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CORPORATE GOVERNANCE

Introduction

During 2003, Pirelli & C. S.p.A. completed a process of transformation and integration for the purpose of – in the first phase – transforming the Company from a limited partnership company (A.p.A.) to a corporation (S.p.A.) and – in the second phase – merging Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A. by incorporation.

Various objectives were pursued through these transactions, the most relevant of which include:

- adoption of a type of company – that is, a corporation (S.p.A.) – which, compared to a limited partnership company (A.p.A.), allows all the shareholders greater involvement in the decision-making process. In fact, the particular rules regarding the position of managing partners in the management of a company are no longer considered in the Italian Civil Code;
- maximization of market capitalization, providing Pirelli & C. ordinary shares with greater liquidity;
- optimization of economic and financial flows within the group.

The briefly-described aforementioned transactions emphasize the decision to see Pirelli & C.'s shareholders take an more active role, thus confirming the Company's interest in developing an appropriate, transparent relationship with its investors. In this regard, the Company has followed the Self-Regulatory Code of listed companies" (hereinafter the "Code"), recommended by Borsa Italiana S.p.A. since November 16, 1999, and on March 24, 2004, the Board of Directors voted to submit amendments to the bylaws for approval by the next shareholders' meeting. These amendments are directed towards fostering ever-increasing participation by all shareholders in the Company's activities and in decisions capable of bringing about the Company's success¹.

In conformity with the Instructions for the Regulation of markets organized and managed by Borsa Italiana, and also taking into account the recommendations contained in the "Guidelines for the preparation of the annual report regarding corporate governance" prepared by Borsa Italiana and in the "Guide for the compilation of the report on corporate governance" drawn up by Assonime, the following describes the salient features of the system of corporate governance currently in place and its planned development.

Governance Structure

1. Board of Directors

1.1 The role of the Board of Directors

The Company shall be administered by a Board of Directors composed of from seven to twenty-three members who serve for three years (unless a shorter period is established by the shareholders' meetings when the Directors are appointed) and can be re-elected (art. 10 of the bylaws).

Pursuant to the bylaws (art. 11), the Board is empowered with the management of the Company and, for this purpose, is invested with the fullest powers of administration, except those, which according to the bylaws or by law, are reserved for the shareholders' meetings. The Board of Directors, in fact, shall exercise its powers in conformity with point 1.2 of the Code, that is, it shall:

- examine and approve the strategic, corporate, industrial and financial plans of the Company and the corporate structure of the Group which the Company heads;
- assign and revoke the delegation of powers to the Managing Directors and Executive Committee (if established), fixing the limits, the manner of exercising such powers and

¹ On this point, see paragraph 8.

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- the interval, normally at least quarterly, within which the parties delegated powers must refer to the Board regarding the activities carried out in exercising such powers;
- establish, after examining the proposals of the specific remuneration committee and after having consulted the Board of Statutory Auditors, the compensation to be paid to the Managing Directors and those who hold specific posts, as well as the division of the total compensation to which the Directors are entitled among the individual members of the Board and the Executive Committee (if established), if this has not already been decided by the shareholders' meeting;
 - monitor the general performance of operations, with special attention being paid to conflicts of interest, taking into account, in particular, the information received from the Executive Committee (if established), the Managing Directors and the Committee for Internal Control and Corporate Governance, as well as comparing the results with the budgets on a regular basis;
 - examine and approve transactions that have a significant economic, equity or financial impact, with particular reference to related party transactions;
 - verify the adequacy of the general organizational and administrative structure of the Company and group as organized by the Managing Directors;
 - keep the shareholders informed at the shareholders' meetings.

1.2 The Functions of the Board

The Board of Directors shall appoint a Chairman (if not provided for by the shareholders' meeting) and, if necessary, one or more Deputy Chairmen.

In the event of the Chairman being absent, the chair shall be taken by a Deputy Chairman or a Managing Director, in that order; if there should happen to be two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the more senior in age.

The Board shall appoint a Secretary who is not necessarily a member of the Board.

The Board shall meet at the invitation of the Chairman or whomsoever is acting on his behalf, at the registered office of the Company or in any other place stated in the letter of convocation, at any time he considers it to be in the best interest of the Company, or whenever a meeting has been requested by one of the Managing Directors or by at least two standing statutory auditors².

The bylaws do not establish a minimum number of meetings; it is, nevertheless, the practice to hold at least six meetings a year (to examine the preliminary data at June 30 and December 31, the draft financial statements and the quarterly and six-month reports). Normally, the timing of the most important Company events (that is, the Board and shareholders' meetings) is communicated to the market at the end of the last Board meeting of each year. The market is promptly informed of any variations.

Meetings of the Board may take place through means of telecommunication that allow all the participants to take part in the discussion and have the same information.

Board meetings shall be convened by means of a letter, telegram, telex or fax³ sent to the address of each Director and each standing statutory auditor, at least five days before (or, in urgent cases, at least six hours before) the day set for the meeting.

However, the Board may validly pass resolutions, even failing any formal convocation, if all the Board members and all the standing statutory auditors in office are present.

The presence of at least half the members, plus one, shall be necessary for the resolutions of the Board to be deemed valid, and the favorable vote of the majority of those attending shall be required.

In the event of a tie in votes, the casting vote shall be that of the Chairman.

The resolutions of the Board, even when passed by meetings held by teleconference and/or videoconference, shall be recorded in a special book signed by the Chairman and the Secretary.

² With regard to the authority to convene a meeting at the initiative of one fifth of the Directors on the Board, see paragraph 8.

³ With regard to the substitution of the telex with e-mail, see paragraph 8.

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1.3 The composition of the Board of Directors

Prior to the transformation of the Company from a limited partnership company (A.p.A.) to a corporation (S.p.A.), on May 7, 2003, the Board of Managing Partners was composed of the following members:

Marco Tronchetti Provera - Chairman
 Alberto Pirelli – Deputy Chairman
 Carlo Buora
 Luigi Orlando
 Carlo Alessandro Puri Negri

Subsequent to the transformation to a corporation, the Board of Directors is composed of the following members:

Marco Tronchetti Provera – Chairman
 Alberto Pirelli –Deputy Chairman
 Carlo Alessandro Puri Negri – Deputy Chairman
 Carlo Buora – Managing Director
 Giovanni Ferrario – Managing Director
 Carlo Acutis
 Gilberto Benetton
 Carlo De Benedetti
 Gabriele Galateri di Genola
 Giuseppe Gazzoni Frascara
 Mario Greco
 Georg F. Kraye
 Giulia Maria Ligresti
 Massimo Moratti
 Luigi Orlando
 Giovanni Perissinotto
 Giampiero Pesenti
 Ennio Presutti
 Maurizio Romiti
 Carlo Secchi⁴
 Vincenzo Sozzani
 Frank Vischer

Leopoldo Pirelli holds the post of Honorary Chairman of the Company.

In conformity with point 7.1 of the Code, the proposals for the post of Director – accompanied by statements attesting that no circumstances exist for ineligibility or incompatibility, as well as the suitability, where applicable, of the candidates to qualify as independent candidates – were deposited at the registered offices ten days prior to the date fixed for the shareholders' meeting in first call.

The Board is composed of 22 Directors of whom 3 are executive, with the Executive Directors being, according to point 2.1 of the Code, – the Chairman, Marco Tronchetti Provera, and the Managing Directors-General Managers, Carlo Buora and Giovanni Ferrario.

In accordance with the Code (point 3.1), “independent Directors” shall be those who:

- a) do not have, directly, indirectly or on behalf of third parties, nor have they recently had, economic relationships with the Company, its subsidiaries, the executive Directors, or the shareholder or group of shareholders which control the Company, of such significance as to influence their independence of opinion;
- b) do not hold, directly, indirectly or on behalf of third parties, equity stakes of such magnitude as to allow them to exercise control or significant influence over the

⁴ Prof. Carlo Secchi was appointed by the Board of Directors during its meeting on February 19, 2004, to replace Alberto Falck, who passed away on November 3, 2003.

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Company, nor do they belong to shareholders' agreements for control of the Company; c) are not close relatives of the executive Directors of the Company or of individuals who are in the situations indicated in letters a) and b), above.

Based on this definition, the Board of Directors has determined that 8 of the remaining 19 Directors (Carlo De Benedetti, Carlo Acutis, Giuseppe Gazzoni Frascara, Georg F. Kraye, Giampiero Pesenti, Ennio Presutti, Prof. Carlo Secchi and Prof. Frank Vischer) can qualify as "independent Directors" while another eight (Gilberto Benetton, Gabriele Galateri di Genola, Mario Greco, Giulia Maria Ligresti, Massimo Moratti, Giovanni Perissinotto, Maurizio Romiti and Luigi Orlando) represent companies which belong to the Pirelli & C. voting trust.

Finally, the independent Directors do not include Alberto Pirelli and Carlo Alessandro Puri Negri, in view of the executive responsibilities performed at Pirelli Pneumatici S.p.A. and Pirelli & C. Real Estate S.p.A., and – only in consideration of the long period over which he has held such type of positions in the group – Vincenzo Sozzani.

The term of office of the current Directors will expire at the time of the shareholders' meeting called for the approval of the December 31, 2005 financial statements (the term of Prof. Carlo Secchi, co-opted by the Board of Directors, will expire at the next shareholders' meeting).

A list of the posts held by each of the Directors, as Director or Statutory Auditor in other companies listed in regulated markets, also abroad, in financial, banking, insurance companies or in other companies of significant size, are presented at the end of this section of the report.

2. **The shareholders' meetings**

Functions of the shareholders' meeting

The convocation of the shareholders' meeting, which may take place anywhere in Italy including in a place other than the registered office, the right to attend meetings and representation at same are all governed by law and the bylaws⁵.

