

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#### 4. Internal control

The internal control system of Pirelli & C. and the group it heads is designed to ensure the provision of correct information and adequate cover of all the group's activities, with special reference to those 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 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 Company's internal control system are:

- i. separation of roles in the performance of the principal activities involved in each operating process;
- ii. traceability and constant visibility of decisions;
- iii. decision-making on an objective basis.

Responsibility for the internal control system lies with the Board of Directors, which lays down the guidelines for the system and periodically verifies that it is adequate and working effectively. To this end, the Board refers to the Committee for Internal Control and Corporate Governance as well as to the Internal Audit Department. This department is functionally responsible to the Committee for Internal Control and Corporate Governance and hierarchically responsible to the Chairman of Pirelli & C. S.p.A., including for activity carried out within the context of subsidiary companies. Its principal task is to assess the adequacy and functionality of control-, risk-management and corporate-governance processes throughout the entire Group by means of autonomous assurance and consultancy. The work of the Internal Audit Department is carried out in accordance with its mandate and is shared with the Committee for Internal Control and Corporate Governance, relative to the following aspects:

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

There is also a planning and control system that focuses on individual sectors and operating units and produces a detailed monthly report for the General Managers, so that they have a useful tool with which to monitor specific activities.

In order to foster compliance with the strategies and guidelines adopted by the parent company, the relevant General Managers and senior executives sit on the boards of directors of the largest subsidiaries.

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 31, 2003. 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, the model consists of a set of principles and procedures arranged in a pyramid that, starting from the base, can be summarized as follows:

- **Group Code of Ethics**, which formulates the general principles (transparency 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. S.p.A. interacts on a daily basis: the shareholders, the financial market, customers and staff.
- **General principles of internal control**, which qualify the internal control system and the field of application, which extends uniformly across the various organizational levels;

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- **Lines of conduct**, which set out specific rules for dealings with representatives of governmental bodies. The rules are framed in both the positive (“to be done”) and the negative (“not to be done”) 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 process, list the specific checks to be performed with a view to prevent any criminal offence, and specify the reports to be transmitted to the Oversight Committee to draw the attention to situations of possible non-compliance with the procedures established in the organizational model.

The organizational model will be reviewed periodically in light of experience in its application and changes in the legal framework established by Legislative Decree 231/2001, with particular reference to risks connected to the regulation on market abuse. The functioning of the model and compliance with it are monitored by an ad hoc Oversight Committee composed of Carlo Secchi, independent director and chairman of the Internal Control and Corporate Governance Committee, Paolo Francesco Lazzati, member of the Board of Statutory Auditors, and Sergio Romiti, head of the Internal Audit Department. Its composition ensures that the Committee includes the different professional skills that contribute to the control of the Company's operations.

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

The shareholders' meeting of April 28, 2005 fixed the annual gross fee payable to each member of the Oversight Committee at Euros 10,000.

With reference to unlisted Italian Group companies, the oversight committee has been adapted by adopting the technical and operational solution that, while respecting the mandate and the powers reserved to that 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 systems.

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, paragraph 2, point 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.

## 5. Relations with institutional investors and other shareholders

In line with its tradition of transparency and fairness, the Company actively promotes relations with shareholders, institutional investors and with financial analysts within the proper limits of their respective roles and periodically organizes meetings with representatives from the Italian and international financial communities.

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 Managing Director Carlo Buora, is headed by Alberto Borgia and has its own section in the Company's website at [www.pirelli.com](http://www.pirelli.com).

In this section of the website, investors can find every document of interest, in English as well as Italian, related to financial reporting (for example, the annual financial statements and the half-yearly and quarterly reports) and the Company's corporate governance system (for example, the Rules of conduct for transactions with related parties, the Procedure for satisfying the

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requirements of Article 150.1 of Legislative Decree 58/1998, the procedure for the management and communication to the public of privileged information, the Insider Dealing Code 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 Company's share capital and shareholders (including the publication of shareholders' agreements). Pirelli & C. was one of the first companies in Italy and Europe to publish specific inserts 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](mailto:ir@pirelli.com); tel.: +39.0264422949; fax: +39.0264424686.

## 6. Shareholders' meetings

It is the Company's constant policy to use shareholders' meetings to communicate information on the Company and its prospects to the shareholders. Obviously, it does this in accordance with the rules governing confidential information and, where necessary, simultaneously communicates the same information to the market.

The Company carefully considers the choice of the place, date and time for convening shareholders' meetings, to facilitate the participation of the shareholders. All the directors and all the members of the Board of Statutory Auditors make every possible effort to attend the meetings, especially those directors whose positions permit them to make an important contribution to the discussion.

In addition, as indicated in the introduction to this report, on November 11, 2005 the Board of Directors, exercising the powers granted to it by the bylaws pursuant to the law and in accordance with the statutory obligation to facilitate participation in corporate life, minimizing the related costs and charges, modified Article 7 (General Meeting) of the Company bylaws. In order to intervene at general meetings of the Company, it is now sufficient that the party concerned gives notice of this intention without needing to produce any certification. Two general meetings were held during 2005. The first, on January 21, 2005, in addition to approving in ordinary session the reduction of the number of directors from 22 to 20, following the resignations of Maurizio Romiti and Giovanni Ferrario, decided, in extraordinary session, on an increase in capital payment offered as an option to Company shareholders, concluded successfully in March 2005.

The second general meeting, held on April 28, 2005, in addition to approving the 2004 financial period profit and loss account, decided on the following: (i) the re-nomination of the Board of Directors (as fully described in this report); (ii) the compensation to be granted to the supervisory body (established pursuant to Legislative Decree 231/2001), established as euros 10,000 annually per member; (iii) the nomination of the auditing company, confirming PricewaterhouseCoopers S.p.A. as the Group's auditor for the 2005-2007 three-year period; and (iv) the renewal, for a further 18 months, of the authorization to acquire Company shares. In addition, a special meeting of savings shareholders was held in January of this year and confirmed Giovanni Pecorella as common representative of the shareholders.

