

# **PIRELLI & C. REAL ESTATE S.P.A.**

Head office at via Gaetano Negri 10, Milan  
Milan Company Register no. 02473170153

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**Corporate Governance Annual Report  
(2004 Annual Report)**

# CORPORATE GOVERNANCE ANNUAL REPORT

## - PIRELLI & C. REAL ESTATE S.P.A. -

### Introduction

On May 3rd, 2002, the company announced to the market that it was adhering to the “Selfdiscipline Code” prepared by the Corporate Governance Committee of Publicly Traded Companies (henceforth known as “Codice”) and it also adopted the subsequent version that was revised in July 2002.

In addition, in order to further strengthen the possibility for shareholders of Pirelli & C. Real Estate to participate in the life of the company – thereby confirming the attention paid by the latter in creating a correct and transparent relationship with investors – the Shareholders’ Meeting has resolved, on 10<sup>th</sup> May 2004, to present a number of Charter modifications to be approved in the next Shareholders’ Meeting, aimed at creating increasingly greater participation of all shareholders in the life of the company and in the decisions that affect the success of the company.

In compliance with the Regulations Instructions of the markets organized and managed by Borsa Italiana (Italian Stock Exchange) and keeping in mind the indications contained in the “Guidelines for the Content Writing of the Annual Report on *Corporate Governance*” developed by Borsa Italiana and in the “Guide for the Compilation of the *Corporate Governance* Report” prepared by Assonime, the paragraphs that follow describe the most relevant features of the *corporate governance* system of the company currently being followed as well as planned developments.

## PART I

### Governance structure of the company

#### 1. Board of Directors

The company is managed by a Board of Directors composed of five to nineteen members who shall remain in office for at least 3 years (unless a shorter term is established in the Meeting at the time of making) and may be re-elected. (article 12 of the Articles of Association).

For appointment of the members of the Board of Directors, the Articles of Association, in compliance with art. 7 of the Civil Code, provide for the presentation of lists by shareholders who, alone or together with other shareholders, overall hold shares representing at least 2% of the share capital with the right to vote at ordinary meetings. These lists must be registered at the company’s registered office at least 10 days before the date set for the first calling of the meeting.

The list voting system has been introduced to further encourage involvement by parties indicated by the so-called minorities in corporate life, reserving one fifth of the directors

to said minorities, if at least two lists of candidates are presented according to the procedures indicated in the Articles of Association, (art. 12).

In accordance with the Articles of Association (article 18), the Board manages the company and is, as a result, entrusted with the widest administrative powers, with the exception of those relegated to the Shareholders meeting by law or according to the Articles of Association. The Board exercises its powers in accordance with article 1.2 of the Code – as better explained in paragraph 1.1 that follows.

The Board of Directors has the powers, within the legal limits, to take decisions regarding incorporation of the companies of which the Company owns at least 90% of the shares or quotas, the reduction of the share capital if a shareholder withdraws, adaptation of the Articles of Association to legal provisions, transfer of the company's registered office within Italy, and the institution or abolition of secondary offices.

In addition, for the management of shareholders' activities, the Board can delegate these powers, provided they are not expressly reserved, to one or more members, potentially with the titles of Chief Executives — or to an Executive Committee composed of some of its members and having the right to appoint one or more committees with the functions of providing opinions and making proposals, also for the purposes of adapting the corporate governance structure to the recommendations issued from time to time by the relevant authorities (Article 19 of the Articles of Association).

## **2. Board of Statutory Directors**

The Board of Statutory Auditors is composed of three Standing Auditors and two substitute auditors who must possess the prerequisites required by current laws (and also by regulations) and for whom the subjects and activity sectors that are closely related to the company must be in accordance with those stated in the Company purpose (article 4 of the Articles of Association), paying particular attention to companies or bodies operating in the financial, industrial, banking, insurance, property or general services areas (article 22 of the Articles of Association).

The members of the Board of Statutory Auditors, in accordance with the law, have terms lasting three years and are re-eligible. They are appointed by means of a *list voting* mechanism and on the basis of the procedure that allow the election of a standing member or a substitute member by the minority.

Individuals who cannot be elected as auditors include those that do not possess the prerequisites required by law or those already holding office as standing auditors in more than five companies publicly traded on Italian regulated markets, with the exception of controlling companies and subsidiaries to Pirelli & C. Real Estate S.p.A..