When required, the ordinary shareholders' meeting may be convened within six months of the Company's year end.

The normal establishment of shareholders' meetings and the validity of the resolutions shall be regulated by law.

The voting *quorum* for the appointment of Directors shall be determined by the relative majority of votes⁶.

The shareholders' meeting shall be chaired by the Chairman of the Board of Directors, a Deputy Chairman or a Managing Director, in that order; if there should happen to be two or more Deputy Chairmen or Managing Directors present, the chair shall be taken respectively by the more senior in age. In the event of the absence of any of these persons, the chair shall be taken by another person selected by the shareholders' meeting from the shareholders present.

The Chairman is assisted by a Secretary appointed by the meeting; there is no need to appoint a Secretary when the minutes of the meeting are drawn up by a notary public.

The Chairman of the meeting verifies the right to attend the meeting, including by means of proxy, ascertains whether or not the meeting has been duly constituted and has achieved the quorum required in order to pass resolutions, conducts and moderates the discussion and establish the order and manner of voting as well as announces the results thereof⁷.

The resolutions of the meeting shall be recorded in the minutes, which shall be signed by the Chairman and the Secretary of the shareholders' meeting or the notary public.

The minutes of the extraordinary shareholders' meeting must be drawn up by a notary public appointed by the Chairman of the shareholders' meeting.

⁵ With regard to the adoption of a Regulations for Shareholders' Meetings, see paragraph 8.

⁶ With regard to the proposal for the introduction of a system of slates for the appointment of Directors, see paragraph 8.

⁷ The meeting of the Board of Directors on March 24, 2004 approved proposing, at the next shareholders' meeting, the substitution of convocation by telex with that by e-mail.

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3. **The Board of Statutory Auditors**
- The Company's bylaws provide that the Board of Statutory Auditors shall be composed of three standing statutory auditors and two alternate statutory auditors. In order to allow the minority shareholders to elect one standing statutory auditor and one alternate statutory auditor, article 16 of the Company's bylaws provides that their appointment shall be drawn from "slates" of candidates, whereby one standing statutory auditor and one alternate statutory auditor shall be appointed from the slate which has obtained the highest number of votes after the first slate. The remaining members of the Board of Statutory Auditors (two standing statutory auditors and one alternate statutory auditors) shall, instead, be taken from the slate which has obtained the highest number of votes.
- Shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting, have the right to put forward a slate.
- In conformity with point 14.1 of the Code, article 16 of the bylaws provides that the slates, undersigned by the parties presenting them, must be filed at the Company's registered office at least ten days before the date fixed for the shareholders' meeting in first call. A description of the professional résumé of the individuals standing for election must be enclosed with the slates together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, that no circumstances exist for ineligibility or incompatibility, and that they comply with requirements prescribed by law or the bylaws for the position.
- Slates put forward that do not comply with the aforesaid provisions shall be considered as not having been put forward.
- Each candidate may be included on only one slate, under penalty of ineligibility. Likewise, any individuals who are not in possession of the requisites established by the applicable rules and regulations or who already hold the position of standing statutory auditor in more than five companies with stocks listed on regulated Italian markets, with the exception of the controlling companies and subsidiaries of Pirelli & C. S.p.A., may not be appointed as statutory auditors.
- Each individual with voting rights may vote for only one slate.
- The Chairman of the Board of Statutory Auditors shall be the standing member indicated as the first candidate on the slate which obtained the highest number of votes.
- If only one single slate has been put forward, then the shareholders' meeting shall cast its vote in relation to that slate; if the slate obtains a relative majority, then the first three candidates in consecutive order on the slate shall be appointed as the standing statutory auditors, and the fourth and fifth candidates shall be appointed as alternate statutory auditors; the Chairman of the Board of Statutory Auditors shall be the person indicated at the top of the slate put forward; in case of death, waiver or resignation of a statutory auditor, and in the event of substitution of the Chairman of the Board of Statutory Auditors, they shall be replaced by an alternate statutory auditor and a standing statutory auditor, respectively, in the order arising from the consecutive numbering of the said slate.
- Failing any slates, the Board of Statutory Auditors and its Chairman shall be appointed by the shareholders' meeting with the majorities prescribed by law.
- The Board of Statutory Auditors shall be responsible for overseeing:
- compliance with the law and bylaws;
 - the observance of the principles of proper administration;
 - the adequacy of the Company's organizational structure, for aspects that are within their sphere of activity, the internal control system and accounting-administrative system, as well as the reliability of the latter to accurately represent operational events;
 - the adequacy of the Company's instructions to its subsidiaries regarding their obligations to communicate *price sensitive* information.
- The Board of Statutory Auditors shall perform its functions by exercising all powers entrusted to it by the law and by relying on a constant, analytical flow of information from the Company, even outside of the periodic meetings of the Board of Directors.
- In carrying out its functions, the Board of Statutory Auditors shall, in addition to participating in all Board of Directors and shareholders' meetings, take part in the work of the Remuneration Committee and Internal Control and *Corporate Governance* Committee.

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4. **Composition of share capital**

At March 24, 2004, the share capital of Pirelli & C. S.p.A. amounts to Euros 1,799,823,565.80, consisting of 3,461,199,165 shares with a par value of Euros 0.52 each, of which 3,326,434,736 are ordinary shares and 134,764,429 are non-convertible savings shares.

The share capital may increase up to a nominal maximum of Euros 2,002,440,591.32 through the issue of a maximum of 390,463,831 ordinary shares to be exclusively and irrevocably reserved for the exercise of 1,561,855,326 Pirelli & C. 2003-2006 ordinary share warrants issued in execution of the resolutions of the shareholders' meeting of May 7, 2003. The holder of the warrants may subscribe to one ordinary share of Pirelli & C. – at a price of Euros 0.52 (par value) – for every 4 warrants presented. The aforementioned share capital already takes into account the exercise of 3,262,820 warrants.

To the best of the Company's knowledge, no individuals or corporations exist which may exercise control over it, in accordance with article 93 of Legislative Decree No. 58/1998. However, there is the "Pirelli & C. S.p.A. voting trust" which purpose is to ensure the stability of Pirelli & C. and the oneness of the direction of its management. An extract of the text of the agreement is included at the end of this section of the report (in addition, the same extract is available on the Company's website, www.pirelli.com).

Information on the implementation of the provisions of the self-regulatory code

1. **Board of Directors**

1.1 The appointment of Directors

In conformity with point 7 of the Code, although not provided by the bylaws⁸, the proposals for the appointment to the post of Director, accompanied by exhaustive disclosure concerning the personal and professional characteristics of the candidates, with evidence of any eligibility of the candidates to qualify as independent in accordance with point 3 of the Code, shall be filed at the registered offices - if possible - at least ten days prior to the date fixed for the shareholders' meeting.

In compliance with these procedures, the participants in the Pirelli & C. Ordinary Share Voting presented a proposal for the appointment of Directors at the shareholders' meeting on May 7, 2003 (all of the individuals included in the proposal were then elected by the shareholders' meeting).

1.2 The meetings of the Board

Five Board meetings were held during 2003, in addition to three meetings of the Board of Managing Partners held prior to the transformation of the limited partnership company into a corporation on May 7, 2003. The total attendance by Directors at the Board of Directors' meetings was approximately 76 percent (the attendance at the meetings of the Board of Managing Partners was approximately 93 percent); attendance by independent Directors was approximately 68 percent.

Except in exceptional cases, the Directors were provided with the necessary documentation and information, reasonably in advance, to allow the Board to express its opinion knowledgeably on the matters under examination.

Two meetings have already been held in 2004 and at least another four are planned.

1.3 The compensation to the Directors

The members of the Board are paid, in addition to the reimbursement of expenses

⁸ With regard to the proposal to introduce the mechanism of slates, with the requirement of the bylaws to present in advance exhaustive disclosure concerning the personal and professional characteristics of the candidates, see paragraph 8.

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incurred during the course of their duties, annual remuneration set by the shareholders' meeting (art. 14 of the corporate bylaws).
 The shareholders' meeting of May 7, 2003 approved the amount of Euros 50,000 as the annual remuneration for each member of the Board of Directors. In this regard, at the time of the merger, the bylaws of Pirelli & C., the merging company, did not adopt the provision specified by art. 23 of the bylaws of Pirelli S.p.A., the merged company, which attributed to the Directors the right to receive, in addition to the remuneration set by the shareholders' meeting, a further 1 percent of the net profits exceeding: (a) the amount set aside in the legal reserve, (b) the portion of 7 percent of the par value of savings shares, (c) the portion equal to 5 percent of the paid-in par value represented by ordinary shares. The remuneration to Directors invested with special duties is established by the provisions of art. 2389, paragraph 3 of the Italian Civil Code. For further information on the remuneration received by Directors invested with special duties, reference should be made to the table included in the notes to the statutory financial statements for the year ended December 31, 2003.

Finally, with reference to the participation by the Managing Directors in stock option place, reference should be made to the specific table included in the 2003 Directors' Report on Operations.

1.4 The granting of powers

The Board of Directors, during its meeting on May 7, 2003, granted the Chairman, Marco Tronchetti Provera, the following powers:

- relations with the shareholders and information provided to them;
- coordination of the activities of the Managing Directors;
- determination, in agreement with the Managing Directors, of the general strategies and development policy of the Company and the Group, as well as the extraordinary transactions, to be submitted to the Board of Directors;
- proposals, in agreement with the Managing Directors, for the appointment of members of the general management and, after having consulted the Remuneration Committee, the fees to be paid to them, to be submitted to the Board of Directors;
- Chairmanship of the Steering Committees with strategic functions;
- appointment of consultants and professionals, after having consulted the Managing Directors, with the authority to delegate these powers to them;
- external communication in any form, with the authority to delegate these powers to the Managing Directors;
- the right to acquire, from the Managing Directors and from the management of the Group, all data and information considered necessary for carrying out the above-mentioned functions.