## 7. Board of Statutory Auditors

The shareholders' meeting of May 7, 2003 elected the following Board of Statutory Auditors (with effect from August 4, 2003): Luigi Guatri (Chairman), Roberto Bracchetti and Paolo Francesco Lazzati. Franco Ghiringhelli and Sebastiano Guido were appointed as alternates. The election was held using the slate voting system. The only slate was presented by the

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members of the Pirelli & C. blocking shareholders' agreement. The Company considers the authority and reputation of the candidates proposed as a possible reason why no alternative slate was presented by the minority shareholders.

In 2005, the Board of Statutory Auditors met 5 times (the Board also participated in all Committee meetings and Company general meetings).

The current Board remains in office until the profit and loss account is approved on December 31, 2005 and the next general meeting must therefore decide on its re-nomination.

In this regard, as also described in paragraph 3, in the "Governance Structure" section and in paragraph 8 below, the provisions introduced by Law 262/2005 will be observed for the nomination of the Chairman of the Board, in exception to the specific statutory regulation.

## 8. Law 262/2005

On December 23, 2005, Law 262/2005, laying down the "Provisions for the protection of savings and for the regulation of financial markets," was approved. This law, which entered force on 12 January 2006, introduced, among other things, new regulations on corporate governance. Some of the new legislative regulations, such as slate voting, the percentage of owned capital necessary in order to present slates, the requirements for honorableness and independence applied to statutory auditors and directors, are already in compliance with the current corporate governance system adopted by the Company, as also described in other sections of this report. Other provisions in the Law require, on the other hand, bylaw adjustments. Some of these adjustments are necessarily subject to the issuing by the authorities of the implementing measures while others are immediately applicable. These include the provision relative to nomination of the Chairman of the Board of Statutory Auditors, reserved to the minority slate by Law 262/2005, as opposed to what is currently provided by Article 16 of Pirelli & C.'s corporate bylaws that, on the contrary, grant such nomination to the head of the majority slate. For this reason, when the Board of Statutory Auditors is re-nominated as part of the agenda for the next general meeting, the statutory provision referred to will not be applied by the Company, and therefore:

- the current statutory system for election by means of voting on competitive slates will be applied, while the holding of the position of statutory auditor in more than five other quoted companies outside the Group will be retained as a reason for ineligibility;
- the statutory clause relative to nomination of the Chairman of the Board of Statutory Auditors will not be applied.

Finally, it is pointed out that, at the April general meeting, what is provided by Article 2400, as referred to in the previous paragraph, will be applied, as a result of which "as of when the nomination is made and before the position is accepted" the administrative and auditing positions held by the statutory auditors in other companies will be made known to the general meeting."

The following tables summarize the Company's procedures for adopting the principal recommendations of the Code:

- Structure of the Board of Directors, the Remuneration Committee and the Committee for Internal Control and Corporate Governance.
- Structure of the Board of Statutory Auditors.
- Other provisions of the Code.
- Positions of director or member of the board of statutory auditors held by the Company's directors and statutory auditors in other listed companies, in financial, banking and insurance companies, and in other large companies.

Table 1

**STRUCTURE OF THE BOARD OF DIRECTORS AND THE BOARD COMMITTEES**

Position	Name	Board of Directors <sup>(1)</sup>				Committee for Internal Control		Remuneration Committee	
		executive	non-executive	independent	****	***	****	***	****
<b>Chairman</b>	Marco Tronchetti Provera	X			100%				
<b>Deputy Chairman</b>	Alberto Pirelli		X		100%				
<b>Deputy Chairman</b>	Carlo Alessandro Puri Negri		X		83%				
<b>Managing Director</b>	Carlo Buora	X			100%				
<b>Director</b>	Carlo Acutis		X	X	67%				
<b>Director</b>	Carlo Angelici (*)		X	X	83%	X	100%		
<b>Director</b>	Gilberto Benetton		X		50%				
<b>Director</b>	Franco Bruni (*)			X	83%	X	100%		
<b>Director</b>	Carlo De Benedetti		X	X	50%				
<b>Director</b>	Gabriele Galateri di Genola		X		33%				
<b>Director</b>	Mario Garraffo (*)		X	X	100%				
<b>Director</b>	Dino Piero Giarda		X	X	83%				
<b>Director</b>	Berardino Libonati		X	X	83%			X	100%
<b>Director</b>	Giulia Maria Ligresti		X		100%				
<b>Director</b>	Massimo Moratti		X		50%				
<b>Director</b>	Giovanni Perissinotto		X		33%				
<b>Director</b>	Giampiero Pesenti		X	X	67%			X	50% <sup>(2)</sup>
<b>Director</b>	Aldo Roveri (*)		X	X	100%			X	100%
<b>Director</b>	Carlo Secchi		X	X	100%	X	100%		
<b>Director</b>	Paolo Vagnone		X		67%				
Number of meetings held during the year (the data refer to the entire financial period):		Board of Directors: 8 (of which 2 before 28 April 2005)		Committee for Internal Control: 5 (of which 2 before 28 April 2005)		Remuneration Committee: 3 (of which 1 before 28 April 2005)			

**LEGEND**

\* Indicates that the director was elected from a slate presented by minority shareholders (quorum required: 2% of voting stock).

\*\* The positions held on the board of directors or statutory auditors of other companies listed on Italian and foreign regulated markets, of financial, banking and insurance companies, and of other large companies are shown in detail in the Report on Corporate Governance.

\*\*\* The "X" in one of these columns indicates membership of the relevant Board Committee.

\*\*\*\* Indicates the attendance of directors at the meetings of the Board of Directors and the Board Committees.

(1) The data in the table refer to the members of the Board of Directors nominated on 28 April 2005.

