

CORPORATE GOVERNANCE

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Introduction

As already indicated in previous annual reports, the Company's corporate governance system is based on the central role of the Board of Directors in providing strategic guidance, complete transparency of operational decisions, both internal and in relation to the market, efficient and effective internal controls, and rigorous rules governing conflicts of interest. The building blocks of the system consist of a series of codes, rules and procedures.

In 2004 these documents were carefully reviewed and, where necessary, updated to take into account legislative and regulatory innovations, changes in the international best practices, and developments in the Company's operations. In addition, amendments were made to the bylaws, partly in response to the changes in the company law introduced by the "Vietti reform".

In particular, with a view to further improving the Company's corporate governance system and fostering increased participation by all shareholders in the life of the Company and in decisions likely to influence the success of the business, on May 11, 2004 the shareholders' meeting decided to:

- amend Article 10 of the bylaws to introduce the slate system for the election of the Board of Directors, to ensure - if shareholders avail themselves of the possibility by presenting at least two slates - that a fifth of the directors are chosen from among persons nominated by the minority shareholders;
- to amend Article 12 of the bylaws by extending the circumstances for convening meetings of the Board of Directors to include the case in which this is requested by a fifth of the directors in office. The aim of this change is to increase the possibility for directors nominated by the minority shareholders (a fifth of the total as specified above) to influence the life of the Company by convening meetings of the Board of Directors;
- to adopt the Rules of Proceeding for the Shareholders' Meeting, a document intended to promote, as recommended by the Self-Regulatory Code of Conduct for listed companies (hereinafter the "Code"), the orderly and effective conduct of the ordinary and extraordinary shareholders' meetings and to guarantee the right of every shareholder to discuss the matters on the agenda.

During the Board meeting held on March 22, 2005 all the directors resigned as of the shareholders' meeting called for April 27-28 2005, one year early with respect to the normal termination of their appointments. This decision is intended to permit the immediate application of the slate system introduced in the bylaws last year to encourage - in line with international best practice - increased participation by all shareholders in the life of the Company and in decisions likely to influence the success of the business.

In compliance with the Instructions accompanying the Rules of the markets operated by Borsa Italiana and taking into account 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.

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Governance Structure

1. Board of Directors

 1.1 The role of the Board of Directors

The Company is led by a Board consisting of a number of directors between seven and twenty-three who remain in office for a three year- term (unless a shorter period is established by the shareholders' meeting when they are appointed) and may be re-elected (Article 10 of the bylaws).

Pursuant to Article 11 of the bylaws, the Board is responsible for the **operation** of the business 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 strategic, organizational, business and financial plans of the Company 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 to such delegated powers, the manner of exercising them and the 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 proposals of the remuneration committee and consulting the Board of 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 among the members of the Board of Directors and the executive committee (if established) the total amount to which the directors are entitled;
- supervises the general performance of the company, 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 organisational and administrative structure established by the managing directors for the Company and the group;
- reports to the shareholders at shareholders' meetings.

 1.2 The functioning of the Board of Directors

The Board of Directors elects a Chairman (unless the shareholders' meeting has already appointed one) and possibly one or more Deputy Chairmen.

In the absence of the Chairman, meetings are chaired, in the following order, by a Deputy Chairman or a Managing Director; if there are two or more Deputy Chairmen or Managing Directors, meetings are chaired by the senior in age.

The Board appoints a Secretary, who does not have to be a director. Meetings of the Board of Directors are called at the initiative of the Chairman or his substitute and held at the Company's registered office or such other place as is specified in the letter convening the meeting whenever the Chairman or his substitute deems this to be desirable in the interests of the Company; they are also called whenever a request is made by one of the Managing Directors or by a fifth of the directors in office or by at least two members of the Board of Auditors.

The bylaws do not provide for a minimum frequency for the Board meetings; however, the practice is for at least six meetings to be held every year (to examine the preliminary data at June 30 and December 31, the draft annual financial statements and the quarterly and half-yearly reports). Normally, at the end of the last Board meeting each year the calendar of the

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main corporate events for the following year (i.e. Board and shareholders' meetings) is announced to the market. Changes to the calendar are promptly made known to the market. Board meetings may be held by means of telecommunication techniques that permit participation in the discussion and equality of information for all participants. Notice of Board meetings is given by letter, telegram, fax or e-mail, sent at least five days prior the date of the meeting (or, in urgent cases, with at least six hours' notice) to each director and member of the Board of Auditors. The Board may nonetheless decide validly in the absence of a formal convocation if all the directors and all the members of the Board of Auditors in office are present. Decisions of the Board are valid if the majority of the directors are present and the majority of the votes casted are favourable. The Chairman has the casting vote. The minutes of Board meetings, even if held by means of telecommunication techniques, are recorded in a register and signed by the Chairman and the Secretary.

1.3 The composition of the Board of Directors

The current Board of Directors was appointed by the shareholders' meeting of May 7, 2003, which fixed the number of directors at twenty-two.

Following the resignations during 2004 of Giovanni Ferrario and Maurizio Romiti, the shareholders' meeting of January 21, 2005 decided to reduce the number of directors from 22 to 20.

Accordingly, the members of the Board are at present:

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	Chairman of the Internal Control and Corporate Governance Committee
Mario Greco	
Georg F. Krayser	
Giulia Maria Ligresti	
Massimo Moratti	
Luigi Orlando	Member of the Remuneration Committee
Giovanni Perissinotto	
Giampiero Pesenti	Member of the Remuneration Committee
Ennio Presutti	Member of the Internal Control and Corporate Governance Committee and Chairman of the Remuneration Committee
Carlo Secchi	Member of the Internal Control and Corporate Governance Committee
Vincenzo Sozzani	
Frank Vischer	
Leopoldo Pirelli	Honorary Chairman of the Company.

Pursuant to Article 10 of the bylaws, the Board of Directors is renewed by using the slate system, which, if more than one slate is presented, allows minority shareholders to elect a fifth of the directors (see below).

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.