The Board of Statutory Auditors shall supervise the following:

- Observance of the law and the Company's Articles of Association;
- Respect for the principles of correct management;
- Adequacy of the organizational structure of the company related to competencies, the internal audit system and the administrative-accounting system, as well as the reliability of the latter in correctly representing the facts;

- Adequacy of the provisions decreed by the company to subsidiary companies in relation to communication obligations relating to price sensitive information.

The Board of Statutory Auditors fulfils its duties by exercising all its powers that have been conferred on it by law: the Board can also rely upon a constant analytical information flow from the company, even outside the regular meetings of the Board of Directors.

In fulfilling these functions, the Board of Statutory Auditors, in addition to participating in all the Board of Directors and Shareholders' Meetings, will always take part in the work conducted by the Remuneration Committee and the Committee for Internal Audit and *Corporate Governance*.

### **3. Shareholders' Meeting**

The shareholders' meeting – provided that the flow of information originating from the company towards the market is regular although the price sensitive requirements do not demand it – is considered to be the best place for the company to create a profitable relationship with shareholders.

The Meeting actually allows shareholders to entertain a real-time dialogue: all information requests can be easily met while the nature of *price sensitivity* is always respected. In this sense, the directors encourage and facilitate the widest possible participation of shareholders in the Meeting and pay great attention to the choice of the meeting's location, date and time in order to make it easier for everybody to attend it.

The notice of the meeting – that can take place in Italy, even outside the corporate Head office – and the right to intervention and representation at the meeting are regulated by law. The correct constitution of the Meeting and the validity of its resolutions are also regulated by law. Conduct of meetings is governed by the law, by the articles of association and by the Meeting Regulations, approved by a resolution of the company's ordinary shareholders' meeting.

The Shareholders' meeting is presided over, in order, by the Chairman of the Board of Directors, by the Deputy Chairman or by a Chief Executive: should there be two or more Deputy Chairmen or Chief Executives, the presidency is given to the most senior of age. If the above-mentioned parties are absent, chairmanship of the meeting falls to another person chosen by the meeting with the vote of the majority of the capital represented at the meeting.

The Chairman is assisted by a Secretary appointed by the meeting; the Secretary's assistance is not necessary when the preparation of the meeting minutes is undertaken by a notary public.

The Chairman of the Meeting is responsible for checking whether the meeting is regularly called; ascertaining the identity of those present and their right to participate, also by proxy; ascertaining the legal number to pass resolutions; directing the work, also

changing the order of debate for the subjects indicated in the notice of meeting; adopting the measures required to ensure the orderly conduct of the debate and voting, defining the voting procedures and checking the results.

The resolutions of the meeting are recorded in the minutes undersigned by the Chairman and the Secretary of the Meeting or by the notary public. The extraordinary meeting minutes shall be prepared by a notary public appointed by the Chairman of the meeting.

The meeting shall go through the agenda while keeping in mind the subjects that have to be discussed in compliance with law.

The meeting must be called within 120 days or, if special circumstances so require, within 180 days, from closure of the corporate financial year. In such a case, specific evidence must be provided in the management report for the reasons for the extension.

#### **4. Share capital and shareholding within the society**

The share capital of the company, undersigned and paid up, as at 15 February 2005, is equal to euro 20,799,491,00 divided into 41,598,982 shares at the par value of euro 0.5 each. The shares of the company are all ordinary and nominative. There are no other share categories.

It is specified that the share capital is periodically increased by virtue of the exercise of options granted to company directors and employees and the consequent subscribing of new Pirelli RE shares, in relation to the resolutions passed by the Meeting on 2 April 2002 (paid divisible increase of share capital, in one or more stages, to be reserved for directors and employees of the company and/or of its subsidiaries, via one or more stock option plans, to be carried out before the deadline of 31 December 2006 – art. 5 of the Articles of Association) and by the company's Board of Directors on 9 May 2002 (approval of a new stock option plan 2002-2005 for the awarding to directors and employees of the company and/or of its subsidiaries of options so as to grant the right to subscribe, if the conditions provided for by the plan should arise, to a maximum number of 2,150,000 ordinary shares).