The previous Board consisted of the following: Marco Tronchetti Provera (Chairman), Alberto Pirelli (Deputy Chairman), Carlo Alessandro Puri Negri (Deputy Chairman), Carlo Buora (Managing Director), Carlo Acutis, Gilberto Benetton, Carlo De Benedetti, Gabriele Galateri di Genola, Giuseppe Gazzoni Frascarda, Mario Greco, Georg F. Krayer, Giulia Maria Ligresti, Massimo Moratti, Luigi Orlando, Giovanni Perissinotto, Giampiero Pesenti, Ennio Presutti, Carlo Secchi, Vincenzo Sozzani, Frank Vischer; two meetings were held before 28 April 2005, with an overall attendance rate of more than 70%.

(2) Mr Pesenti was a member of the Committee for Remuneration before 28 April 2005 as well; in 2005, he thus attended a total of two meetings out of three (67%).

Table 2

**BOARD OF STATUTORY AUDITORS**

Position	Name	Attendance at Board meetings	Number of other positions held**
<b>Chairman</b>	Luigi Guatri	80%	4
<b>Auditor</b>	Roberto Bracchetti	100%	2
<b>Auditor</b>	Paolo Francesco Lazzati	100%	2
<b>Auditor</b>	Franco Ghiringhelli		
<b>Auditor</b>	Sebastiano Guido		

Number of meetings held during the year: 5

Quorum required for the presentation of slates by minority shareholders for the election of auditors (Article 148 of the Consolidated Law on Finance): 2%

**LEGEND**

\* Indicates that the statutory auditor/alternate was elected from a slate presented by minority shareholders.

\*\* Indicates the number of positions held on the boards of statutory auditors of other companies listed on Italian regulated markets (excluding Pirelli Group companies). The main positions held in listed and unlisted companies are shown in detail in the Report on Corporate Governance.

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**Table 3**
**OTHER PROVISIONS OF THE SELF-REGULATORY CODE**

	YES	NO	Summary reasons for divergence from the recommendations of the Code
<b>Delegated powers and transactions with related parties</b>			
The Board of Directors has delegated powers and established:			
a) the limits to such powers?	X		
b) the manner of exercising them?	X		
c) the frequency of reports?	X		
Has the Board reserved the right to examine and approve transactions having a significant impact on the Company's profitability, assets and liabilities or financial position (including transactions with related parties)?			
	X		
Has the Board established guidelines for identifying "significant" transactions?			
	X		
Are the above guidelines described in the report?			
	X		
Has the Board established special procedures for examining and approving transaction with related parties?			
	X		
Are the procedures for approving transaction with related parties described in the report?			
	X		
<b>Procedures used for the most recent appointments of the Board of Directors and the Board of Auditors</b>			
Were the nominations to the board of directors filed at least ten days in advance?			
	X		
Were the nominations to the board of directors accompanied by detailed information?			
	X		
Were the nominations to the board of directors accompanied by an indication as to whether they qualified as independent?			
	X		
Were the nominations to the board of statutory auditors filed at least ten days in advance?			
	X		
Were the nominations to the board of statutory auditors accompanied by detailed information?			
	X		
<b>Shareholders' meetings</b>			
Has the Company approved rules of proceeding for shareholders' meetings?			
	X		
Are these rules included in the report (or does the report indicated where they can be obtained/downloaded)?			
	X		
<b>Internal control</b>			
Has the Company appointed the persons responsible for internal control?			
	X		
Are such persons hierarchically independent from the heads of the operating units?			
	X		
Unit responsible for internal control (ex Art. 9.3 of the Code)			
	X		
<b>Investor relations</b>			
Has the Company appointed a person to be responsible for investor relations?			
	X		
Unit and contact details of the person responsible for investor relations.			
	X <sup>(1)</sup>		

<sup>1</sup> Investor Relations Department (directly under Managing Director Carlo Buora), headed by Alberto Borgia; Contact details: e-mail ir@pirelli.com; tel.: +39.02.64422949; fax: +39.02.64424686.

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### Positions of Director or Statutory Auditor held by the members of the Board of Directors and the Board of Statutory Auditor in other listed companies, in financial, banking and insurance companies of relevant dimensions

<b>Marco Tronchetti Provera</b>	Camfin S.p.A.	Chairman
	G.P.I. – Gruppo Partecipazioni Industriali S.p.A.	Chairman
	Marco Tronchetti Provera & C. S.p.A.	Chairman
	Olimpia S.p.A.	Chairman
	Pirelli & C. Real Estate S.p.A.	Chairman
	Telecom Italia S.p.A.	Chairman
<b>Alberto Pirelli</b>	FIN. AP. di Alberto Pirelli & C. A.p.A.	Chairman
	G.P.I. – Gruppo Partecipazioni Industriali S.p.A.	Deputy Chairman
	Camfin S.p.A.	Director
	G.I.M. – Generale Industrie Metallurgiche S.p.A.	Director
	Olimpia S.p.A.	Director
	SMI – Società Metallurgica Italiana S.p.A.	Director
<b>Carlo Alessandro Puri Negri</b>	Partecipazioni Finanziarie S.r.l.	Chairman
	Partecipazioni Real Estate S.p.A.	Chairman
	Pirelli & C. Real Estate Franchising Holding S.r.l.	Chairman
	Pirelli & C. Real Estate Opportunities SGR S.p.A.	Chairman
	Pirelli & C. Real Estate SGR S.p.A.	Chairman
	Pirelli & C. Ambiente Holding S.p.A.	Deputy Chairman and Managing Director
	Pirelli & C. Real Estate S.p.A.	Deputy Chairman and Managing Director
	Camfin S.p.A.	Deputy Chairman
	G.P.I. – Gruppo Partecipazioni Industriali S.p.A.	Managing Director
	Aon Italia S.p.A.	Director
	Capitalia S.p.A.	Director
	Eurostazioni S.p.A.	Director
	Istituto Europeo di Oncologia S.r.l.	Director
Olimpia S.p.A.	Director	
Telecom Italia S.p.A.	Director	
<b>Carlo Buora</b>	Telecom Italia S.p.A.	Managing Director
	Istituto Europeo di Oncologia S.r.l.	Director
	Mediobanca S.p.A.	Director
	Olimpia S.p.A.	Director
	Pirelli & C. Real Estate S.p.A.	Director
	RCS MediaGroup S.p.A.	Director
	RAS S.p.A.	Director
<b>Carlo Acutis</b>	BPC Investimenti SGR S.p.A.	Chairman
	Vittoria Assicurazioni S.p.A.	Deputy Chairman
	Banca Passadore & C. S.p.A.	Deputy Chairman
	Camfin S.p.A.	Director
	Ergo Italia S.p.A.	Director
	Ergo Assicurazioni S.p.A.	Director
	Ergo Previdenza S.A.	Director
	Vittoria Capital N.V.	Director
	Yura S.A.	Director
	Yura International Holding B.V.	Director
	SCOR S.A.	Director
	Cogedim SA	Member of the “Conseil de Surveillance”
Yam Invest N.V.	Member of the “Supervisory Board”	
<b>Carlo Angelici</b>	Stretto di Messina S.p.A.	Director
<b>Gilberto Benetton</b>	Autogrill S.p.A.	Chairman
	Edizione Holding S.p.A.	Chairman
	Olimpia S.p.A.	Deputy Chairman
	Telecom Italia S.p.A.	Deputy Chairman
	Aldeasa S.A.	Director
	Autostrade S.p.A.	Director
	Benetton Group S.p.A.	Director
	Infrastrutture e Sviluppo S.p.A.	Director