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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 judgement;
- 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;
- 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 8 of the remaining 18 directors (Carlo De Benedetti, Carlo Acutis, Giuseppe Gazzoni Frascara, Georg F. Kraye, Giampiero Pesenti, Ennio Presutti, Carlo Secchi and Frank Vischer) can be considered independent, while the other 7 (Gilberto Benetton, Gabriele Galateri di Genola, Mario Greco, Giulia Maria Ligresti, Massimo Moratti, Giovanni Perissinotto and Luigi Orlando) represent companies that are part of the blocking agreement among shareholders of Pirelli & C. (see Section 4).

The last 3 directors are considered not to be independent: Alberto Pirelli and Carlo Alessandro Puri Negri, in view of the executive positions they hold in respectively Pirelli Pneumatici S.p.A. and Pirelli & C. Real Estate S.p.A., and Vincenzo Sozzani, exclusively in view of the long period in which he held such positions in the group.

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

As mentioned in the Introduction, during the Board meeting held on March 22, 2005 all the directors resigned, as of the shareholders' meeting called for April 27-28, 2005, one year early with respect to the normal termination of their appointments.

2. Shareholders' meetings

How shareholders' meetings work

The calling of shareholders' meetings, which may be held in Italy in places other than the Company's registered office, the right to attend and the right to be represented by proxies are governed by law and the bylaws.

The annual meeting 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.

Shareholders' meeting 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 favourable vote of the majority of the capital represented at the meeting.

The Chairman of the meeting is assisted by a Secretary appointed by the meeting; this is not necessary if a notary public is appointed to prepare the minutes of the meeting.

The Chairman of the meeting decides how to proceed, in accordance with the law and the bylaws. To this end, the Chairman: verifies that the meeting has been duly convened;

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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 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 Auditors

The Company's bylaws provide that the Board of Auditors consist of three auditors and for there to be two alternates. In order to allow minority shareholders to elect one auditor and one alternate, Article 16 of the bylaws provides for use of the slate system, with one auditor and one alternate elected from the slate that obtains the second largest number of votes (the minority slate). The other two 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 them proving their 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 auditors or are already auditors of 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 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 auditors who have worked on statutory audits for a period of not less than three years.

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

The Chairman of the Board of Auditors is the auditor at the top of the slate which obtains the largest number of votes.

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

When the shareholders' meeting has to appoint auditors and/or alternates to bring the board up to full complement as provided for above or in conformity with applicable law, it proceeds as follows: if auditors elected from the majority slate are to be replaced, the appointment is made with the favourable votes of a relative majority without being tied to

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a slate; if instead auditors elected from the minority slate are to be replaced, the shareholders' meeting replaces them with the favourable votes of a relative majority, choosing where possible from among the candidates on the slate from which the auditor to be replaced was elected.

In appointing 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.

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

Participation in meetings of the Board of 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 Auditors is charged with checking:

- 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.

The Board of 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 meetings of the Board of Directors.

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

4. Composition of the share capital

On March 22, 2005 the share capital of Pirelli & C. S.p.A. was equal to Euros 2,763,953,496.20, divided into 5,315,295,185 shares with a par value of Euros 0.52 each, of which 5,180,530,756 ordinary shares and 134,764,429 non-convertible savings shares.

The share capital may be increased up to Euros 2,819,827,565.88 through the issue of up to 107,450,134 ordinary shares for:

- the possible exercise of 212,897,138 Pirelli & C. 2003-2006 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 takes account of the exercise of 1,348,958,188 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 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.

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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.

It is nonetheless worth noting the existence of the Pirelli & C. S.p.A. blocking shareholders' agreement aimed at ensuring the stability of the shareholder structure and the unitary governance of the business. Extracts from this agreement are included at the end of this section and are also available on the Company's website 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, 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 who requests a copy.

Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate by 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 them proving their 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

In 2004 the Board of Directors met seven times.

More than 75% of all the directors attended on average and more than 73% 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.

Two Board meetings have already been held in 2005 and another four are planned.

1.3 Directors' remuneration

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

The shareholders' meeting of May 7, 2003 fixed the annual fee payable to each director at Euros 50,000. The remuneration of directors entrusted with special powers is determined by the Board of Directors after consulting the Board of Auditors. Currently there is only one director with such powers on a permanent basis. Further information on the remuneration

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of the directors entrusted with special powers can be found in a chart in the notes to the financial statements for 2004.

Lastly, it should be noted that there are no stock-option plans for either the executive or the non-executive directors ⁽¹⁾.

1.4 Delegated powers

In the meeting held on May 7, 2003 the Board of Directors reserved the following matters to the Chairman, Marco Tronchetti Provera:

- relations with shareholders and the information provided to them;
- coordination of the activities of the Managing Directors;
- 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 committees with strategic functions;
- appointment of consultants and members of the professions after consulting the Managing Directors, with the authority to delegate these powers to the latter;
- all forms of external communications, with the authority to delegate these powers to the Managing Directors;
- 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.

Furthermore, in order to allow the Chairman to represent the Company fully in dealings with third parties, the Board has granted him the powers necessary to execute any act concerning the various aspects of the business apart from the power to issue guarantees for obligations of the Company or its subsidiaries where the individual amount exceeds € 25 million and guarantees in favour of third parties for obligations where the individual amount exceeds Euros 10 million. In such cases the Chairman must sign jointly with a Managing Director.

Managing Director Carlo Buora - who, in addition to the position of General Manager, has been entrusted with all the finance and administration activities and those concerning the industrial sectors, which were the responsibility of Giovanni Ferrario until December 7, 2004 - has been granted broad powers, subject to the limits for major transactions (Euros 50 million for acquisitions and disposals of equity interests, subscriptions for new shares or bonds, execution of contracts involving the purchase, sale or exchange of fixed assets or financial instruments). The above-mentioned thresholds refer to a single transaction, taken to include a set of transactions which, although individually below the relevant thresholds, are interconnected within the same strategic or executive structure. 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, Valerio Battista, General Manager of the Cables Sector, and Francesco Gori, General Manager of the Tyres Sector.