Moreover, the Board, for purposes of a broader capacity to represent the Company before third parties, has conferred upon the Chairman the necessary powers to carry out all acts pertinent to the corporate business purpose in its various forms, to be exercised with single signature powers, with the exception of the power to issue guarantees for obligations of the Company and its subsidiaries in excess of individual amounts of Euros 25 million or guarantees in the interest of third parties for obligations in excess of individual amounts of Euros 10 million; in these cases, joint signature with a Managing Director is necessary. Carlo Buora, a Managing Director – who also holds the position of General Manager, has been entrusted with all finance and administration activities – and has been granted broad powers, pertinent to these specific positions, with quantitative limits for the most significant transactions (Euros 50 million for the purchase and disposal of equity interests and investments in companies or entities, subscription to capital increases and bonds and the signing of contracts for the exchange and trading of real estate or financial instruments). In respect of the limits of value described above, an individual transaction is intended to mean the aggregate of transactions that, while individually may be below the

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thresholds indicated, are linked together within the same strategic or executive structure. Equivalent powers, to be exercised in the normal activities of the industrial sectors, have been granted to the other Managing Director – General Manager, Giovanni Ferrario. Powers pertinent to the specific positions, with quantitative limits for the most significant transactions, were granted to Claudio De Conto, General Manager of Administration and Control, Luciano Gobbi, General Manager of Finance, Valerio Battista, General Manager of the Energy Cables and Systems Sector, and Francesco Gori, General Manager of the Tyres Sector.

Specific and more limited powers were granted to other senior executives of the Company, to be used in carrying out their specific responsibilities.

During 2003, as in the past, the Chairman, the General Managers and the senior executives used the powers granted to them only for the ordinary management of the Company's activities (about which the Directors were periodically informed), waiving such powers in the case of significant transactions, in terms of quality or value, from an economic and financial standpoint, and submitting them to the Board of Directors.

1.5 Information provided to the Board of Directors

In conformity with that provided by art. 11 of the bylaws, (which is in compliance with that set forth by art. 150, paragraph 1 of Legislative Decree No. 58 of 1998), the Board of Directors, through the delegated bodies, has always kept the Board of Statutory Auditors informed – on a quarterly basis – about the activities and any important economic, financial or equity transactions carried out by the Company or its subsidiaries as well as about transactions involving any potential conflicts of interest, providing all the elements necessary to understand these transactions.

To aid the orderly organization of information flows, the Company has adopted, since July 2002, a specific Procedure (the text of which is presented at the end of this section of the report) defining, in precise terms, the rules to be followed to comply with the disclosure requirements of the above-mentioned art. 150, related to the activities carried out by the executive Directors both in exercising the powers delegated to them and in executing transactions approved by the Board.

1.6 Rules of conduct for carrying out transactions with related parties

The Company has also established rules of conduct for carrying out transactions with related parties, including intra-group transactions (the text of which is also presented at the end of this section of the report). The principles are directed towards guaranteeing the true correctness and transparency of these transactions, both in substance and in form, with full co-responsibility of the Board of Directors in the related determination of these transactions. Based on those principles, the Board is required to approve in advance both transactions with related parties and intra-group transactions, with the exception of transactions that are typical or are to be finalized at arm's length conditions. To this end, the Board shall receive adequate information on the nature of the relationship, the manner in which the transaction is to be executed, the conditions – both economic and otherwise – for its realization, the valuation method followed, the underlying interests and motivations and any risks to the Company. In the event that the relationship is with a Director or with a party related through a Director, the Director concerned shall limit his involvement to providing clarification and shall leave the Board meeting at the time the decisions are taken. In relation to the nature, value or other characteristics of the transaction, the Board of Directors, in order to avoid that the transaction is entered into at conditions that are not appropriate, shall be assisted by one or more experts who, depending on the circumstances, express an opinion on the economic conditions, and/or the legitimacy, and/or the technical aspects of the transaction.

The matters set out in paragraphs 1.3, 1.4 and 1.5, demonstrate that the Board of Directors, while also benefiting from the specific procedures described above, has actually exercised the powers set forth under article 1.2 of the Code.

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2. Committees

2.1 Remuneration Committee

The Board has internally set up the "Remuneration Committee", which has investigative and advisory functions. In particular, the Committee shall be responsible for:

a) drawing up proposals to be presented to the Board for the compensation of the Managing Directors and those who have special duties, as well as determining the criteria for the remuneration of top management of the Company based on indications received from the Managing Directors;

b) making preliminary examinations of proposals to adopt stock option plans.

The Committee meets any time the Chairman deems it necessary or when a request has been made by another member or a Managing Director. As regards the convening of meetings and the validity of their constitution and the resolutions, the same rules apply as those stated in the Company bylaws for the meetings of the Board of Directors.

In full compliance with the recommendations under point 8.1 of the Code, the Remuneration Committee is exclusively composed of non-executive Directors (Ennio Presutti – the Chairman - Luigi Orlando and Giampiero Pesenti, the majority of whom are independent (Ennio Presutti and Giampiero Pesenti).

The Remuneration Committee met twice during 2003.

2.2 Committee for Internal Control

The Board of Directors has internally set up an "Committee for Internal Control and Corporate Governance", having advisory and proposal functions. In particular, the Committee shall be responsible for:

a) assisting the Board in determining the guidelines of the internal control system and in the periodical testing of its adequacy and its effective functioning, in order to ensure that corporate risks are suitably managed;

b) evaluating the work plan prepared by those in charge of internal control and receiving their periodic reports;

c) evaluating the adequacy of the accounting principles used and their uniformity, for purposes of preparing the consolidated financial statements, together with the persons in charge of the financial functions of the Company and the auditors;

d) evaluating the proposals presented by the independent audit firms for their appointment as auditors, as well as the audit work plan and the results expressed in the report and letter of recommendations;

e) informing the Board about the work carried out and the adequacy of the system of internal control, at least every six months, at the time of the approval of the annual financial statements and six-month financial statements;

f) performing additional tasks assigned to it by the Board of Directors, particularly with regard to relations with the independent audit firm;

g) monitoring the compliance with and continuous updating of the rules of corporate governance and ascertaining that any principles of conduct adopted by the Company and its subsidiaries are followed.

The Committee meets at least twice per year, before the Board meeting held for the approval of the annual financial statements and the six-month financial statements, or at any time the Chairman deems it necessary or when a request has been made by another member or a Managing Director.

As regards the convening of meetings and the validity of their constitution and resolutions, the same rules apply as those stated in the Company bylaws for the meetings of the Board of Directors.

The Board of Statutory Auditors and the Managing Directors attend the Committee meetings, as well as, by invitation, the person responsible for the Internal Audit Department and one or more General Managers.

In full compliance with the provisions of point 10 of the Code, the Committee is

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exclusively composed of independent Directors: Giuseppe Gazzoni Frascara, the Chairman, Ennio Presutti and Prof. Carlo Secchi.

The Committee for Internal Control met three times during 2003 and all members were present at the meetings. During 2003, the Internal Audit Department reported on its work to the Chairman at least monthly, and to the Committee for Internal Control three times. The Committee for Internal Control and *Corporate Governance* and the Board of Directors, based also on the indications received from the Board of Statutory Auditors, have deemed the system of internal control to be adequate.

2.3 Committee for the nomination of Directors

The Board of Directors has not deemed it necessary to form an internal committee for proposals for the appointment of candidates to the post of Director, since, at present, the requirements for doing so, as contemplated by the Code, do not apply to the Company and, more particularly, because, in view of the current shareholder base, no particular difficulties are envisaged in proposing candidates. If the shareholders' meeting called to approve the December 31, 2003 financial statements approves, at an extraordinary meeting, the adoption of the system of slates for candidates, the formation of such a committee would result be even more superfluous, given the capacity of that voting system to attribute transparency to the procedure for selecting and nominating candidates.

3. **Handling of confidential information**

3.1 Outside communications of documents and information

In compliance with the recommendations of point 6 of the Code, the management of confidential information, with particular reference to price sensitive information, is directly followed by the Chairman.

Outside communications regarding documents and information about the Company and its subsidiaries are conducted – always in agreement with the Chairman – by the Secretary to the Board and by the Corporate Secretary for communications to the authorities and the shareholders, by the External Relations function for communications to the press and by the Investor Relations function for communications directed to institutional investors.

The Chairman and those in charge of the aforementioned functions are invariably able to join together to issue any urgent external communications.

3.2 Insider dealing

As required by the regulations in force, the Company adopted (effective from December 1, 2002) a Code of Conduct disciplining the obligatory requirements for disclosures and conduct inherent to transactions involving Financial Instruments (financial instruments being, in summary, ordinary and savings shares issued by Pirelli & C. S.p.A., shares issued by Pirelli & C. Real Estate S.p.A., instruments which attribute a right to acquire / subscribe to the above-mentioned shares, or quotas of real estate funds promoted and managed by subsidiaries of Pirelli & C.) carried out by Relevant Persons (by which it is meant, again briefly, those persons who, by virtue of their positions within the Company, may have access to relevant information). For a more precise definition of both terms, refer to the text of the code of conduct (the "*Insider Dealing Code*") presented at the end of this section of the report.