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<b>Gilberto Benetton</b>	Lloyd Adriatico S.p.A.	Director
	Mediobanca S.p.A.	Director
	Schemaventotto S.p.A.	Director
<b>Franco Bruni</b>	Unicredit Audit S.p.A.	Director
	Unicredit Banca Mobiliare S.p.A.	Director
	Pioneer Global Asset Management S.p.A.	Director
<b>Carlo De Benedetti</b>	Carlo De Benedetti & Figli S.a.p a.	Member of the Board of Managing Partners
	BIM Alternative Investments SGR S.p.A.	Chairman
	CDB Web Tech S.p.A.	Chairman
	CIR S.p.A.	Chairman
	COFIDE S.p.A.	Chairman
	Management & Capitali S.p.A.	Chairman
	ROMED S.p.A.	Chairman
	Banca Intermobiliare di Investimenti e Gestioni S.p.A.	Director
	Gruppo Editoriale L'Espresso S.p.A.	Director
	SOGEFI S.p.A.	Director
	Valeo SA	Director
<b>Gabriele Galateri di Genola</b>	Mediobanca S.p.A.	Chairman
	Istituto Europeo di Oncologia S.r.l.	Chairman
	Istituto Italiano di Tecnologia	Chairman
	Centro Cardiologico Monzino	Chairman
	Assicurazioni Generali S.p.A.	Deputy Chairman
	RCS Mediagroup S.p.A.	Deputy Chairman
	Accor S.A.	Director
	Banca CRS S.p.A.	Director
	Banca Esperia S.p.A.	Director
	IFI S.p.A.	Director
	Italmobiliare S.p.A.	Director
	San Faustin N.V.	Director
	Sifalberghi S.r.l.	Director
	UTET S.p.A.	Director
	Commerzbank A.G.	Member of the Central Advisory Board
<b>Mario Garaffo</b>	RCN Finanziaria S.p.A.	Director
	Recordati Industria Chimica e Farmaceutica S.p.A.	Director
	TERNA - Rete Elettrica Nazionale S.p.A.	Director
	Virtus Holding S.p.A.	Director
<b>Dino Piero Giarda</b>	Banca Popolare Italiana	Chairman
	BiPielletti Investimenti S.p.A.	Chairman
	Cassa del Trentino S.p.A.	Chairman
	Acea S.p.A.	Director
<b>Berardino Libonati</b>	Banca di Roma S.p.A.	Chairman
	Swiss RE Italia S.p.A.	Chairman
	Unidroit	Chairman
	Acotel Group	Director
	Edizioni Scientifiche Italiane - E.S.I. S.p.A.	Director
	Mediobanca Banca di Credito Finanziario S.p.A.	Director
Nomisma - Società di Studi Economici S.p.A.	Director	
<b>Giulia Maria Ligresti</b>	Premafin Finanziaria Holding di Partecipazioni S.p.A.	Chairman and Managing Director
	FONSAI MB&A S.p.A.	Chairman
	SAIFIN S.p.A.	Chairman
	Fondiarria SAI S.p.A.	Deputy Chairman
	SAI Holding Italia S.p.A.	Managing Director
	Finadin S.p.A.	Managing Director
	Istituto Europeo di Oncologia S.r.l.	Director
	Milano Assicurazioni S.p.A.	Director
	Sailux S.A.	Director
	Sainternational S.A.	Director
	Telecom Italia Media S.p.A.	Director