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

(1) 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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As in the past, in 2004 the Chairman and the Managing Directors used their delegated powers only for the ordinary management of the Company's activities (with regard to which the directors were periodically informed) and waived them for the more important transactions from an operational or financial perspective, which they submitted 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, a high 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 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, in occasion of the meetings of the Board of Directors (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 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.

1.6 Rules of conduct for transactions with related parties

The Company has also laid down the rules of conduct (included at the end of this section and available on the Company's website 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 to 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 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.

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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 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 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 laid down in the bylaws for the meetings of the Board of Directors. In accordance with Article 8.1 of the Code, the Remuneration Committee is composed entirely of non-executive directors (Ennio Presutti, chairman, Luigi Orlando and Giampiero Pesenti), the majority of whom are independent (Ennio Presutti and Giampiero Pesenti). In 2004 the Remuneration Committee held two meetings.

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 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 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.

This committee normally meets before the meetings of the Board of Directors are called to approve 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 laid down in the bylaws for the meetings of the Board of Directors. The members of the Board of Auditors and the Managing Directors participate in the meetings of the committee; the head of the Internal Audit Department and one or more General Managers may be invited to attend.

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In accordance with Article 10 of the Code, the Internal Control and Corporate Governance Committee is composed entirely of independent directors (Giuseppe Gazzoni Frascara, chairman, Ennio Presutti and Carlo Secchi).

In 2004 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 particular, the committee agreed with the amendments to the Code of Ethics. It also agreed with the text of the Rules of Proceeding for the Shareholders' Meeting and the amendments to the bylaws to take into account changes in the company law introduced by the "Vietti reform". The committee also took part in the revision of the internal rules on transactions with related parties and was kept constantly informed of the steps taken in implementing the 231 Organizational Model.

The committee also examined the underlying approach and some specific aspects of the Company's periodic financial reports (the parent company and consolidated annual financial statements, the half-yearly report and the annual report) and agreed with the Company's decision to opt to pay income tax on a consolidated basis.

The committee also monitored the work of the Internal Audit Department and in particular reviewed the report on the implementation of the 2004 Audit Plan and the progress made in implementing the group's Control Risk Self-Assessment project. The committee also examined and approved the audit plan for 2005 prepared by the Internal Audit Department and discussed the plan for the 2005 statutory audit with the external auditors, 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 Auditors, judged the internal control system to be adequate.

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, taking into account the current ownership structure. The need for such a committee was further reduced by the adoption, with the approval of the shareholders' meeting of May 11, 2004, of the slate system for the election of the directors, 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 of a price-sensitive 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 institutional investors.

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.

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3.2 Insider dealing

As required by the current regulations, as of December 1, 2002 the Company has had an Insider Dealing Code laying down the disclosure requirements and rules of conduct for transactions involving “Financial Instruments” (briefly, ordinary and savings shares of Pirelli & C. S.p.A., shares of Pirelli & C. Real Estate S.p.A., instruments that give the right to buy or subscribe for such shares, and units of real-estate investment funds set up and managed by subsidiaries of Pirelli & C.) concluded by “Relevant Persons” (briefly, persons who, as a consequence of the positions they hold in the Company, have access to material information). More accurate definitions of both terms are contained in the Insider Dealing Code (included at the end of this section and available on the Company’s website www.pirelli.com).

The principal aims of the Insider Dealing Code are to ensure the maximum transparency vis-à-vis the market of transactions concluded by persons who have a special relationship with the Company and its subsidiaries and to specify the blackout periods during which such persons may not conclude transactions involving the securities in question. To this end, the main provisions concern:

- 1) details of the persons required to disclose transactions;
- 2) the obligation to inform the market immediately of transactions involving a significant amount of Financial Instruments, i.e. those whose aggregate value, including transactions concluded in the three preceding months, exceeds Euros 80,000;
- 3) the obligation to inform the market at the end of each quarter of transactions involving Financial Instruments whose aggregate value is between Euros 35,000 and Euros 80,000;
- 4) the specification of blackout periods during which Relevant Persons may not conclude transactions involving Financial Instruments.

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 uses the Internal Control and Corporate Governance Committee and the Internal Audit Department, which is placed directly under the Chairman of Pirelli & C. S.p.A. with respect to its work in both the parent company and subsidiaries. The Department’s primary task is to follow developments in the internal control system and monitor its adequacy, effectiveness and efficiency on a group-wide basis.

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.

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In order to foster compliance with the strategies and guidelines adopted by the parent company, the competent 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.
- Internal control system, the process aimed at providing a reasonable guarantee that the operations will be efficient and effective, financial and operational data are accurate, laws and regulations complied with, and the Company's assets are safeguarded, not least against the perpetration of fraud. The internal control system is based on and characterized by a number of general principles defined within the framework of the organizational model, whose scope extends across all the different organizational levels (Business Units, Central Functions and Companies).
- 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 criminal offences that could be committed in connection with each process and the specific checks to be performed with a view to their prevention, 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. The functioning of the model and compliance with it are monitored by an ad hoc Oversight Committee composed of Giuseppe Gazzoni Frascara, independent director and chairman of the Internal Control and Corporate Governance Committee, Paolo Francesco Lazzati, member of the Board of Auditors, and Sergio Romiti, head of the Internal Audit Department. Its composition ensures that the Committee includes the different professional competences 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 Auditors on the checks performed and their results.

The shareholders' meeting of May 10, 2004 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.

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Lastly, a disciplinary system has been introduced to sanction non-compliance with the measures indicated in the organizational, operational and control systems. The procedures for reporting information to the oversight committees were strengthened in 2004 to implement Article 6.2d) of Legislative Decree 231/2001, which establishes information reporting requirements vis-à-vis the committee charged with monitoring the functioning of and compliance with the models.

5. **Relations with institutional investors and other shareholders**

In line with its tradition of transparency and fairness, the Company actively promotes relations with shareholders and institutional investors within the proper limits of their respective roles and periodically organizes meetings with representatives of 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 www.pirelli.com.