In this regard, the company will periodically arrange to file, within the period provided for by law, the certification pursuant to art. 2444 of the Italian Civil Code, subsection one, relating to the new share capital, at the Companies Register in Milan and then to communicate the variation to the Italian Stock Exchange and to CONSOB.

The Company is under the legal control of Pirelli & C. S.p.A. whose equity participations are equal to 52.044% of the share capital. There is no syndicate pact. In relation to the controlling shares held by Pirelli & C. S.p.A., and in accordance with the evaluations that were conducted — and from which it arose that the latter company does not perform a key role in the determination of strategic multi-year plans and annual budgets, as well

as investment choices, it does not define *policy* for the acquisition of assets and services on the market, nor does it coordinate initiatives and business action in the various sectors in which the company (or its subsidiaries) operates, and because the company is endowed with its own organizational and managerial autonomy — Article 2497 *sexies* of the Civil Code was deemed irrelevant and it was concluded that Pirelli & C. S.p.A.

does not exert executive management nor coordination activities with respect to the Company.

## **PART II**

### **Information on the Implementation of the Self-discipline Code**

#### **1. Board of Directors**

##### **1.1 Distribution of Areas of Expertise and Proxies**

###### Role of the Board of Directors

The Board of Directors covers a central and strategic role in the management of the company and it therefore:

- examines and approves strategic, corporate, industrial and financial plans of the companies and company structure which it heads;
- assigns and revokes proxies to directors while defining the limits and procedures of their operating power;
- determines, once it has examined the proposals of the remuneration committee and consulted the Board of Statutory Auditors, the remuneration of the directors and those in charge of particular functions as well as the subdivision of the global compensation to each individual member of the Board (if this was not previously done by the meeting itself);
- controls the overall course of management, with particular attention paid to situations involving conflicts of interest, and keeping in mind the information received by the chief executives and the Committee for Internal Audit and Corporate Governance, as well as periodically comparing forecasted with actual results;
- examines and approves the operations of significant economic or financial caliber, in particular those relating to operations with related parties, and regularly briefing the Board during the latter's meetings or at least quarterly — through the relevant bodies delegated to the Board of Statutory Auditors — on the most significant operations undertaken by the company or its subsidiaries;
- verifies the adequacy of the general organizational and administrative condition of the company and the group chosen by the chief executives;
- briefs the shareholders during meetings.

###### Chairman of the Board of Directors and Representation

Within the Board, a Chairman, if not already provided for by the meeting, and eventually one or more Deputy Chairmen are appointed. Should the Chairman be absent, the chair is assigned, in order, to a Deputy Chairman or to a Chief Executive; in

the case of there being two or more Deputy Chairmen or Chief Executives, the Chair is assigned to the most senior individual. The Board appoints a Secretary that can be chosen even outside the Board's members.

In accordance with article 20 of the Articles of Association, legal representation of the company versus third Parties, and in court, is separately assigned to the Chairman of the Board of Directors and, if appointed, to the Deputy Chairmen and the Chief Executives, within the limits of the powers assigned to them by the Board of Directors. Each of the above-mentioned individuals will in any case have wide latitude in the following: promoting actions and appeals in a legal setting and to any degree of jurisdiction, even in cases of repeals and cassation; presenting petitions and lawsuits in a penal setting; presenting themselves as a civil party in penal judgement cases; promoting actions and appeals for administrative jurisdictions; intervening and resisting in cases involving actions and appeals that affect the company and conferring, as necessary, the required mandates and powers of attorney. The Board and the Chairman — and, if appointed, the Deputy Chairmen and the Chief Executives, within the limits of the powers conferred on them by the Board of Directors — are authorized to transfer the representation of the company versus third parties to directors and generally to employees and third parties.

Mr. Marco Tronchetti Provera, Chairman of the Board of Directors, was not assigned any operational proxies and should therefore be considered a non-executive director, in accordance with Article 1 of the Civil Code, but not “independent” due to the office and titles held as Chairman in the controlling company Pirelli & C. S.p.A..

#### Executive Investments Committee

According to article 19 of the Articles of Association, the Board of Directors, on 10 May 2004, created an “Executive Investments Committee”, composed of the following individuals:

- Marco Tronchetti Provera
- Carlo Alessandro Puri Negri
- Carlo Buora
- Claudio Recchi
- Vincenzo Sozzani.