The *Insider Dealing Code*, whose primary scope is to guarantee to the market the maximum transparency of transactions carried out by individuals who have a particular relationship with the Company and its subsidiaries, as well as to regulate the periods during which those individuals may carry out transactions on the securities in question, can be broken down into the following principal provisions:

- 1) the identification of the group of persons subject to the disclosure requirement;
- 2) the requirement to immediately communicate to the market significant transactions

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involving Financial Instruments, that is those transactions whose amount, alone or in aggregate with other transactions carried out in the previous three months, exceeds Euros 80,000;

- 3) the requirement for quarterly communications to the market of transactions involving Financial Instruments whose amount, alone or in aggregate, is between Euros 35,000 and Euros 80,000;
- 4) the provision of specific periods during which Relevant Persons may not carry out transactions involving Financial Instruments.

4. **Internal control**

The internal control system of Pirelli & C. and the group is organized in such a way as to ensure proper disclosure and an adequate system of control for all Group activities, with particular attention on the areas considered to be potentially *at risk*.

Responsibility for the internal control system rests with the Board of Directors, which sets guidelines and periodically verifies its adequacy and effective function. To this end, the Board avails itself of the Committee for Internal Control and *Corporate Governance* and the Internal Audit Department.

This Department, which reports directly to the Chairman of Pirelli & C. S.p.A. even for its activities carried out on subsidiaries, has the main responsibility for verifying that the system of internal control of the entire Group is working and is adequate in terms of effectiveness and efficiency

There is also a planning and control system, by sector and operating unit, which produces a detailed report monthly for the General Managers - so that they have a useful instrument with which to monitor specific activities.

In order to follow through on the strategies and guidelines adopted by the parent company, the competent General Managers and executives of the Sectors and functions also sit on the Boards of Directors of the largest subsidiaries.

During 2003, the aforementioned internal control system was further strengthened through the adoption of an *organizational model* approved by the Board of Directors on July 31, 2003. That organizational model, which aims to guarantee the setting of a system modeled on the specific requirements established by the coming into force of Legislative Decree No. 231/2001 regarding the administrative responsibility of companies for violations committed by their employees, takes form in a diversified pyramid system of principles and procedures which, beginning from the base, can be outlined as follows:

- Group Code of Ethics, which constitutes the general principles (transparency, correctness and fairness) on which the running and conduct of business are modeled;
- Internal Control System, that is, the aggregate of the "instruments" directed at providing a reasonable guarantee of achieving the objectives of operating efficiency and effectiveness, reliability of financial and management information, observance of laws and regulations, and safeguarding of the Company's assets, even against possible fraud. The internal control system is founded upon and characterized by certain general principles, expressly defined within the organizational model whose range of application extends across all organizational levels (Business Units, Central Functions and Companies);
- Lines of Conduct, which introduce specific rules for relations with representatives of the Public Administration and which are embodied in favorable conduct "to do" and unfavorable conduct "not to do", translating into key operating practices as expressed in the Group Code of Ethics;
- Internal Control Checklists, which have been prepared for all high or medium risk operating processes and for instrumental processes. These checklists set out an analogous structure which is embodied in a set of rules directed at identifying the principal phases of every process, violations which can be committed in relation to individual processes, specific control activities to reasonably prevent the correlated

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risks of violation, as well as specific information flows to the Supervisory Panel to highlight any situations of non-compliance with the procedures established in the organizational models. The internal control checklists have been prepared in light of three cardinal rules, those being:

1. the separation of duties in carrying out activities inherent to the processes;
2. the "traceability" of decisions, that is, the constant visibility of decisions (for example, through specific documentary evidence) in order to permit the identification of the precise "points" of responsibility and the "justifications" for decisions;
3. the objectification of decision processes, in the sense of providing that, when decisions are made, purely subjective evaluations are excluded and reference is made, instead, to pre-established criteria.

The Supervisory Panel, endowed with autonomous powers of initiative and control, completes the organizational model, and is appointed to oversee the performance and observance of the model as well as to provide for its continual updating. The Panel, appointed by the Board of Directors on July 31, 2003, is composed of Giuseppe Gazzoni Frascara, an independent Director and Chairman of the Internal Control and *Corporate Governance* Committee, Paolo Francesco Lazzati, a member of the Board of Statutory Auditors, and Sergio Romiti, the person responsible for the Internal Audit Department. With reference to the other unlisted Italian Companies of the Group, the Supervisory Panel was identified by pursuing a technical-operational solution that, while respecting the mandates and powers reserved to it by the regulations, is appropriate for the organizational size and context of each company.

Finally, an appropriate disciplinary system was introduced to penalize failures to comply with the standards recommended in the organization, management and control models. During 2004, the operational processes will be consolidated in order to activate specific information flows to the Supervisory Panels, in implementation of the provisions of article 6, paragraph 2, letter d) of Legislative Decree No. 231/2001 which identifies precise information requirements for the Panel appointed to oversee the performance and observance of the models.

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

The Company has always actively tried to establish a dialogue with its shareholders and institutional investors based on an understanding of the reciprocal roles, and also by planning periodical meetings with members of the Italian and international financial community.

Moreover, as early as March 1999, an *Investor Relations* office was established (which reports directly to the Managing Director, Carlo Buora), that is now entrusted to Alberto Borgia, and to which a specific section of the Company's website, www.pirelli.com, is dedicated.

In this area of the website, investors may find, both in Italian and English, every useful document published by the Company relating both to the accounts (including, for example, annual reports, six-month reports and quarterly reports), and the Corporate Governance system (including, for example, the Rules of conduct for transactions with related parties, the Procedure for compliance with the requirements of Art. 150, Paragraph 1, of Legislative Decree No. 58/1998 and the Code of conduct for *insider dealing*). Users can also access documentation made available to financial analysts and/or investors during the Company's presentations to and/or meetings with them and to all information on the composition of share capital and shareholders (including the publication of any shareholders' agreements).

Investor queries may be sent to the following e-mail address, telephone and fax numbers: e-mail: ir@pirelli.com; telephone: 02.64422949; fax: 02.64424686.

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6. **The shareholders' meetings**
 Company's consistent policy to use the shareholders' meetings to provide the shareholders with information about the Company and its prospects; this obviously is complied with in accordance with the rules governing *price sensitive* information and, therefore, where necessary, by providing the market with such information at the same time.
 It is also the Company's policy to call attention to the location, date and time of the meeting in order to facilitate the participation of the shareholders at the meetings; furthermore, where possible, all the Directors and statutory auditors try to attend the shareholders' meetings, in particular those Directors who, because of the posts they hold, can make a useful contribution to the discussions⁹.
7. **Statutory auditors**
 The shareholders' meeting of May 7, 2003 appointed, using a system based on slates and with effect from the date the merger of Pirelli S.p.A. in Pirelli & C. S.p.A. (August 4, 2003) became effective, as standing Statutory Auditors: Prof. Luigi Guatri (Chairman), Roberto Bracchetti and Paolo Francesco Lazzati.
 Franco Ghiringhelli and Sebastiano Guido were appointed as alternate Statutory Auditors. The current Board of Statutory Auditors will remain in office until the approval of the financial statements for the year ended December 31, 2005.
 The appointments occurred through a system based on slates. The only slate presented was that of the members of the Pirelli & C. Voting Trust. The influence and renown of the proposed candidates is considered by the Company to be the possible motive for which no alternative slate was presented by the minority shareholders.
 During 2003, the Board of Statutory Auditors held five meetings (of which three were held by the Board of Statutory Auditors in office up to the effective date of the merger of Pirelli S.p.A. in Pirelli & C. S.p.A.).
8. **Amendments to the bylaws submitted for approval by the shareholders**
 On March 24, 2003, the Board of Directors voted to submit a series of proposals for approval by the shareholders' meeting. These proposals are directed at further improving the Company's system of corporate governance and facilitating an ever-increasing participation by all shareholders in the Company's activities and in decisions capable of bringing about the Company's success. With this mind, the Board voted to propose the following to the shareholders' meeting:
- to introduce in the Company's bylaws the mechanism of the slates for the appointment of members of the Board of Directors. This provision is meant to ensure that – should the shareholders decide to take advantage of the right stated therein by putting forward, according to the manner established by art. 10, at least two slates – one fifth of the members of the Board will be chosen among those indicated by the so-called minority shareholders. The slates must be presented by shareholders who, alone or together with other shareholders, hold, in total, shares representing at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting and must be filed at the Company's registered office at least ten days before the date fixed for the shareholders' meeting in first call. The *professional résumé* of each candidate must be presented at the time the slates are filed;
 - to add a feature to those already indicated on the subject of convening the Board of Directors' meeting so that a meeting can be convened upon a request presented by one fifth of the Directors in office. The proposal intends to give the possible so-called *minority* Directors (for the record, one fifth of the total number) an even greater

⁹ With regard to the adoption of a Regulations for Shareholders' Meetings, see paragraph 8.

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possibility of influencing the conduct of the life of the company by convening the administrative body;

- to adopt the Regulations for Shareholders' Meetings, a document aimed at regulating the orderly and efficient conduct of ordinary and extraordinary shareholders' meetings and guaranteeing every shareholder the right to take the floor on the matters under discussion, as recommended by the Self-Regulatory Code of listed companies.

The tables which follow summarize the procedures for the adoption of the principal recommendations of the Code by the Company:

- structure of the Board of Directors, the Remuneration Committee and the Committee for Internal Control and *Corporate Governance*
- structure of the Board of Statutory Auditors
- other provisions of the Code
- posts held as Director or Statutory Auditor by the members of the Board of Directors and the members of the Board of Statutory Auditors in other listed companies, in financial, banking, insurance or other companies of significant size.