In this section of the website investors can find every document of interest, in English as well as Italian, as regards 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 requirements of Article 150.1 of Legislative Decree 58/1998, the Insider Dealing Code and the minutes of shareholders' meetings). The section also gives access to 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 inserts specifically addressed to small investors in the mass media.

Investor queries may be sent to:

e-mail: 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 price-sensitive 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 Auditors make every possible effort to attend the meetings, especially those directors whose positions permit them to make an important contribution to the discussion.

7. **Board of Auditors**

The shareholders' meeting of May 7, 2003 elected the following Board of 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 current Board remains in office until the approval of the financial statements for the fiscal year ending December 31, 2005.

The election was held using the slate voting system.

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The only slate was presented by the 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 2004 the Board of Auditors met 6 times.

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 Auditors
- Other provisions of the Code
- Positions of director or member of the board of auditors held by the Company's directors in other listed companies, in financial, banking and insurance companies, and in other large companies.

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Table 1 - STRUCTURE OF THE BOARD OF DIRECTORS AND THE BOARD COMMITTEES

Board of Directors						Committee for Internal Control		Remuneration Committee		
Position	Name	executive	non-executive	independent	****	Number of other positions **	***	****	***	****
Chairman	Marco Tronchetti Provera	X			100%	6				
Deputy Chairman	Alberto Pirelli		X		100%	6				
Deputy Chairman	Carlo A. Puri Negri		X		100%	10				
Managing Director	Carlo Buora	X			100%	7				
Managing Director	Giovanni Ferrario ⁽¹⁾	X			100%	-				
Director	Carlo Acutis			X	71%	14				
Director	Gilberto Benetton		X		29%	11				
Director	Carlo De Benedetti			X	57%	7				
Director	Gabriele Galateri di Genola		X		86%	10				
Director	Giuseppe Gazzoni Frascara			X	71%	10	X	100%		
Director	Mario Greco		X		71%	12				
Director	Georg F. Krayser			X	43%	2				
Director	Giulia Maria Ligresti		X		86%	11				
Director	Massimo Moratti		X		86%	5				
Director	Luigi Orlando		X		43%	2			X	50%
Director	Giovanni Perissinotto		X		43%	20				
Director	Giampiero Pesenti			X	57%	13			X	100%
Director	Ennio Presutti			X	100%	3	X	100%	X	100%
Director	Maurizio Romiti ⁽²⁾		X		20%	-				
Director	Carlo Secchi			X	100%	5	X	100%		
Director	Vincenzo Sozzani		X		100%	3				
Director	Frank Vischer			X	86%	1				
Number of meetings held during the year:		Board of Directors: 7			Committee for Internal Control: 3		Remuneration Committee: 2			

LEGEND

* Indicates that the director was elected from a slate presented by minority shareholders.

** The positions held on the boards of directors or 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) Resigned on 7 December 2004.

(2) Resigned on 15 September 2004.

Table 2 - BOARD OF AUDITORS

Position	Name	Attendance at Board meetings	Number of other positions held **
Chairman	Luigi Guatri	83%	4
Auditor	Roberto Bracchetti	100%	1
Auditor	Paolo Francesco Lazzati	100%	2
Alternate	Franco Ghiringhelli	-	1
Alternate	Sebastiano Guido	-	-

Number of meetings held during the year: 6

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

LEGEND

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

** Indicates the number of positions held on the boards of 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
Delegated powers and transactions with related parties			
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		
Procedures used for the most recent appointments of the Board of Directors and the Board of Auditors			
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 auditors filed at least ten days in advance?	X		
Were the nominations to the board of auditors accompanied by detailed information?	X		
Shareholders' meetings			
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		
Internal control			
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 (Art. 9.3 of the Code)	X		
Investor relations			
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 ¹		

¹ 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 Auditor held by the members of the Board of Directors and the Board of Auditor in other listed companies, in financial, banking and insurance companies of relevant dimensions

Name	Position
Marco Tronchetti Provera	Chairman of the Board of Directors of Camfin S.p.A.; Chairman of the Board of Directors of Gruppo Partecipazioni Industriali S.p.A.; Chairman of the Board of Partners of Marco Tronchetti Provera & C. A.P.A.; Chairman of the Board of Directors of Olimpia S.p.A.; Chairman of the Board of Directors of Pirelli & C. Real Estate S.p.A.; Chairman of the Board of Directors of Telecom Italia S.p.A..
Alberto Pirelli	Chairman of the Board of Partners of Fin.Ap. Di Alberto Pirelli & C. Ap.A.; Deputy Chairman of Di Gruppo Partecipazioni Industriali S.p.A.; Director of Camfin S.p.A.; Director of G.I.M. – Generale Industrie Metallurgiche S.p.A.; Director of Olimpia S.p.A.; Director of Smi – Società Metallurgica Italiana S.p.A..
Carlo Alessandro Puri Negri	Chairman of the Board of Directors of Pirelli & C. Real Estate Sgr S.p.A.; Deputy Chairman And Managing Director of Pirelli & C. Real Estate S.p.A.; Deputy Chairman of the Board of Directors of Camfin S.p.A.; Managing Director of Gruppo Partecipazioni Industriali S.p.A.; Director of Aon Italia S.p.A.; Director of Capitalia S.p.A.; Director of Eurostazioni S.p.A.; Director of Istituto Europeo Di Oncologia S.r.l.; Director of Olimpia S.p.A.; Director of Telecom Italia S.p.A..
Carlo Buora	Chairman of the Board of Directors of Tim S.p.A.; Managing Director of Telecom Italia S.p.A.; Director of Mediobanca - Banca Di Credito Finanziario S.p.A.; Director of Olimpia S.p.A.; Director of Pirelli & C. Real Estate S.p.A.; Director of Ras - Riunione Adriatica Sicurtà - S.p.A.; Director of Rizzoli Corriere Della Sera Media Group S.p.A..
Carlo Acutis	Chairman of the Board of Directors of BPC Investimenti SGR S.p.A.; Deputy Chairman of the Board of Directors of Vittoria Assicurazioni S.p.A.; Director of Banca Passadore & C. S.p.A.; Director of Camfin S.p.A.; Director of Ergo Italia S.p.A.; Director of Ergo Assicurazioni S.p.A.; Director of Ergo Previdenza S.A.; Director of Inbro N.V.; Director of Yura S.A.; Director of Yura International Holding B.V.; Director of Yura Capital S.A.; Director of Scor S.A.; Director of Vittoria Capital N.V.; Member of the Supervisory Board of Cogedim S.A..
Gilberto Benetton	Chairman of the Board of Directors of Autogrill S.p.A.; Chairman of the Board of Directors of Edizione Holding S.p.A.; Deputy Chairman of the Board of Directors of Olimpia S.p.A.; Deputy Chairman of the Board of Directors of Telecom Italia S.p.A.; Director of Autogrill Group Inc. (Formerly HMS Host Corp.) Director of Autostrade S.p.A.; Director of Banca Antoniana Popolare Veneta S.p.A.; Director of Benetton Group S.p.A.; Director of Lloyd Adriatico S.p.A.; Director of Mediobanca - Banca Di Credito Finanziario S.p.A.; Director of Schemaventotto S.p.A..