The Executive Investments Committee was granted the following powers:

- the acquisition of real estate assets providing that the price of the same, for each operation, does not exceed euro 150,000,000;
- the acquisition of equity participations on the condition that the financial investment does not exceed a total of euro 150,000,000 for each operation;

- the assumption of mortgages and financing from third parties; financing to companies that are partly owned by the company; the release of real or personal securities versus associated companies and/or third parties; all the above is allowed within a total spending limit of euro 150,000,000 per operation.

Investment Committee meetings are regularly constituted when the majority of its Members attend; resolutions are taken by absolute majority vote of those present and, in the case of parity, the vote of the Chairman presides shall be decisive.

The execution of the resolution of the Investment Committee will take place, through the Chairman or the Deputy Chairman and Chief Executive Officer, who has the power to appoint a substitute; these resolutions are then recorded in the minutes transcribed in the relative book, undersigned by the Chairman and by the Secretary; the Secretary of the Committee is the same, if appointed, as the that of the Board of Directors’.

#### Other proxy organs

Also on 10 May 2004, the Board of Directors resolved, amongst other items, to assign:

- ordinary and extraordinary administrative powers, with single signature, and with the limits shown below for each single operation (if applicable) (later modified for certain areas after a resolution of the Board of Directors on April 8th, 2003) to the Deputy Chairman and Chief Executive Officer Mr. Carlo Alessandro Puri Negri, for:
  1. investment of risk capital up to euro 50 million;
  2. sales of shares up to euro 50 million;
  3. the acquisition and swap of properties up to euro 50 million;
  4. sale of property up to €70 million;
  5. contracts dealing with the acquisition of companies or branches of companies, receivables and payables up to euro 50 million;
  6. contracts dealing with the disposal of companies or branches of companies, receivables and payables up to euro 50 million;
  7. the assumption of share capital financing up to euro 50 million;
  8. the assumption of mortgages and financing up to euro 25 million;
  9. granting of financing to subsidiaries, within the limit of €50 million if the shareholding is equal to or less than 50%;
  10. issuing or demand for personal guarantees in the Company’s interest or the interest of its subsidiaries up to €50 million. The limit is €10 million if in the interests of third parties;
  11. issuing of collateral securities in the interests of (a) subsidiaries and for non recourse financing, unlimited, (ii) companies or subsidiaries up to €50 million, (iii) third parties up to €10 million.
- To the directors Messrs Carlo Bianco and Emilio Biffi (from 10 May 2004 appointed to the office of Managing Director, respectively, for the sectors of Residential Asset Management and Land and Development) the following powers, with sole signature:

1. to undersign offers and stipulate the related contracts, as well as modify, integrate and revoke them, and whose subject involves the execution of acts and/or the delivery of services in the activity area of the company; all of the above relative to mandates or jobs for which the value of the activities or provided services is not superior to euro 1,500,000 per year or for a single contract;
2. to stipulate preliminary or definitive contracts, with all necessary clauses, as well as modify, resolve, assign or acquire by assignment, or terminate by cancellation these contracts for: (i) the conferment and sub-mandates and sub-jobs for the execution (totally or in part) of the mandates and or jobs taken on by the company for which the total value of activities or acquired service does not exceed euro 500,000 per contract; (ii) the acquisition of contracts of services within the general limit of euro 500,000 per contract; (iii) the acquisition of marketing, promotion and publicity services within the general limit of euro 150,000 per single contract; (iv) the acquisition of professional services for firms, consultancies, valuations, and surveys within the general limit of euro 500,000 per contract; (v) the acquisition, sale, or swap of materials, equipment, plants and moveable property, excluding registered moveable property, within the general limit of euro 150,000 per contract; (vi) the assumption or concession of real estate assets for rent even ultranovennial and for gratuitous loans, within the limit of euro 500,000 per contract; (vii) the establishment of both active and passive usage, surface and servant rights; (viii) the insuring of individuals and moveable and real estate assets against all damages and risks within the limit of euro 150,000 per contract;
3. to undersign all acts relating to the ordinary activity of the company within the property business.

During the same meeting on 10 May 2004, the Board of Directors further resolved to entrust the director Emilio Biffi with the specific duties of:

(i) implementing all necessary and required activities concerning employee security, including prevention issues, in addition to work hygiene, internal and external environmental issues, and the control of the urbanization and building activities in accordance with current laws, rules and regulations;

(ii) ensuring the execution of duties required by Law 196/03 and later modifications relating to personal data handling (privacy). In order to fulfil these duties, Emilio Biffi is authorized to delegate these conferred powers to his collaborators.