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

Post	Members	executive	non- executive	independent	****	Number of other posts held **	Committee for Internal Control		Remuneration Committee	
							***	****	***	****
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	X			100%	4				
Director	Carlo Acutis			X	100%	12				
Director	Gilberto Benetton		X		60%	12				
Director	Carlo De Benedetti			X	20%	7				
Director	Gabriele Galateri di Genola		X		60%	8				
Director	Giuseppe Gazzoni Frascara			X	60%	7	X	100%		
Director	Mario Greco		X		80%	14				
Director	Georg F. Krayser			X	20%	2				
Director	Giulia Maria Ligresti		X		60%	9				
Director	Massimo Moratti		X		100%	5				
Director	Luigi Orlando		X		60%	5			X	50%
Director	Giovanni Perissinotto		X		60%	15				
Director	Giampiero Pesenti			X	60%	14			X	50%
Director	Ennio Presutti			X	100%	1	X	100%	X	100%
Director	Maurizio Romiti		X		40%	7				
Director	Vincenzo Sozzani		X		100%	4				
Director	Carlo Secchi ⁽¹⁾			X	-(1)	4	X	- (1)		
Director	Frank Vischer			X	100%					
Number of meetings held during the year of reference		Board of Directors			Committee		Remuneration			
		(since May 7, 2003 ****): 5			for Internal Control: 3		Committee: 2			

NOTES

- * An asterisk denotes that the director was appointed through the slates presented by the minority shareholders.
- ** The number of posts held as a director or statutory auditor by the person in other companies listed on regulated markets, also foreign markets, in financial, banking, insurance or other companies of significant size is indicated in the Directors' Report on Operations under Corporate Governance.
- *** The "X" in this column indicates that the Board member is on the Committee.
- **** This column indicates the percentage of attendance at the meetings of the Board of Directors and Committees, respectively.
- ***** In 2003, three meetings of the Board of Managing Partners were also held.
- ⁽¹⁾ Appointed a Director on February 19, 2004 to replace A. Falck (who passed away on November 3, 2003), who attended 3 out of 4 Board of Directors' meetings and 3 meetings of the Committee for Internal Control.

Table 2 - BOARD OF STATUTORY AUDITORS

Post	Members	Percentage of attendance at the Board of Statutory Auditors' meetings	Number of other posts held **
Chairman	Luigi Guatri	100%	1
Standing statutory auditor	Roberto Bracchetti	100%	2
Standing statutory auditor	Paolo Francesco Lazzati	100%	1
Alternate statutory auditor	Franco Ghiringhelli		3
Alternate statutory auditor	Sebastiano Guido		-

Number of meetings held during the year of reference: 5 (including 3 meetings of the Board of Statutory Auditors in office until August 4, 2003)

Quorum required for the presentation of slates by minority shareholders for the election of one or more standing statutory auditors (ex art. 148 TUF): 2%

NOTES

- * An asterisk denotes that the statutory auditor was appointed through the slates presented by the minority shareholders.
- ** The number of posts held as a statutory auditor by the person in other companies listed on regulated Italian markets. The posts held (also in no listed companies) are indicated in detail in the Directors' Report on Operations under Corporate Governance.

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TABLE 3 - OTHER CONSIDERATIONS IN THE SELF-REGULATORY CODE

	YES	NO	Summary of the reasons for any variations from the recommendations of the Code
System of powers and transactions with related parties			
Has the Board of Directors (BoD) delegated powers defining:			
a) limits?	X		
b) manner in which powers should be exercised?	X		
c) intervals at which disclosure should be made?	X		
Has the BoD reserved itself the examination and approval of transactions having a significant economic, financial or equity effect (including transactions with related parties)?	X		
Has the BoD set up guidelines and criteria for the identification of "significant" transactions?	X		
Are the aforementioned guidelines and criteria described in the report?	X		
Has the BoD set up specific procedures for the examination and approval of transactions with related parties?	X		
Are the procedures for the approval of transactions with related parties included in the report?	X		
Procedures for the most recent nomination of directors and statutory auditors			
Were the nominations for director filed at least ten days in advance?	X		
Were the nominations for director accompanied by exhaustive disclosure?	X		
Were the nominations for director accompanied by indication of the suitability to be qualified as independent?	X		
Were the nominations for the post of statutory auditor filed at least ten days in advance?	X		
Were the nominations for the post of statutory auditor accompanied by exhaustive disclosure?	X		
Shareholders' Meetings			
Has the company approved the Regulations for Shareholders' Meetings?		X ¹	
Are the Regulations attached to the report (or indication given of where they can be obtained or downloaded)?		X ¹	
Internal control			
Has the company appointed the persons responsible for internal control?	X		
Are the persons in charge of internal control independent of (do not report to) those in charge of the operating areas?	X		
Organizational unit responsible for internal control (ex art. 9.3 of the Code)	X		
Investor relations			
Has the company appointed a person responsible for investor relations?	X		
Organizational unit and references (address/telephone/fax/e-mail) of the person responsible for investor relations		X ²	

1 The approval of the Regulations will be proposed to the next shareholders' meeting (the text of the Regulations is attached to the proposal of the resolution).

2 The Investor Relations department (which reports directly to the Managing Director Carlo Buora) is now headed by Alberto Borgia; References: e-mail ir@pirelli.com; telephone: 02.64422949; fax: 02.64424686.

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Marco Tronchetti Provera	Camfin S.p.A.	Chairman
	G.P.I. – Gruppo Partecipazioni Industriali S.p.A.	Chairman
	Marco Tronchetti Provera & C. S.a.p.A.	Chairman
	Olimpia S.p.A.	Chairman
	Pirelli & C. Real Estate S.p.A.	Chairman
Alberto Pirelli	Telecom Italia S.p.A.	Chairman
	FIN. AP. di Alberto Pirelli & C. A.p.A.	Chairman
	G.P.I. – Gruppo Partecipazioni Industriali S.p.A.	Deputy Chairman
	Camfin S.p.A.	Director
	G.I.M. – Generale Industrie Metallurgiche S.p.A.	Director
Carlo Alessandro Puri Negri	Olimpia S.p.A.	Director
	SMI – Società Metallurgica Italiana S.p.A.	Director
	Pirelli & C. Real Estate S.p.A.	Deputy Chairman and Managing Director
	Camfin S.p.A.	Deputy Chairman
	G.P.I. – Gruppo Partecipazioni Industriali S.p.A.	Managing Director
	Aon Italia S.p.A.	Director
	Capitalia S.p.A.	Director
	Grandi Stazioni S.p.A.	Director
	Istituto Europeo di Oncologia S.r.l.	Director
	Olimpia S.p.A.	Director
Permasteelisa S.p.A.	Director	
Carlo Buora	Telecom Italia S.p.A.	Director
	Tim S.p.A.	Chairman
	RCS MediaGroup S.p.A.	Managing Director
	Mediobanca S.p.A.	Director
	Olimpia S.p.A.	Director
	Pirelli & C. Real Estate S.p.A.	Director
	Ras S.p.A.	Director
Giovanni Ferrario	Pirelli Tyre Holding NV	Chairman
	Pirelli Cavi e Sistemi Telecom S.p.A.	Deputy Chairman and Managing Director
	Pirelli Cavi e Sistemi Energia S.p.A.	Director
	Pirelli Labs S.p.A.	Director
Carlo Acutis	BPC Investimenti SGR S.p.A.	Chairman
	Vittoria Assicurazioni S.p.A.	Deputy Chairman
	Banca Passadore & C. S.p.A.	Director
	Camfin S.p.A.	Director
	Ergo Italia S.p.A.	Director
	Ergo Assicurazioni S.p.A.	Director
	Inbro B.V.	Director
	Vittoria Capital N.V.	Director
	Yura S.A.	Director
	Yura International Holding B.V.	Director
	Yura Capital S.A.	Director
	Scor S.A.	Director
	Gilberto Benetton	Autogrill S.p.A.
Edizione Holding S.p.A.		Chairman
Olimpia S.p.A.		Deputy Chairman
Telecom Italia S.p.A.		Deputy Chairman
Abertis Infraestructuras S.A.		Director
Autostrade S.p.A.		Director
Banca Antoniana Popolare Veneta S.p.A.		Director
Benetton Group S.p.A.		Director
Beni Stabili S.p.A.		Director
HMS Host Corp.		Director
Lloyd Adriatico S.p.A.		Director
Mediobanca S.p.A.	Director	

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	Gabriele Galateri di Genola	Mediobanca S.p.A. Istituto Europeo di Oncologia S.r.l. Assicurazioni Generali S.p.A. Accor S.A. Banca CRS S.p.A. Banca Esperia S.p.A. IFI S.p.A. UTET S.p.A.	Chairman Chairman Deputy Chairman Director Director Director Director Director
	Giuseppe Gazzoni -Frascara	Bologna Football Club 1909 S.p.A. Bologna Football Club 1909 Holding S.p.A. Euromobiliare Corporate Finance S.p.A. F.G.F Finanziaria Generale Felsinea S.p.A. Lega Calcio Service S.p.A. Fondo "Sofipa Equity Fund" gestito da MCC-Sofipa SGR S.p.A.	Director Director Director Director Director Director Supervisory Panel member
	Mario Greco	AGF RAS Holding BV Allianz Subalpina S.p.A. Rasbank S.p.A. RAS International NV Riunione Adriatica di Sicurtà S.p.A. – RAS Allianz Compania de Seguros y Reaseguros Allianz Suisse Lebensversicherungen Allianz Suisse Versicherungen e.Biscom S.p.A. GIM – Generale Industrie Metallurgiche S.p.A. IFIL S.p.A. Istituto Europeo di Oncologia S.r.l. Mediobanca S.p.A. Unicredito Italiano S.p.A.	Deputy Chairman Deputy Chairman Deputy Chairman Deputy Chairman Managing Director and General Manager Director Director Director Director Director Director Director Director Director Director
	Georg F. Krayner	Bank Sarasin & Cie AG Baloise Holding AG	Chairman Director
	Giulia Maria Ligresti	Premafin Finanziaria Holding di Partecipazioni S.p.A. Fondiaria SAI S.p.A. Sailux S.A. SAI Holding Italia S.p.A. SAIFIN S.p.A. Milano Assicurazioni S.p.A. Finadin S.p.A. Sainernational S.p.A. Telecom Italia Media S.p.A.	Chairman Deputy Chairman Deputy Chairman Managing Director Managing Director Director Director Director Director
	Massimo Moratti	Sarint S.A. Angelo Moratti di GianMarco e Massimo Moratti & C. S.p.A. SARAS S.p.A. Raffinerie Sarde Interbanca S.p.A. Telecom Italia S.p.A.	Chairman General partner Managing Director Director Director
	Luigi Orlando	Europa Metalli S.p.A. Orlando & C. - Gestioni Finanziarie S.p.A. G.I.M. - Generale Industrie Metallurgiche S.p.A. SMI – Società Metallurgica Italiana S.p.A. KM Europa Metal AG	Honorary Chairman Chairman Chairman Chairman Supervisory Panel member