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Name	Position
Carlo De Benedetti	Chairman of the Board of Directors of CDB Web Tech S.p.A.; Chairman of the Board of Directors of CIR S.p.A.; Chairman of the Board of Directors of COFIDE S.p.A.; Chairman of the Board of Directors of SOGEFI S.p.A.; Director of Banca Intermobiliare di Investimenti e Gestioni S.p.A.; Director of Gruppo Editoriale L'Espresso S.p.A.; Director of Valeo S.A..
Gabriele Galateri di Genola	Chairman of the Board of Directors of Mediobanca - Banca di Credito Finanziario S.p.A.; Chairman of the Board of Directors of Istituto Europeo di Oncologia S.r.l.; Deputy Chairman of the Board of Directors of Assicurazioni Generali S.p.A.; Director of Accor S.A.; Director of Banca CRS S.p.A.; Director of Banca Esperia S.p.A.; Director of IFI S.p.A.; Director of San Faustin N.V.; Director of UTET S.p.A.; Member of the Supervisory Board of Commerzbank.
Giuseppe Gazzoni Frascara	Director of Bologna Football Club 1909 S.p.A.; Director of Emif S.r.l.; Director of Euromobiliare Corporate Finance S.p.A.; Director of F.G.F. - Financière Gazzoni Frascara S.p.A.; Director of F.G.F. - Finanziaria Generale Felsinea S.r.l.; Director of ITO S.r.l.; Director of Lega Calcio Service S.p.A.; Director of Pirelli & C. Ambiente Holding S.p.A.; Director of Vittoria 2000 S.r.l.; Member of the Supervisory Board "Sofipa Equity Fund" (Managed By Mcc Sofipa Sgr S.p.A.).
Mario Greco	Deputy Chairman of the Board of Directors of AGF RAS Holding B.V.; Deputy Chairman of the Board of Directors of Allianz Subalpina S.p.A.; Deputy Chairman of the Board of Directors of Rasbank S.p.A.; Deputy Chairman of the Board of Directors of Ras International N.V.; Managing Director and General Manager of Riunione Adriatica di Sicurtà S.p.A. - RAS; Director of Allianz Compania de Seguros y Reaseguros; Director of Allianz Suisse Lebensversicherungs; Director of Allianz Suisse Versicherungen; Director of Fastweb S.p.A.; Director of IFIL S.p.A.; Director of Merloni Elettrodomestici S.p.A.; Director of Unicredito Italiano S.p.A..
Georg F. Krayser	Chairman of Bank Sarasin & Cie AG; Director of Baloise Holding.
Giulia Maria Ligresti	Chairman of the Board of Directors and Managing Director of Premafin Finanziaria S.p.A.; Chairman of the Board of Directors of FONSAI MB&A S.p.A.; Deputy Chairman of Fondiaria Sai S.p.A.; Managing Director of Sai Holding Italia S.p.A.; Managing Director of Saifin S.p.A.; Director of Finadin S.p.A.; Director of Iena Presboug S.A.; Director of Milano Assicurazioni S.p.A.; Director of Sailux S.A.; Director of Sainternational S.p.A.; Director of Telecom Italia Media S.p.A..
Massimo Moratti	Partner of Angelo Moratti di Gianmarco e Massimo Moratti & C. S.p.A.; Managing Director of SARAS S.p.A. Raffinerie Sarde; Director of Interbanca S.p.A.; Director of Sarint S.A.; Director of Telecom Italia S.p.A..
Luigi Orlando	Honorary Chairman of Europa Metalli S.p.A.; Honorary Chairman of G.I.M. - Generale Industrie Metallurgiche S.p.A.; Chairman of the Board of Partners of Orlando & C. - Gestioni Finanziarie S.p.A.; Member of the Supervisory Board of KM Europa Metal A.G..