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<b>Massimo Moratti</b>	Angelo Moratti Sapa di GianMarco e Massimo Moratti SARAS S.p.A. Raffinerie Sarde Interbanca S.p.A. Sarint S.A. Telecom Italia S.p.A.	Member of the Board of Managing Partners Managing Director Director Director Director
<b>Giovanni Perissinotto</b>	Banca Generali Generali Asset Management Sgr S.p.A. Generali Finances S.A. Generali Properties Assicurazioni Generali S.p.A. Alleanza Assicurazioni S.p.A. Assitalia S.p.A. Banca Intesa S.p.A. Banca Nazionale del Lavoro S.p.A. BSI - Banca della Svizzera Italiana S.A. INA Vita S.p.A. Participatie Maatschappij Graafschap Holland N.V. Transocean Holding Corporation	Chairman Chairman Chairman Chairman Managing Director and General Manager Director Director Director Director Director Director Director Director Director and member of Supervisory Board Director
<b>Giampiero Pesenti</b>	Franco Tosi S.r.l. Italcementi S.p.A. Italmobiliare S.p.A. Ciment Francais Fincomind AG Ciments du Maroc Compagnie Monegasque de Banque Credit Mobilier de Monaco Finter Bank Zurich Mittel S.p.A. RAS - Riunione Adriatica di Sicurtà S.p.A. Soparfinter SA (Luxembourg)	Chairman Chairman Chairman and Managing Director Deputy Chairman Deputy Chairman Director Director Director Director Director Director Director Director Director
<b>Aldo Roveri</b>		
<b>Carlo Secchi</b>	Fastweb S.p.A. Fondazione Teatro alla Scala Lloyd Adriatico S.p.A. Parmalat S.p.A. Tangenziali Esterne di Milano S.p.A. Veneranda Fabbrica del Duomo	Director Director Director Director Director Director
<b>Paolo Vagnone</b>	Allianz Subalpina S.p.A. L'Assicuratrice Italiana Danni S.p.A. L'Assicuratrice Italiana Vita S.p.A. Rasbank S.p.A. Creditras Vita S.p.A. Creditras Assicurazioni S.p.A. RAS S.p.A. Mondial Assistance Italia S.p.A. Unicredito Italiano S.p.A.	Chairman Chairman and Managing Director Chairman Deputy Chairman Deputy Chairman Deputy Chairman Managing Director Director Director
<b>Luigi Guatri</b>	BPU – Banche Popolari Unite ScpA Centrobanca S.p.A. Italcementi S.p.A. Italmobiliare S.p.A. Movi Lemar S.p.A. Movi S.p.A. Permasteelisa S.p.A. Rhifim S.p.A. Wimed S.p.A. ABCGroup S.p.A. Finanziaria 2000 S.p.A. Vittoria Assicurazioni S.p.A.	Chairman Board of Statutory Auditors Chairman Board of Statutory Auditors Chairman Board of Statutory Auditors Chairman Board of Statutory Auditors Chairman Board of Statutory Auditors Chairman Board of Statutory Auditors Chairman Board of Statutory Auditors Chairman Board of Statutory Auditors Chairman Board of Statutory Auditors Chairman Board of Director Chairman Board of Director Chairman Board of Director



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**Paolo Francesco Lazzati**

Finpol S.p.A.	Chairman Board of Statutory Auditors
Free SIM SpA	Chairman Board of Statutory Auditors
Giangiaco Feltrinelli Editore S.r.l.	Chairman Board of Statutory Auditors
Kowalski Editore S.r.l.	Chairman Board of Statutory Auditors
Imation S.p.A.	Chairman Board of Statutory Auditors
Invoicing S.r.l.	Chairman Board of Statutory Auditors
MCS & Partners S.r.l.	Chairman Board of Statutory Auditors
Molteni S.p.A.	Chairman Board of Statutory Auditors
Monit S.p.A. - Monetaria Italiana	Chairman Board of Statutory Auditors
Parcheggi Bicocca S.r.l.	Chairman Board of Statutory Auditors
Pirelli Pneumatici S.p.A.	Chairman Board of Statutory Auditors
Pirelli & C. Real Estate Agency S.p.A.	Chairman Board of Statutory Auditors
Pirelli & C. Real Estate Energy S.p.A.	Chairman Board of Statutory Auditors
Pirelli & C. Real Estate Franchising S.p.A.	Chairman Board of Statutory Auditors
OASI	Chairman Board of Statutory Auditors
Prysmian S.r.l.	Chairman Board of Statutory Auditors
Prysmian Cavi e Sistemi Energia S.r.l.	Chairman Board of Statutory Auditors
Prysmian Cavi e Sistemi Telecom S.r.l.	Chairman Board of Statutory Auditors
Società degli Avi per Azioni	Chairman Board of Statutory Auditors
Sorocaima S.p.A.	Chairman Board of Statutory Auditors
Spazio Industriale 2 S.r.l.	Chairman Board of Statutory Auditors
Spazio Industriale 3 S.r.l.	Chairman Board of Statutory Auditors
USO S.r.l.	Statutory Auditors
Alfa S.r.l.	Statutory Auditors
Antonio Cerruti e C. S.p.A.	Statutory Auditors
Attività Finanziarie Immobiliari S.p.A.	Statutory Auditors
Bernini Immobiliare	Statutory Auditors
Camfin S.p.A.	Statutory Auditors
CAM Partecipazioni S.r.l.	Statutory Auditors
Castello S.r.l.	Statutory Auditors
Credito Artigiano S.p.A.	Statutory Auditors
Dear Cinestudi S.p.A.	Statutory Auditors
Dear Immobiliare S.p.A.	Statutory Auditors
Dixia S.r.l.	Statutory Auditors
Ecla S.p.A.	Statutory Auditors
Edilnord Gestioni S.p.A.	Statutory Auditors
EFFE 2005 Finanziaria Feltrinelli S.p.A.	Statutory Auditors
EFFE.COM S.r.l.	Statutory Auditors
Elesa S.p.A.	Statutory Auditors
Erogasmet Holding S.p.A.	Statutory Auditors
Finlibri S.r.l.	Statutory Auditors
Giangiaco Feltrinelli Editore S.r.l.	Statutory Auditors
Grafica Sipiel S.r.l.	Statutory Auditors
Kedrios S.p.A.	Statutory Auditors
ICIERRE S.r.l.	Statutory Auditors
ILMA Plastica S.r.l.	Statutory Auditors
Istituto Centrale delle Banche Popolari Italiane SpA	Statutory Auditors
Librerie Feltrinelli S.r.l.	Statutory Auditors
Lanificio Fratelli Cerruti S.p.A.	Statutory Auditors
Orione Immobiliare Prima S.p.A.	Statutory Auditors
Pino Partecipazioni S.p.A.	Statutory Auditors
Pirelli & C. Real Estate Franchising Holding S.r.l.	Statutory Auditors
Pirelli & C. Real Estate SGR SpA	Statutory Auditors
Pirelli & C. Real Estate Opportunities SGR S.p.A.	Statutory Auditors
Progetto Bicocca La Piazza S.r.l.	Statutory Auditors
Progetto Corsico S.r.l.	Statutory Auditors
Progetto Fontana S.r.l.	Statutory Auditors
Tau S.r.l.	Statutory Auditors
Thesia S.p.A.	Statutory Auditors
Verdi S.r.l.	Statutory Auditors
Vivigas S.p.A.	Statutory Auditors
Comocalor S.p.A.	Director
Elle Servizi S.r.l.	Director
Finaval S.p.A.	Director
Mirage S.r.l.	Director
Profida S.r.l.	Director
Pro Juvara S.r.l.	Director
Stone S.r.l.	Director