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Giovanni Perissinotto	Belgica Insurance Holding	Chairman
	Banca Generali	Chairman
	Flandria Participation Financieres	Chairman
	Generali Asset Management Sgr S.p.A.	Chairman
	Generali Finances S.A.	Chairman
	Generali Properties	Chairman
	Agorà Investimenti	Director
	Albula	Director
	Banca Intesa S.p.A.	Director
	Banca Nazionale del Lavoro S.p.A.	Director
Giampiero Pesenti	BSI – Banca della Svizzera Italiana	Director
	Generali Finance B.V.	Director
	Generali France Holding	Director
	Participatie Maatschappij Graafschap Holland N.V.	Director
	Transocean Holding Corporation	Director
	Italmobiliare S.p.A.	Chairman and Managing Director
	Intermobiliare S.p.A.	Chairman
	Italcementi S.p.A.	Managing Director
	Ciment Francais	Deputy Chairman
	Fincomind AG	Deputy Chairman
Ennio Presutti	Ciments du Maroc	Director
	Compagnie Monegasque de Banque	Director
	Credit Mobilier de Monaco	Director
	Finter Bank France	Director
	Finter Bank Zurich	Director
	G.I.M.–Generale Industrie Metallurgiche S.p.A	Director
	Mittel S.p.A.	Director
	RAS- Riunione Adriatica di Sicurtà S.p.A.	Director
	Soparfinter SA (Luxembourg)	Director
	Air Liquide Italia S.p.A.	Director
Maurizio Romiti	RCS MediaGroup S.p.A.	Managing Director and General Manager
	Poligrafici Editoriale S.p.A.	Director
	RCS Quotidiani S.p.A.	Director
	H3G	Director
	Istituto Europeo di Oncologia S.r.l.	Director
	RCS Investimenti (formerly Fila Holding) S.p.A.	Director
	Ratti S.p.A.	Director
Carlo Secchi	Università Commerciale “Luigi Bocconi”	President
	Veneranda Fabbrica del Duomo	Director
	Fondazione Teatro alla Scala	Director
	Lloyd Adriatico S.p.A.	Director
Vincenzo Sozzani	Banco di Desio e della Brianza S.p.A.	Director
	Pirelli & C. Credit Servicing S.p.A.	Director
	Pirelli & C. Real Estate S.p.A.	Director
	Pirelli & C. Real Estate SGR S.p.A.	Director
Frank Vischer	Pirelli Société Générale SA	Director
Luigi Guatri	ABCGroup-Società Italiana dei Consulenti Economico-Aziendali S.p.A.	Chairman
	ABCGroup Finanza e Valore S.p.A.	Chairman
	Finanziaria 2000 S.p.A.	Chairman
	Vittoria Assicurazioni S.p.A.	Chairman
	Walter Mieli S.p.A.	Chairman
	Università Commerciale “Luigi Bocconi”	Deputy Chairman
	Banco di Desio e della Brianza S.p.A.	Director
	Ferrero, Gnudi, Guatri, Uckmar Consulenti Associati S.p.A.	Director
	Giochi Preziosi	Director
	Granitifiandre S.p.A.	Director
	Maffei S.p.A.	Director
	Negri Bossi	Director

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	Roberto Bracchetti	Ratti S.p.A. Pirelli & C. Real Estate S.p.A. Viscontea Coface S.p.A. ABB S.p.A. Intesa Fiduciaria SIM S.p.A. Olimpia S.p.A. Pirelli & C. Real Estate SGR S.p.A.	Chairman of Board of Statutory Auditors Chairman of Board of Statutory Auditors Standing statutory auditor Standing statutory auditor Standing statutory auditor Standing statutory auditor Standing statutory auditor
	Paolo Francesco Lazzati	Pro Juvara S.r.l. SO.GE.ST. S.r.l. Fondazione Giangiacomo Feltrinelli Finaval S.r.l. Elle Servizi S.r.l. Stone S.p.A. Società Degli Avi p.A. Monit S.p.A. Monetaria Italiana Progetto Fontana S.r.l. Camfin S.p.A. Julius Baer Creval Private Banking S.p.A. Istituto Centrale delle Banche Popolari Italiane S.p.A. Ecla S.p.A. FREE SIM S.p.A. Pirelli & C. Real Estate S.G.R. S.p.A.	Sole Director Sole Director Director Director Director Director Chairman of Board of Statutory Auditors Chairman of Board of Statutory Auditors Chairman of Board of Statutory Auditors Standing statutory auditor Standing statutory auditor Standing statutory auditor Standing statutory auditor Standing statutory auditor
	Franco Ghiringhelli	Mondadori Pubblicità S.p.A. Camfin S.p.A. CFT Finanziaria S.p.A. Grifogest SGR S.p.A. I Grandi Viaggi S.p.A. Localto S.p.A. Partecipazioni Real Estate S.p.A. Pirelli & C. Real Estate Credit Servicing S.p.A. Pirelli & C. Real Estate S.p.A.	Chairman of Board of Statutory Auditors Standing statutory auditor Standing statutory auditor Standing statutory auditor Standing statutory auditor Standing statutory auditor Standing statutory auditor Standing statutory auditor Standing statutory auditor Alternate statutory auditor
	Sebastiano Guido	Esselte S.r.l. Global Reinsurance Brokers S.p.A. Harlequin Mondadori S.p.A. Mach 2 Libri S.p.A. Rizzoli Larousse S.p.A. Adelphi Edizioni S.p.A. City Italia S.p.A. STAR S.p.A.	Chairman of Board of Statutory Auditors Chairman of Board of Statutory Auditors Chairman of Board of Statutory Auditors Chairman of Board of Statutory Auditors Chairman of Board of Statutory Auditors Standing statutory auditor Standing statutory auditor Standing statutory auditor

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PROCEDURE FOR COMPLIANCE WITH THE REQUIREMENTS OF ART. 150, PARAGRAPH 1, OF LEGISLATIVE DECREE NO. 58 OF 1998

Introduction

In accordance with article 150, paragraph 1, of Legislative Decree No. 58 of 1998 (hereinafter, the "Italian Income Tax Code") "the Directors shall promptly report to the Board of Statutory Auditors, in accordance with the procedures set out in the bylaws and at least quarterly, on the activities performed and on transactions carried out by the company or its subsidiaries that have a significant economic, financial or equity impact; in particular, they shall report on transactions involving a potential conflict of interest"¹.

Pursuant to the above-mentioned provision and in light of the communications by Consob relating to corporate controls², this procedure defines the individuals and transactions involved in the information flows of which the statutory auditors of Pirelli & C. S.p.A. (hereinafter "Pirelli" or "the Company") are the recipients, and the phases and timing characterizing those flows. In particular, the procedure sets out:

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

Attached to this procedure is an illustrative report that considers the issues underlying the definition of the information flows in question and the decisions made.

Consequently, the main objective of this procedure is to provide the Board of Statutory Auditors with the information necessary for the performance of its monitoring and oversight activities as required by the Italian Income Tax Code (article 149).

Secondly, this procedure implements the corporate governance instruments with which to tangibly implement the recommendations contained in the Self-Regulatory Code prepared by the Committee for Corporate Governance of Listed Companies with which Pirelli has complied since its release. In particular, by increasing the transparency of the Company's management, this procedure allows each Director to participate in that management in a more knowledgeable and informed manner. Furthermore, this procedure sets in motion the information flows between the Directors with delegated powers and the Board of Directors recommended by the Self-Regulatory Code and aimed, on the one hand, at endorsing the "centrality" of the Company's management body in its entirety and, on the other hand, at strengthening the internal control functions.

Method, frequency and content of the information

The Board of Directors, also through its delegated bodies, shall send a specific written report to the Board of Statutory Auditors on a quarterly basis on:

- a) the activities performed;
- b) transactions that have a significant economic, financial or equity impact;
- c) transactions involving a potential conflict of interest, i.e.:
 - c1) intra-group transactions;
 - c2) transactions with related parties, other than intra-group transactions;
- d) atypical or unusual transactions and on every other activity or transaction that it considers appropriate to communicate to the Board of Statutory Auditors.

¹ This provision was incorporated in Pirelli & C.'s bylaws; article 11, paragraph 2 of the bylaws which states that "The Board of Directors, also through delegated bodies, informs the Board of Statutory Auditors on a timely basis about the activities conducted and the most important economic, financial and equity transactions carried out by the company and its subsidiaries; it specifically makes reference to transactions with potential conflicts of interest. The information is provided, at least quarterly, at the board meetings or Executive Committee meetings or by written communication to the Board of Statutory Auditors".