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Giovanni Perissinotto	Chairman of the Board of Directors of Banca Generali S.p.A.; Chairman of the Board of Directors of Belgica Insurance Holding; Chairman of the Board of Directors of Flandria Participation Financieres; Chairman of the Board of Directors of Generali Finances S.A.; Chairman of the Board of Directors of Generali Asset Management SGR S.p.A.; Chairman of the Board of Directors of Generali Properties S.p.A.; Deputy Chairman of the Board of Directors of BSI - Banca della Svizzera Italiana S.A.; Managing Director and General Manager of Assicurazioni Generali S.p.A.; Director of Agorà Investimenti S.p.A.; Director of Albulia; Director of Alleanza Assicurazioni S.p.A.; Director of Assitalia S.p.A.; Director of Banca Intesa S.p.A.; Director of Banca Nazionale del Lavoro S.p.A.; Director of Generali España Holding de Entidades de Seguros; Director of Generali Finance B.V.; Director of Generali France Holding S.A.; Director of INA Vita S.p.A.; Director of Participatie Maatschappij Graafschap Holland N.V.; Director of Transocean Holding Corporation.
Giampiero Pesenti	Chairman of the Board of Directors and Managing Director of Italmobiliare S.p.A.; Chairman of the Board of Directors of Intermobiliare S.p.A.; Chairman of the Board of Directors of Italcementi S.p.A.; Deputy Chairman of the Board of Directors of Ciment Francais; Deputy Chairman of Fincomind AG; Director of Ciments du Maroc; Director of Compagnie Monegasque de Banque; Director of Credit Mobilier de Monaco; Director of Finter Bank Zurich; Director of G.I.M. - Generale Industrie Metallurgiche S.p.A.; Director of Mittel S.p.A.; Director of RAS - Riunione Adriatica di Sicurtà S.p.A.; Director of Soparfinter S.A. (Luxembourg).
Ennio Presutti	Chairman of the Board of Directors of Sviluppo Garibaldi Repubblica S.p.A.; Director of Università Vita-Salute San Raffaele; Director of Science Park Raf S.p.A..
Carlo Secchi	Director of Fastweb S.p.A.; Director of Fondazione Teatro alla Scala; Director of Lloyd Adriatico S.p.A.; Director of Tangenziali Esterne di Milano S.p.A.; Director of Veneranda Fabbrica del Duomo S.p.A..
Vicenzo Sozzani	Director of Banco di Desio e della Brianza S.p.A.; Director of Pirelli & C. Real Estate S.p.A.; Director of Pirelli & C. Real Estate SGR S.p.A..
Frank Vischer	Director of Pirelli Société Générale S.A..

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Name	Position
Luigi Guatri	Chairman of the Board of Directors of Acb Group - Società Italiana dei Consulenti Economico - Aziendali S.p.A.; Chairman of the Board of Directors of Acbgroup Finanza e Valore S.p.A.; Chairman of the Board of Directors of Finanziaria 2000 S.p.A.; Chairman of the Board of Directors of Vittoria Assicurazioni S.p.A.; Chairman of the Board of Directors of Walter Mieli S.p.A.; Deputy Chairman of the Board of Directors of Università L. Bocconi S.p.A.; Director of Banco Di Desio e Della Brianza S.p.A.; Director of Ferrero, Gnudi, Guatri, Uckmar Consulenti Associati S.p.A.; Director of Graniti Fiandre S.p.A.; Director of Maffei S.p.A.; Director of Negri Bossi S.p.A.; Director of SO.PA.F. S.p.A.; Chairman of the Board of Auditors of BPU Banche Popolari Unite S.c.r.l.; Chairman of the Board of Auditors of Centrobanca S.p.A.; Chairman of the Board of Auditors of Italcementi S.p.A.; Chairman of the Board of Auditors of Italmobiliare S.p.A.; Chairman of the Board of Auditors of Movi Lemar S.p.A.; Chairman of the Board of Auditors of Movi S.p.A.; Chairman of the Board of Auditors of Permasteelisa S.p.A.; Chairman of the Board of Auditors of Rhifim S.p.A.; Chairman of the Board of Auditors of Wimed S.p.A.
Roberto Bracchetti	Chairman of the Board of Auditors of Cantoni ITC S.p.A.; Chairman of the Board of Auditors of Durkopp Adler Italia S.p.A.; Chairman of the Board of Auditors of Elba S.p.A.; Chairman of the Board of Auditors of Gestione Tessili Cantoni S.p.A.; Chairman of the Board of Auditors of Fag Italia S.p.A.; Chairman of the Board of Auditors of Mediolanum Farmaceutici S.p.A.; Chairman of the Board of Auditors of Olimpia S.p.A.; Chairman of the Board of Auditors of Pirelli & C. Real Estate S.p.A.; Chairman of the Board of Auditors of Pirelli & C. Real Estate SGR S.p.A.; Chairman of the Board of Auditors of Ratti S.p.A.; Chairman of the Board of Auditors of Rottapharm S.p.A.; Chairman of the Board of Auditors of Verbund Italia S.p.A.; Member of the Board of Auditors of ABB S.p.A.; Member of the Board of Auditors of Alstom Power Italia S.p.A.; Member of the Board of Auditors of Energia S.p.A.; Member of the Board of Auditors of Energia Holding S.p.A.; Member of the Board of Auditors of Energia Italiana S.p.A.; Member of the Board of Auditors of Intesa Fiduciaria Sim S.p.A.; Member of the Board of Auditors of Isringhausen S.p.A.; Member of the Board of Auditors of Sadelmi S.p.A.; Member of the Board of Auditors of Velluti Redaelli S.p.A.; Member of the Board of Auditors of Viscontea Coface S.p.A.
Paolo Francesco Lazzati	Director of Comocalor S.p.A.; Director of Finaval S.p.A.; Director of Fondazione Giangiacomo Feltrinelli; Member of the Board of Auditors of Camfin S.p.A.; Member of the Board of Auditors of CORECOM; Member of the Board of Auditors of Credito Artigiano S.p.A.; Member of the Board of Auditors of Dear Cinestudi S.p.A.; Member of the Board of Auditors of Ecla S.p.A.; Member of the Board of Auditors of Erogasmet S.p.A.; Member of the Board of Auditors of Fratelli Cerruti S.p.a.; Member of the Board of Auditors of Free Sim S.p.A.; Member of the Board of Auditors of Giangiacomo Feltrinelli Editore S.p.A.; Member of the Board of Auditors of Kosaido Milano S.p.A.; Member of the Board of Auditors of Julius Baer Creval Private Banking S.p.A.; Member of the Board of Auditors of Imation S.p.A.; Member of the Board of Auditors of Istituto Centrale delle Banche Popolari Italiane S.p.A.; Member of the Board of Auditors of Librerie Feltrinelli S.p.A.; Member of the Board of Auditors of Lanificio Fratelli Cerruti S.p.A.; Member of the Board of Auditors of Pirelli & C. Real Estate SGR S.p.A.