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## Procedure for compliance with the requirements of article 150.1 of legislative decree 58/1998

### Premise

According to Article 150.1 of Legislative Decree 58/1998 (hereinafter “Consolidated Law on Financial Intermediation”) “the directors shall promptly inform the Board of Statutory Auditors, in the manner laid down in the bylaws and at least every three months, of the activities carried out and the transactions having a significant impact on the company’s profitability, financial position or assets and liabilities effected by the company or its subsidiaries; in particular, they shall report on any transaction in which they have an interest on their own behalf or on behalf of third parties, or which is influenced by the party exercising management and coordination activities”<sup>8</sup>.

Pursuant to the above-mentioned provision and in the light of Consob’s communications regarding corporate controls,<sup>9</sup> this procedure defines the persons and transactions involved in the flow of information directed to the Board of Auditors of Pirelli & C. S.p.A. (hereinafter “Pirelli” or “the Company”) and the phases and timetable of that flow. In particular, the procedure defines:

1. the method, frequency and content of information;
2. the collection of the information.

This procedure thus aims, in the first place, to provide the Board of Statutory Auditors with information serving for the performance of the oversight activity entrusted to it by the Consolidated Law on Financial Intermediation (Article 149).

Secondly, this procedure implements corporate governance instruments that put into practice the recommendations contained in the Self-Regulatory Code of Conduct drawn up by the Committee for the Corporate Governance of Listed Companies, which Pirelli has adopted from the time it was issued. In particular, by enhancing the transparency of the Company’s operations, it enables each director to participate in its management in a more knowledgeable and informed manner. Moreover, the procedure activates flows of information between directors exercising delegated powers and the Board, in accordance with the recommendations of the Self-Regulatory Code of Conduct, with a view both to sanctioning the “centrality” of the Board in its entirety and strengthening the functions of internal control.

### Method, frequency and content of information

The Board of Directors, possibly by means of delegated organs, every three months shall send the Board of Auditors a specific written report on:

- a) the activity carried out;
- b) transactions having a significant impact on the Company’s profitability, financial position or assets and liabilities;
- c) transactions potentially involving a conflict of interest, that is to say:
  - c1) intra-group transactions;
  - c2) transactions with related parties other than intra-group transactions;

<sup>8</sup> This provision is implemented by Article 11.3 of the Bylaws of Pirelli & C. S.p.A.: “The Board of Directors and the Board of Statutory Auditors are kept informed, also by the delegated bodies, about the activities carried out, the general performance of operations, the future outlook and the most important economic, financial and equity transactions carried out by the Company and its subsidiaries; in particular, the delegated bodies refer about transactions in which they have an interest, on their own behalf or on behalf of third parties, or transactions that are influenced by the party, if any, exercising management and coordination activities. Communication is given on a timely basis and, in any case, at least quarterly, at meetings of the Board of Directors and Executive Committee, if appointed, or by written communication.”

<sup>9</sup> Currently, Consob Communications 97001574 of 20 February 1997 and 1025564 of 6 April 2001; see also Consob Communication 2064231 of 30 September 2002 concerning the definition of the notion of “related parties”.

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d) atypical or unusual transactions and any other activity or transaction which it is considered appropriate to report to the Board of Auditors.

The information supplied shall refer to the activity performed and the transactions effected in the period of time following that covered by the previous report.

The report in question shall be transmitted simultaneously to all the directors and to the Board of Statutory Auditors.

### ***1. Activity performed***

The information shall regard executive activities and the developments of transactions already approved by the Board of Directors, as well as the activities of the committees (Committee for Internal Control and Corporate Governance, Committee for Remuneration and other internal committees); in particular, it shall report on the activities that the executive directors have performed, by means of the structures of the Company and its subsidiaries or otherwise, in the exercise of the powers delegated to them, including the initiatives taken and the projects begun.

### ***2. Transactions having a significant impact on profitability, financial position or assets and liabilities***

The information shall concern transactions having a significant impact on the Company's profitability, financial position or assets and liabilities and shall detail, in particular, their strategic aims, consistency with the budget and industrial plan, manner of execution (including the economic and other terms and conditions) and developments, as well as their possible consequences and implications for the activity of the Pirelli Group.

For the purposes of this procedure, in addition to transactions reserved to the Board of Directors pursuant to Article 2381 of the Civil Code and the Bylaws, the following shall be considered transactions having a significant impact on profitability, financial position or assets and liabilities:

- 1) issues of financial instruments for a total value of more than 100 million euros;
- 2) the provision of real or personal guarantees in the interest of subsidiaries (or in the interest of Pirelli in the case of real guarantees) against obligations of an amount exceeding 25 million euros;
- 3) the granting of loans or guarantees to the benefit or in the interest of third parties for amounts exceeding 10 million euros;
- 4) the granting of loans to the benefit of subsidiaries, investments and disinvestments, including those involving real estate, and acquisitions and disposals of shareholdings, businesses or branches of businesses, tangible fixed assets or other assets for amounts exceeding 100 million euros;
- 5) mergers or spin-offs in which subsidiaries participate where at least one of the applicable parameters below is equal to at least 15%:
  - a. total assets of the merged company or activities to be spun off/total assets of the Company (data from the consolidated accounts);
  - b. results before tax and non-recurring income and expense of the merged company or of the activities to be spun off/results before tax and non-recurring income and expense of the Company (data from the consolidated accounts);
  - c. total net worth of the merged company or the branch of business to be spun off/total net worth of the Company (data from the consolidated accounts).