² See, currently, Consob Communication No. 97001574 dated February 20, 1997 and Consob Communication No. 1025564 dated April 6, 2001. See also, Consob Communication No. 2064231 dated September 30, 2002 which defines the concept of related parties.

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The information provided shall refer to the activities performed and transactions carried out during the period subsequent to the previous report.

The report shall be sent simultaneously to all Directors and standing statutory auditors.

1. Activities performed

The information shall regard executive activities and the status of transactions already approved by the Board of Directors, as well as the activities of Committees (Committee for Internal Control and Corporate Governance, Remuneration Committee and other internal committees); in particular, executive Directors shall report on the activities performed by them – through the Company's and its subsidiaries' structures or otherwise – in exercising the powers delegated to them, including the initiatives adopted and the projects introduced.

2. Transactions having a significant economic, financial or equity impact

The information shall focus on transactions that have a significant economic, financial or equity impact, highlighting, in particular, the strategic aims, consistency with the budget and the industrial plan, manner of execution (including terms and conditions, both economic and otherwise, of their realization) and developments, as well as any conditions and implications that they carry for the Pirelli Group's activities.

For the purposes of this procedure, the following transactions carried out by Pirelli or its subsidiaries - in addition to the transactions reserved for the Board of Directors pursuant to article 2381 of the Italian Civil Code and the bylaws – shall be considered to have a significant economic, financial or equity impact:

- 1) the issue of financial instruments for a total equivalent value in excess of Euros 100 million;
- 2) the granting of real or personal guarantees in the interest of subsidiaries (and, in the interest of Pirelli in the case of real guarantees) against obligations in excess of single amounts of Euros 25 million;
- 3) the granting of financing or guarantees to the benefit of or in the interest of third parties in excess of Euros 10 million;
- 4) the granting of financing to subsidiaries, investment and divestiture transactions, including real estate transactions, and transactions involving the acquisition and disposal of equity investments, companies or business segments of companies, property, plant and equipment and other assets, in excess of Euros 100 million;
- 5) merger and demerger transactions, involving subsidiaries, if at least one of the following parameters, where applicable, is equal to or in excess of 15 percent:
 - a. total assets of the incorporated (merged) company or the activities subject to demerger/total assets of the Company (data taken from the consolidated financial statements);
 - b. results before tax and extraordinary items of the incorporated (merged) company or the activities to be demerged/results before tax and extraordinary items of the Company (data taken from the consolidated financial statements);
 - c. total shareholders' equity of the incorporated (merged) company or the business segment subject to demerger/total shareholders' equity of the Company (data taken from the consolidated financial statements).

Transactions involving the merger (by incorporation or by pooling of interests) of listed companies, as well as the merger by pooling of interests of a listed company with an unlisted company or the merger by incorporation of a listed company into an unlisted company, shall in any case be considered, for the purposes of this procedure, to be transactions that have a significant economic, financial or equity impact.

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The information shall also include transactions that, while individually below the thresholds specified above or those that determine the exclusive responsibility of the Board of Directors, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed the relevant thresholds.

3. Transactions involving a potential conflict of interest:

3a) Intra-group transactions

The information concerning intra-group transactions shall illustrate the underlying interests and logic in the context of the Group, as well as the manner in which the transactions are executed (including the terms and conditions, both economic and otherwise, of their realization) with particular regard to the valuation methods followed.

Specific emphasis shall be placed on transactions with a value exceeding Euros 50 million, or less if those transactions are not finalized at arm's length conditions³. Emphasis shall also be placed on transactions that, while individually below the specified threshold, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed that threshold.

For the purposes of this procedure, intra-group transactions⁴ shall be those transactions carried out by Pirelli or its subsidiaries with:

- a) companies that, directly or indirectly (i.e. also through fiduciary companies or nominees), control Pirelli pursuant to article 2359, paragraphs 1 and 2, of the Italian Civil Code and article 93 of the Italian Income Tax Code;
- b) companies that, directly or indirectly (i.e. also through fiduciary companies or nominees), are controlled by Pirelli pursuant to article 2359, paragraphs 1 and 2, of the Italian Civil Code and article 93 of the Italian Income Tax Code;
- c) companies that, directly or indirectly (i.e. also through fiduciary companies or nominees), are controlled by the same companies that control Pirelli pursuant to article 2359, paragraphs 1 and 2, of the Italian Civil Code and article 93 of the Italian Income Tax Code;
- d) associated companies of Pirelli pursuant to article 2359, paragraph 3, of the Italian Civil Code and those that exercise significant influence on Pirelli; an associated company relationship does not exist with the associated company of an associated company.

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

The information concerning transactions with related parties, other than intra-group transactions, shall highlight the underlying interests and illustrate the manner in which the transactions are executed (including the terms and conditions, both economic and otherwise, of their realization) with particular regard to the valuation methods followed.

For the purposes of this procedure, transactions with related parties⁵ shall be those transactions carried out by Pirelli or its subsidiaries with parties directly or indirectly related to Pirelli.

Parties directly related to Pirelli shall be:

- a) individuals who hold (directly or indirectly, i.e. also through fiduciary companies or nominees) an investment equal to or exceeding 10 percent of the share capital represented by ordinary shares of Pirelli;
- b) individuals who, even though holding (directly or indirectly, i.e. also through fiduciary companies or nominees) an investment below the percentage indicated in a), may, by virtue

³ For the purposes of this procedure, transactions finalized at arm's length conditions are those transactions finalized at the same conditions as the Company applies to whatsoever party.

⁴ For the purposes of this procedure, intra-group transactions shall cover the disposal, with or without consideration, of personal or real property and of transferable economic rights, transactions involving the performance of works and services, the granting or securing of financing and guarantees, and cooperation agreements for conducting and developing the Company's business.

⁵ See note 4.

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- of shareholders' agreements, appoint, alone or jointly with the other parties adhering to the agreements, a majority of the members of Pirelli's Board of Directors;
- c) individuals who, even though holding (directly or indirectly, i.e. also through fiduciary companies or nominees) an investment below the percentage indicated in a), command, by virtue of shareholders' agreements, alone or jointly with the other parties adhering to the agreements, a majority of the exercisable votes in Pirelli's ordinary shareholders' meetings;
 - d) members of Pirelli's Board of Directors and its standing statutory auditors;
 - e) Pirelli's General Managers, Secretary to the Board of Directors and heads of Business Units/Central Functions/Operating Activities who report directly to the Chairman and the Managing Directors (so-called first reports).

Parties indirectly related to Pirelli shall be:

- f) spouses, if not separated, of the parties referred to in a) to e) above;
- g) relatives by blood or affinity, up to the second degree, of the parties referred to in a) to e) above;
- h) companies in which the parties referred to in a) to g) above hold, directly or indirectly (i.e. also through fiduciary companies or nominees) an investment equal to or exceeding 10 percent (if a listed company) or 20 percent (if an unlisted company) of the share capital represented by shares having voting rights in the ordinary shareholders' meetings;
- i) companies in which the parties referred to in a) to g) above, although holding investments below the percentage indicated in h), may, by virtue of shareholders' agreements, appoint, alone or jointly with the other parties adhering to the agreements, a majority of the members of that company's Board of Directors;
- j) companies in which the parties referred to in a) to g) above, although holding investments below the percentage indicated in h), command, by virtue of shareholders' agreements, alone or jointly with the other parties adhering to the agreements, a majority of the exercisable votes in that company's ordinary shareholders' meetings;
- k) companies in which the parties referred to in a) to g) above have a strategic management role, and their subsidiaries;
- l) companies that have a majority of their Directors in common with Pirelli.

The following shall also be related parties:

those adhering, directly or indirectly, to shareholders' agreements referred to in article 122, paragraph 1, of Legislative Decree No. 58/98, whose objective is the exercise of voting rights, if the interests covered by such agreements constitute the controlling interest.

Information shall be provided on transactions exceeding Euros 500 thousand, or less if not finalized at arm's length conditions, carried out (also through third parties) with parties directly or indirectly related to Pirelli. Further, evidence shall be provided of transactions that, while individually below the specified threshold, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed that threshold.

4. Atypical or unusual transactions and other transactions

The information on atypical or unusual transactions, including those carried out by subsidiaries, and on every other activity or transaction on which it is considered appropriate to provide information, shall highlight the underlying interests and illustrate the manner in which the transactions are executed (including the terms and conditions, both economic and otherwise, of their realization) with particular regard to the valuation methods followed.

For the purposes of this procedure, atypical or unusual transactions shall be those transactions whose object or nature are outside the normal course of the Company's business and those that present particular critical elements due to their characteristics and to the inherent risks, the nature of the counterpart, or the time of their completion⁶.

⁶ Transactions carried out in proximity to the end or beginning of the year.

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Procedure for the collection of information

The Board of Directors shall report to the Board of Statutory Auditors through the delegated bodies. For the purposes of preparing the specific report, the information shall be transmitted to the Chairman and the Managing Directors, in accordance with the following procedure.

1. Information on the activities performed, on transactions that have a significant economic, financial or equity impact, on intra-group transactions and on atypical or unusual transactions.

Pirelli's General Managers and heads of Business Units/Central Functions/Operating Activities, who report directly to the Chairman and Managing Directors (so-called first reports) through the General Administration and Control function, shall report monthly to the Chairman and the Managing Directors, by specific communication, on the activities performed by their structure in the period, giving details on transactions that have a significant economic, financial or equity impact, intra-group transactions exceeding Euros 50 million, or less if not finalized at arm's length conditions, atypical or unusual transactions, executive activities and the status of transactions already approved by the Board of Directors, as well as the principal activities performed by Directors in exercising the powers delegated to them, comprising the most important projects introduced and the most significant initiatives adopted.