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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"¹.

Pursuant to the above-mentioned provision and in the light of Consob's communications regarding corporate controls², 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;

¹ 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."

² 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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- 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;
- 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 Euros 100 million;
- 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 Euros 25 million;
- 3) the granting of loans or guarantees to the benefit or in the interest of third parties for amounts exceeding Euros 10 million;
- 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 Euros 100 million.
- 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).

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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.

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 Euros 50 million, or less if not concluded at arm's length conditions³. 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 transactions⁴ 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.

³ 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.

⁴ 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.

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For the purposes of this procedure, transactions with related parties⁵ 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;
- 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 a 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 Euros 500 thousand, 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.

⁵ See preceding note.

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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 concluded⁶.

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 Euros 50 million, 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 reported⁷.

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,

⁶ Transactions carried out at the end or the beginning of the financial year.

⁷ 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.

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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 Euros 500,000, 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 threshold⁸.

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.

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 Euros 500,000, 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

⁸ See preceding note.

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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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PIRELLI & C. S.P.A.'S CODE OF CONDUCT FOR INSIDER DEALING

(The provisions of the Code came into force on December 1, 2002)

1. Introduction

Further to the provisions of article 180, and subsequent articles, of Legislative Decree No. 58/1998 on the topic of misuse of privileged information, this Code of Conduct of Pirelli & C. S.p.A. (the "Code") is intended to regulate, with binding effect, the declaration and conduct obligations inherent to Transactions carried out by Relevant Persons and the related disclosures to the market.

2. Definitions

For the purposes of this Code:

- A. *Relevant Persons*: shall mean the Directors (executive and non-executive), the standing Statutory Auditors, the General Managers, the Secretary to the Board of Directors, the heads of Departments as well as the head of Investor Relations. Furthermore, Relevant Person are also considered the heads of the following divisions: General Administration and Control Department, the General Finance Department, the Legal and Corporate Affairs Department, the Legal Affairs Department – Industrial Sector, the External Communications Department and the Audit Department shall be considered Relevant Persons, The heads of the following departments of Pirelli & C. Real Estate S.p.A. shall also be considered Relevant Persons: the Central Administration and Control Department, the General Finance Department and the Central Legal and Corporate Affairs Department.

Each of the above-identified Relevant Persons may indicate other Relevant Persons in relation to the activity they carry out or their assigned job, for an indefinite or limited period of time; immediate communication shall be made of such indications – and of the respective time limits, if any – to the person concerned and to the Authorized Person.

- B. *Financial Instruments*: shall mean (i) negotiable financial instruments listed on the Italian and foreign regulated markets issued by Pirelli & C. S.p.A. and its subsidiaries, excluding non-convertible bonds; (ii) listed or unlisted financial instruments that give the right to subscribe to, purchase or sell the instruments referred to in (i), above, as well as the certificates representative of the instruments referred to in (i), above; (iii) derivative financial instruments and covered warrants whose underlying are the financial instruments referred to in (i), above, including those whose exercise involves the payment of a cash differential. The definition of Financial Instruments in (i), above, shall also include the subscriptions to real estate mutual investment funds promoted and managed by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. in its capacity as a funds management company.
- C. *Transaction(s)*: shall mean any act that creates, modifies or extinguishes rights with respect to Financial Instruments, even if carried out within an individual investment portfolio management relationship. It shall also include the exercise of any stock options or option rights on Financial Instruments.

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- D. *Significant Transaction*: shall mean every Transaction that, alone or in aggregate with other Transactions carried out in the preceding three months and not yet declared to the Company, exceeds Euros 80,000. The notional value of derivative financial instruments or covered warrants shall be calculated as the product of the number of shares on which the instrument is based and the official price of the underlying activity recorded on the day the transaction was concluded.
- E. *Authorized Person*: shall be the Secretary to the Board of Directors of Pirelli & C. S.p.A., responsible for the receipt of declarations and administration of the information relating to Transactions carried out by Relevant Persons, who shall provide for the subsequent disclosure to the market in accordance with the procedures provided by the Code.

3. Declaration Requirements of Relevant Persons

Within the seventh calendar day after the end of each calendar quarter, Relevant Persons shall send to the Authorized Person the list of Transactions carried out in the quarter on Financial Instruments, whose total amounts is equal to or exceeds Euros 35,000. In the event that a Significant Transaction was carried out, the Relevant Person shall declare this without delay to the Authorized Person, together with the list of Transactions carried out in the preceding three months and not yet declared to the Company. Transactions carried out by the Relevant Person's spouse, not legally separated, or minor children, or delegated to be carried out by nominees, trustees or subsidiaries shall also be subject to the declaration requirements. The declaration to the Authorized Person shall be made using a form corresponding to the model for submitting information established in the Instructions for the Regulations of Markets Organized and Managed by Borsa Italiana S.p.A. for the disclosure of information.

4. Exemption from Transaction declaration requirements

The Transactions carried out – directly or through nominees or trustees – between the Relevant Person and his or her spouse, not legally separated, or minor children, shall be excluded from the declaration requirements to the Authorized Person. Transactions involving the loan of securities in which the Relevant Person, directly or indirectly, his or her spouse, if not legally separated, or minor children, acts as the lender, and also Transactions creating liens or beneficial interests shall also be excluded.

5. Limitations on carrying out Transactions

Transactions carried out – directly or through nominees – by Relevant Persons, different from non-executive Directors and Statutory Auditors, shall be permitted only after the first release of final or preliminary economic-financial data for each quarter⁹ until the closing of next quarter. The non-executive Directors and Statutory Auditors shall abstain from carrying out Transactions from the day the Directors' meeting called to examine the above-mentioned economic-financial data is convened, or from the time that they became acquainted with that data if earlier, until its release. Relevant Persons may carry out Transactions outside the allowed period only in the event of exceptional situations of personal necessity that are adequately justified by the person

⁹ Or, semester or year, in the case of exemption from the publication of the second and fourth quarter reports, respectively.