Mergers and amalgamations between listed companies, amalgamations between a listed company and an unlisted company and mergers of a listed company into an unlisted company shall for the purposes of this procedure always be considered transactions having a significant impact on the Company's profitability, financial position or assets and liabilities.

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The information shall also regard transactions which, although individually below the quantitative thresholds indicated above or those that determine the exclusive responsibility of the Board of Directors, are interconnected within one and the same strategic or executive structure and therefore, when considered as a whole, exceed the threshold of significance.

**3. Transactions potentially involving a conflict of interest:**

*3a) Intra-group transactions*

The information on intra-group transactions shall describe their underlying interest and logic in the group context and the manner of their execution (including the economic and other terms and conditions), with particular regard to the valuation procedures adopted.

Specific details shall be given of transactions whose value exceeds 50 million euros, or less if not concluded at arm's length conditions<sup>10</sup>. Details shall also be given of transactions which, although individually below the quantitative threshold indicated above, are interconnected within one and the same strategic or executive structure and therefore, when considered as a whole, exceed it.

For the purposes of this procedure, intra-group transactions<sup>11</sup> shall be taken to mean transactions effected by Pirelli or by subsidiaries of Pirelli with:

- a) companies that directly or indirectly, or by means of a trust company or third parties, control Pirelli pursuant to Article 2359, first and second paragraphs, of the Civil Code and Article 93 of the Consolidated Law on Financial Intermediation;
- b) companies that directly or indirectly, or by means of a trust company or third parties, are controlled by Pirelli pursuant to Article 2359, first and second paragraphs, of the Civil Code and Article 93 of the Consolidated Law on Financial Intermediation;
- c) companies that directly or indirectly, or by means of a trust company or third parties, are controlled by the same companies that control Pirelli pursuant to Article 2359, first and second paragraphs, of the Civil Code and Article 93 of the Consolidated Law on Financial Intermediation;
- d) companies related with Pirelli pursuant to Article 2359, third paragraph, of the Civil Code and those that exercise a significant influence on Pirelli. Such a relationship does not exist with the related company of a related company.

*3b) Transactions with related parties other than intra-group transactions*

The information on transactions with related parties other than intra-group transactions shall detail the underlying interest and describe the manner of their execution (including the economic and other terms and conditions), with particular regard to the valuation procedures adopted.

For the purposes of this procedure, transactions with related parties shall be taken to mean transactions carried out by Pirelli or by its subsidiaries with parties directly or indirectly related to Pirelli.

The following shall be considered parties directly related to Pirelli:

- a) natural persons who hold (directly or indirectly, or by means of a trust company or third parties) an interest equal to at least 10% of the share capital represented by ordinary shares of Pirelli;
- b) natural persons who hold (directly or indirectly, or by means of a trust company or third parties) an equity interest smaller than the percentage indicated at point a) but who nonetheless by virtue of shareholders' agreements can, individually or jointly with the other participants in the agreements, appoint the majority of the members of Pirelli's Board of Directors;

<sup>10</sup> For the purposes of this procedure, transactions concluded at arm's length conditions shall be taken to mean transactions concluded at the same conditions as those applied by the Company to whatsoever party.

<sup>11</sup> The following shall be material for the purposes of this procedure: transfers, with or without a consideration, of personal or real property or of transferable economic rights, transactions involving the performance of work or services, the granting or obtaining of loans and guarantees, and cooperation agreements for the conduct and development of company business.

<sup>12</sup> See preceding note.

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- c) natural persons who hold (directly or indirectly, or by means of a trust company or third parties) an equity interest smaller than the percentage indicated at point a) but who nonetheless by virtue of shareholders' agreements control, individually or jointly with the other participants in the agreements, the majority of votes exercisable in Pirelli's ordinary shareholders' meeting;
- d) Directors and members of the Board of Statutory Auditors of Pirelli;
- e) general managers, the secretary of the Board of Directors and the heads of business units/central functions/operating activities of Pirelli that report directly to the Chairman and the Managing Directors (so-called first reports).

The following shall be considered parties indirectly related to Pirelli:

- f) non legally separated spouses of persons referred to at points a) to e);
- g) relatives by blood or affinity up to the second degree of kinship of persons referred to at points a) to e);
- h) companies in which persons referred to at points a) to g) hold directly or indirectly, or by means of a trust company or third parties, an equity interest of at least 10% (in the case of a listed company) or 20% (in the case of an unlisted company) of the share capital represented by shares having voting rights in the ordinary shareholders' meeting;
- i) companies in which persons referred to at points a) to g) hold equity interests smaller than percentages indicated at point h) but nonetheless by virtue of shareholders' agreements can, individually or jointly with the other participants in the agreements, appoint the majority of the members of the company's board of directors;
- j) companies in which persons referred to at points a) to g) hold equity interests smaller than the percentages indicated at point h) but nonetheless by virtue of shareholders' agreements control, individually or jointly with the other participants in the agreements, the majority of the votes exercisable in the ordinary shareholders' meeting of the company;
- k) companies in which persons referred to at points a) to g) have a strategic management role and subsidiaries of such companies;
- l) Companies having a majority of directors in common with Pirelli.

Parties related to Pirelli shall be as well considered direct or indirect participants in shareholders' agreements referred to in Article 122.1 of Legislative Decree 58/1998 whose subject is the exercise of voting rights, if the shares covered by the agreement constitute a controlling interest. The information shall regard transactions having a value greater than 500 thousand euros, or less if not concluded at arm's length conditions, whether or not carried out by means of a third parties, with parties directly or indirectly related to Pirelli. Details must also be given of transactions which, although individually below the quantitative threshold indicated, are interconnected within one and the same strategic or executive structure and therefore, when considered as a whole, exceed it.