They shall also communicate transactions that, while individually below the previously specified thresholds or those that determine the exclusive responsibility of the Board of Directors, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed the relevant thresholds⁷.

Information on the activities of the Committee for Internal Control and Corporate Governance, Remuneration Committee and other internal committees shall be provided by the respective Chairmen.

Each quarter, the General Administration and Control function shall prepare and send to the Chairman and Managing Directors summary reports containing the aggregate data of the above-described transactions that were carried out during the period subsequent to the previous report.

Details shall also be provided of transactions that, while individually below the previously specified threshold, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed that threshold⁸.

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

2.1 Pirelli's General Managers and heads of Business Units/Central Functions/Operating Activities who report directly to the Chairman and Managing Directors (so-called first reports) shall send to the General Administration and Control function, by specific communication, a list of transactions with related parties, other than intra-group transactions, carried out by Pirelli or its subsidiaries exceeding Euros 500 thousand, or less if not finalized at arm's length conditions, using the same methods and with the same frequency as in point 1) above.

Pirelli's Directors and standing statutory auditors, Secretary to the Board of Directors, General Managers and heads of Business Units/Central Functions/Operating Activities who report directly to the Chairman and Managing Directors (so-called first reports) shall

⁷ In this case, the transactions are relevant even if carried out over a period of time exceeding the three months covered by the report.

⁸ See note 7.

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report to the General Administration and Control function – in accordance with the format laid down in Appendix A – the transactions carried out with Pirelli or its subsidiaries by each of them, or by parties indirectly related to Pirelli through them, that exceed Euros 500 thousand, or less if not finalized at arm's length conditions, within fifteen days of the transaction's conclusion.⁹

- 2.2 In providing the information on transactions with related parties, other than intra-group transactions, set forth in point 2.1, above, emphasis shall also be given to transactions that, while individually below the previously specified threshold, are interconnected within the same relationship and therefore, when considered in the aggregate, exceed that threshold¹⁰.
- 2.3 Each quarter, on the basis of the information received in accordance with points 2.1 and 2.2 above, the General Administration and Control function shall send a summary to the Chairman and Managing Directors containing all of the elements necessary to comply with the information requirements related to these transactions.

Rules for conduct for carrying out transactions with related parties

1. Transactions with related parties, including intra-group transactions, with the exception of transactions that are typical or usual or to be finalized at arm's length conditions shall be approved in advance by the Board of Directors.
2. Typical or usual transactions shall be those transactions, which, by subject or nature, are not outside the normal course of the Company's business and which do not present particular critical elements due to their characteristics or to the risks inherent to the nature of the counterpart or to the time of their completion. Transactions finalized at arm's length conditions shall be those transactions concluded at the same conditions as the Company applies to whatsoever party.
3. The Board of Directors shall receive adequate information on the nature of the relationship, the manner in which the transaction is to be executed, the conditions, both economic and otherwise, for its realization, the valuation method followed, the underlying interests and motivations and any risks to the Company. In the event that the relationship is with a Director or with a party related through a Director, the Director concerned shall limit his involvement to providing clarification and shall leave the Directors' meeting at the time the decisions are taken.
4. Depending on the nature, value or other characteristics of the transaction, in order to avoid that the transaction is carried out at unsuitable conditions the Board of Directors shall be assisted by one or more experts who, depending on the circumstances, shall express an opinion on the economic conditions, and/or the legitimacy, and/or the technical aspects of the transaction.
5. With respect to transactions with related parties, including intra-group transactions, that are not submitted to the Board of Directors inasmuch as they are typical or usual and/or at arm's length conditions, the Directors having delegated powers or the managers responsible for carrying out the transaction, if not in contrast with the specific procedure pursuant to article 150, paragraph 1, of the Italian Income Tax Code, shall collect and conserve,

⁹ This declaration is requested mainly in view of the difficulty, if not impossibility, for Pirelli to know or to identify with certainty parties indirectly related to it through the aforementioned individuals; nor would it appear appropriate, first and foremost for reasons of privacy, to request from each of those individuals a list of said possible parties.

¹⁰ See note 7.

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including by transaction type or group, adequate information on the nature of the relationship, the manner in which the transaction is to be executed, the conditions, both economic and otherwise, for its realization, the valuation method followed, the underlying interests and motivations and any risks to the Company. One or more experts may be appointed also for these transactions as provided above.

6. The choice of experts shall be from among individuals with recognized professional credentials and expertise on the subject matter, who shall be carefully evaluated in terms of their independence and the absence of conflicts of interest.

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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 and the head of Investor Relations. Furthermore, the heads of General Administration and Control Department, General Finance Department, Legal and Corporate Affairs Department, Legal Affairs Department – Industrial Sector, External Communications Department and Audit Department shall be considered Relevant Persons, as shall the heads of the functions which form such departments.
- 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 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 attribute a right to subscribe to, purchase or sell the instruments referred to in (i), above, and the certificates representative of the instruments referred to in (i), above; (iii) derivative financial instruments and covered warrants whose underlyings 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.
- 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

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instrument is based and the official price of the underlying 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 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, if 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..

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, if 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 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, excluding non-executive Directors and statutory auditors, shall be permitted only after the first release of final or preliminary economic-financial data for each quarter until¹¹ 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 concerned. The assessment of the existence of a situation of personal necessity shall be referred 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 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

¹¹ Or, semester or year, in the case of exemption from the publication of the second and fourth quarter reports, respectively.

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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 Markets Organized 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 the applicable collective national labor contract; (ii) for any other collaborators, the termination – with or without notice – of the relationship; (iii) for Directors and statutory auditors, the Board of Directors may propose the revocation of their appointments to the next shareholders' meeting.

8. Acceptance

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

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 submission of any modifications or integrations to the Board of Directors.

The Authorized Person shall conserve the written declarations by 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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PIRELLI & C. ACCOMANDITA PER AZIONI VOTING TRUST AGREEMENT EXTRACT

1. Type of agreement and purpose

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

2. Parties to the agreement and Pirelli & C. shares transferred to the voting trust:

	Number of shares transferred to the trust	% of total shares transferred to the trust	% of total ordinary shares issued	Number of warrants transferred to the trust (*)	% of total warrants transferred to the trust	% of total warrants outstanding
CAMFIN S.p.A.	504,362,856	36.10	15.17	378,272,142	36.10	24.22
RCS MEDIAGROUP S.p.A.	146,334,392	10.47	4.40	109,750,794	10.47	7.03
FONDIARIA - SAI S.p.A.	138,740,184	9.93	4.17	104,055,138	9.93	6.66
MEDIOBANCA S.p.A.	125,513,500	8.98	3.77	94,135,125	8.98	6.03
EDIZIONE HOLDING S.p.A.	125,508,680	8.98	3.77	94,131,510	8.98	6.03
R.A.S. S.p.A.	125,508,680	8.98	3.77	94,131,510	8.98	6.03
ASSICURAZIONI GENERALI S.p.A. (**)	125,508,680	8.98	3.77	94,131,510	8.98	6.03
S.M.I. S.p.A.	48,914,160	3.50	1.47	36,685,620	3.50	2.35
Massimo MORATTI (***)	32,482,464	2.33	0.98	24,361,848	2.33	1.56
SINPAR HOLDING S.A.	24,461,948	1.75	0.74	18,346,461	1.75	1.17
Total	1,397,335,544	100	42.02	1,048,001,658	100	67.11

(*) Warrants grant the right to subscribe to 1 Pirelli & C. ordinary share for every 4 Warrants presented for the year

(**) of which 41,000,000 shares through La Fédération Continentale Compagnie d'Assurances Sur La Vie S.A.

(***) of which 27,168,180 shares and 20,376,135 warrants through CMC 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 of the voting trust.

Each participant may buy or sell additional shares for an amount not in excess of the higher of 20% of the shares already transferred 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 voting trust.

CAMFIN S.p.A. is authorized to freely purchase additional Pirelli & C. shares; it can transfer shares to the voting trust, but to the extent that, at any one time, the shares do not exceed 40% of total shares transferred by all the participants in the voting trust. This has been decided so that a stable predominate position is not assumed in the voting trust or a stable veto power is not exercised over common decisions.

Except where the Pirelli & C. ordinary shares in the voting trust correspond to the majority of the voting rights in the ordinary shareholders' meetings, each party (also though parent companies and/or subsidiaries) intending to purchase shares of that category shall inform the President in writing beforehand and the President shall inform the party if, taking into account the laws in

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force concerning tender offers, the party can proceed, in whole or in part, with the proposed purchase, buy or sell the shares.

5. Disposition of the shares

The shares transferred shall remain at the disposition of the participants in the voting trust.

6. Bodies governing the agreement, criteria and manner of composition, cases when meetings are called and powers delegated

The Body governing the agreement is the management of the voting trust.

Management of the voting trust shall consist of a president and vice-president designated by Pirelli & C. from among its Directors 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 voting trust 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 voting trust.

The management of the voting trust 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' meeting shall also meet at least twice a year to examine, with the Directors of Pirelli & C., 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.

8. Majority vote required for decisions relating to matters in the agreement

The management of the voting trust passes resolutions by casting votes in favor by the members representing at least three fifths of the shares transferred; management of the voting trust can designate trustees to represent the shares in the voting trust at the shareholders' meetings in order for voting to take place according to the instructions of the management of the voting trust. Whenever the decisions of the management of the voting trust are not voted unanimously, the dissenting participant shall have the right to freely exercise his/hers/its vote in 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, January 24, 2004