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concerned. The assessment of the existence of a situation of personal necessity shall be handed-out to the Chairman of the Board of Directors.

The limitations referred to in the first paragraph of this article shall not apply to the exercise of stock options or option rights involving Financial Instruments and the consequent Transactions, provided that they are carried out at the same time the options or rights are exercised.

The Board of Directors may identify additional periods or circumstances in which Transactions are subject to limits and conditions and shall immediately inform the Authorized Person and Relevant Persons thereof.

6. Disclosure of transactions to the Market

The Authorized Person shall disclose the information received from Relevant Persons to the market within the tenth trading day of the stock market after each calendar quarter by means of the transmission of a specific communication to Borsa Italiana, in accordance with the procedures provided in the Regulation of Organized Markets and Managed by Borsa Italiana and in the related Instructions.

Significant Transactions shall be disclosed to the market without delay, in the manner specified in the previous paragraph.

7. Sanctions

With the understanding that Pirelli & C. S.p.A. has the right to seek compensation for any damages and/or liability that may result from conduct in violation of the Code, the breach of the declaration requirements or of the limitations on carrying out Transactions shall lead to: (i) for employees, the imposition of disciplinary sanctions as provided by the laws in force and by the applicable collective national labor contract; (ii) for any other collaborators, the termination – with or without notice – of the relationship; (iii) for the Directors and statutory auditors, the Board of Directors may propose the revocation of their appointments to the next shareholders' meeting if in default.

8. Acceptance

Acceptance of this Code by each Relevant Person shall be made by signing the form attached as an Appendix hereto.

9. Updating of the Code and treatment of personal data

The Authorized Person shall be responsible for monitoring the application and effectiveness of the Code in respect of its intended purpose, and for the possible submission of any modifications or integrations to the Board of Directors.

The Authorized Person shall keep the written declarations with which the Relevant Persons confirm their full knowledge and acceptance of the Code and grant their consent, pursuant to Legislative Decree No. 196/2003, for the treatment of the requested data.

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RULES OF PROCEEDING FOR THE SHAREHOLDERS' MEETING

Article 1

- These Rules shall apply to the Company's ordinary and extraordinary shareholders' meetings.

Article 2

- For matters not expressly governed by these Rules, the chairman of the shareholders' meeting (hereinafter the "Chairman") shall adopt the measures and solutions deemed most appropriate, in conformity with applicable law and the bylaws, to ensure the regular conduct of the proceedings.

Article 3

- Persons may attend the shareholders' meeting with the right to take part in the discussion and to vote who have entitlement pursuant to the applicable rules (hereinafter the "Participants").
- Unless stated otherwise in the notice convening the meeting, verification of Participants' identity and of their right to attend the meeting shall begin at the place where the meeting is to be held at least one hour before the time fixed for the start of the meeting. Once 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 for control purposes and for the exercise of the right to vote.
- Participants shall be guaranteed the possibility to follow and take part in the discussion and to exercise their right to vote using the technical methods established 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 accordingly.

Article 4

- Directors, managers and employees of the Company or Group companies and other persons whose presence is deemed useful in relation to the matters to be discussed may attend the meeting.
- With the agreement of the Chairman, members of the professions, consultants, experts, financial analysts and journalists, accredited meeting by meeting, may follow the proceedings and special areas may be made available to them 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 applicable law and the bylaws, it shall be the duty of the Chairman to direct the proceedings, ensuring the best conditions for the orderly and effective conduct of the meeting.
- The Chairman may authorize the use of audio-visual recording and transmission equipment.

Article 6

- The Chairman shall be assisted in conducting the meeting and preparing the minutes by a Secretary, where a notary public is not required. The Secretary or the notary public may in turn arrange to be assisted by fiduciaries.
- The Chairman shall be assisted by scrutineers in conducting the voting procedures; he may use auxiliary staff to provide the necessary technical support and to maintain order.

Article 7

- When the quorum of 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.

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

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.
- The Chairman 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 first paragraph of Article 4 shall explain the items on the agenda.

Article 9

- It shall be the duty of the Chairman to direct and moderate the discussion, ensure its correctness and prevent disruption of the orderly conduct 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 allotted to each speaker, which must not be less than 15 minutes.
- 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 to respond to other speakers or to declare how they intend to vote.

Article 11

- The Board of Directors and the Participants may put forward, giving the 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 Auditors may intervene in the discussion; at the invitation of the Chairman, persons attending the meeting pursuant to the first paragraph of Article 4 may also take the floor, inter alia to respond to requests for clarification.

Article 13

- The Chairman shall take appropriate action to ensure orderly voting and provide for the poll on an item to be held immediately after the discussion thereof or at the end of the discussion of all the items on the agenda.
- The Chairman shall establish how each poll is to be conducted and the procedures for recording and counting the votes cast and shall be responsible for verifying the results.

Article 14

- Upon completion of the voting and the counting of the votes with the assistance of the scrutineers and the Secretary, the results of the poll 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 conferred	% on total shares conferred	% on total ordinary shares issued
CAMFIN S.p.A.	983,205,991	40.65	18.98
FONDIARIA - SAI S.p.A.	223,543,498	9.24	4.32
MEDIOBANCA S.p.A.	222,967,099	9.22	4.30
EDIZIONE HOLDING S.p.A.	222,958,537	9.22	4.30
R.A.S. 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.	78,148,292	3.23	1.51
CAPITALIA S.p.A.	78,148,292	3.23	1.51
RIZZOLI CORRIERE DELLA SERA MEDIAGROUP S.p.A.	73,950,048	3.06	1.43
Massimo MORATTI (**)	57,703,122	2.39	1.11
SINPAR HOLDING S.A.	32,048,563	1.32	0.62
Total	2,418,590,510	100	46.68

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

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

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

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

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

The sale of the shares to third parties (and option rights in the event of a capital increase 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

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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.

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 favorable 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, March 17, 2005