#### ***4. Atypical or unusual transactions and other transactions***

Information on atypical or unusual transactions, including those effected by subsidiaries, and on every other activity or transactions about which it is considered appropriate to give information shall detail the underlying interest and describe the manner of their execution (including the economic and other terms and conditions), with particular regard to the valuation procedures adopted. For the purposes of this procedure, atypical or unusual transactions shall be taken to mean those in which the object or nature of the transaction is extraneous to the normal course of business of the Company and those involving particular critical factors due to their characteristics and risks, the nature of the counterpart or the time at which they are concluded<sup>13</sup>.

<sup>13</sup> Transactions carried out at the end or the beginning of the financial year.

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## Procedure for collecting the information

The Board of Directors shall report to the Board of Auditors by means of the delegated organs. To permit the specific report to be prepared, the information is to be transmitted to the Chairman and to the Managing Directors according to the procedure set out below.

### ***1. Information on the activity performed, on transactions having a significant impact on profitability, financial position or assets and liabilities, on intra-group transactions and on atypical or unusual transactions.***

General managers and the heads of business units/central functions/operating activities of Pirelli that report directly to the Chairman and to the Managing Directors (so-called first reports) by means of the General Directorate for Administration and Control shall send the Chairman and the Managing Directors a specific note, on quarterly basis, on the activity performed during the period by the structure concerned, with details of the transactions having a significant impact on the Company's profitability, financial position or assets and liabilities, of intra-group transactions of a value exceeding 50 million euros, or less if not concluded at arm's length conditions, of atypical or unusual transactions, of executive activities and the developments of transactions already approved by the Board of Directors, of the main activities carried out in the exercise of the powers delegated to them, including the most important projects begun and initiatives taken.

Transactions which, although individually below the quantitative thresholds indicated above or those that determine the exclusive responsibility of the Board of Directors, are interconnected within one and the same strategic or executive structure and therefore, when considered as a whole, exceed the threshold of significance must also be reported.<sup>14</sup>

The information on the activities of the Committee for Internal Control and Corporate Governance, the Committee for Remuneration and other internal committees shall be supplied by their respective chairmen.

### ***2. Information on transactions with related parties other than intra-group transactions***

The General Directorate for Administration and Control shall collect and transmit to the Chairman and to the Managing Directors, on the same quarterly basis of the preceding point 1, the declarations with which parties directly related to Pirelli report the transactions:

- carried out, even by means of third parties, with Pirelli or subsidiaries of Pirelli, by themselves directly or through one of the persons referred to at the above paragraph 3.b, from letter h) to letter l) by non legally separated spouses, by relatives by blood or affinity up to the second degree;
- having a value greater than 500.000 euros, or, if less, concluded not at arm's length conditions.

In providing such information details must also be given of transactions which, although individually below the quantitative threshold indicated above, are mutually interconnected on the basis of a common relation and therefore, considered as a whole, exceed the aforementioned threshold.<sup>15</sup>

The General Directorate for Administration and Control shall also collect the declarations in which directly related parties (i) list the companies that by their means complete the case in point as referred to the previous paragraph 3.b, from letter h) to letter k), as well as the companies in which they are directors; (ii) update the above mentioned list.

<sup>14</sup> In such case the transactions shall be material even where they are carried out in a span of time exceeding the three months covered by the report.

<sup>15</sup> See preceding note.

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The General Directorate for Administration and Control shall transmit the list of the parties related to Pirelli as above identified, to the General Managers, the heads of Business Units/Central Functions/Operating Activities of Pirelli that report directly to the Chairman and the Managing Directors (so called First Reports).

The First Reports quarterly inform the Chairman and the Managing Directors of the transactions carried out with Pirelli – or with its subsidiaries – by the indirectly related parties, as identified in the list provided by the General Directorate for Administration and Control, also by means of third parties, having a value greater than 500.000 euros, and even if less, of those concluded not at arm's length conditions.

#### 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.
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.

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## 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, as may other persons whose presence is deemed useful in relation to the matters to be discussed.
- With the agreement of the Chairman, 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

- The Chairman shall be assisted in the conduct of the meeting and in the preparation of the minutes by a Secretary, where a Notary public is not present. The Secretary or the Notary public may in turn arrange to be assisted by persons of their trust.
- The Chairman, for the purposes of conducting the voting procedures, 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.

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### Article 8

- 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 9

- 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 10

- 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 11

- 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. The Chairman shall evaluate the compatibility of such proposals in relation to the agenda of the meeting.

### Article 12

- 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 13

- 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 14

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

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## 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 Shares granted	% of all shares granted	% of the total n. of ordinary shares issued
CAMFIN S.p.A.	1,027,455,727	42.48	19.83
MEDIOBANCA S.p.A.	233,001,859	9.63	4.50
EDIZIONE HOLDING S.p.A.	232,992,911	9.63	4.50
FONDIARIA - SAI S.p.A.	223,543,498	9.24	4.31
RAS S.p.A.	222,958,537	9.22	4.30
ASSICURAZIONI GENERALI S.p.A. (*)	222,958,531	9.22	4.30
BANCA INTESA S.p.A.	81,665,400	3.38	1.58
CAPITALIA S.p.A.	81,665,400	3.38	1.58
Massimo MORATTI (**)	60,300,084	2.49	1.16
SINPAR HOLDING S.A. - SINPAR S.p.A. (***)	32,048,563	1.33	0.62
Total	2,418,590,510	100	46.68

(\*) n. 57,400,000 shares through La Fédération Continentale Compagnie d'Assurances Sur La Vie S.A., n. 82,779,265 shares through Ina Vita S.p.A. and n. 82,779,266 shares through Generali Vita S.p.A.

(\*\*) Including 37,420,339 shares through CMC S.p.A. and n. 11,328,318 shares fiduciary owned by Istifid S.p.A.

(\*\*\*) n. 19,797,563 shares of Sinpar Holding S.A. and n. 12,251,000 shares of Sinpar 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 against payment) 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.

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#### 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, 2007 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, 10 January 2006