Specific and more limited proxies – to be used within the appropriate areas of expertise – are at the same time conferred to other Executives and Managers within the Company.

During 2004, both the Deputy Chairman/Chief Executive Officer, the Managing Directors of the sectors and the Managing Directors/General Executives, and both the

Executives and the Managers, have used the powers conferred on them for the normal management of corporate activities (on which the Directors have been regularly informed), renouncing these powers in the case of operations considered significant in terms of quality or economic/financial value, and relegating them to the Board of Directors.

#### Information provided to the Board of Directors

In accordance with Article 18 of the Charter (which is textually adapted from Article 150, paragraph 1, of the Government Decree n.58 of 1998), the Board of Directors and the Board of Auditors are informed, also by the delegated bodies, promptly and in any case at least on a quarterly basis, of the operations carried out, the overall performance of the business, its expected outlook and the most significant economic, financial and asset-related transactions conducted by the company and its subsidiaries, as well as those of atypical or unusual character, or linked to related parties or, in any case, with potential conflicts of interest, supplying all the necessary elements for evaluation of the activities themselves.

In order to ensure an orderly flow of information, the Company has adopted, since July 29th, 2002, a Procedure (the text of which is reported as an attachment to the current report and published on the web site of the Company) which precisely defines the rules to be followed in relation to the requirements on information disclosure as per Article 150 and in connection to the activities conducted by the executive directors — both in terms of the proxies attributed to them and for the execution of the operations resolved by the Board itself and, more generally, on the operations carried out, also with reference to intra-group operations and those involving related parties. Subsequently, on 28 July 2004, the procedure was modified, providing, among other things, for the obligation on the part of the related parties to notify the Company of any companies to be considered as indirectly related parties through them, so as to provide material for the creation (and constant updating) of a database which would enable direct checking of transactions by the company itself.

#### Code of Conduct for Operations with Related Parties

The Company has also established a Code of Conduct (the text of which is reported as an attachment to the current report and published on the web site of the Company, which was also slightly modified on 28 July 2004) for the implementation of operations with related parties – including those within the Group.

These principles aim to guarantee an effective integrity and transparency, both in substance and in procedure, of these principles, favoring the full co-responsibilization of the Board of Directors in its resolutions.

On the basis of these principles, the Board is called to approve in advance both the operations with related parties and those within the Group, with the exception of typical or usual operations that are concluded in standard format.

For this purpose, the Board receives an adequate information flow on the nature of the correlation, on the executive procedures of the operation, on the conditions – including economic – for its completion and on the valuation process followed, as well as the underlying interests and motivations and potential risks for the company.

Should the correlation occur with a Director or with a related party connected to the Director, the first shall only provide clarifications and shall leave the Board meeting at the time of resolution.

According to the nature, the value and other characteristics of the operation, the Board of Directors, in order to avoid the operation itself being completed under incongruous conditions, is assisted by one or more experts that express an opinion – depending on the case itself – on the economic conditions and/or the legitimacy and/or the technical aspects of the operations.

From the combination of the above mentioned Procedure and the Code of Conduct, it is possible to identify: the operations of major economic and financial caliber; the atypical or unusual operations or those others which must be further scrutinized according to these principles; and the rules to follow in terms of information flow and pre-emptive approval of operations.

In addition, the explanations above demonstrate how the Board of Directors – while taking advantage of the procedures described above – has, in fact, exercised its powers in accordance with Article 1.2 of the Civil Code.

### *Meetings of the Board of Directors*

The Charter does not require a minimum number of meetings to be held; however, in accordance with standard practise, the Board is called at least six times per year (for the review of preliminary data on June 30th and December 31st, as well as a review of the consolidated financial statements and the quarterly and bi-yearly reports).

In 2004, ten meetings were held; the overall Directors' attendance percentage was about 81%; the equivalent value for independent directors was about 76%.

As a rule, all necessary documentation and information were provided to the Directors with reasonable advance in order to allow the Board to properly express its opinion on the topics under review.

In 2005, two meetings have already been held and at least five others are forecast.

## **1.2 Composition of the Board of Directors**

The Board of Directors has included, since 6 May 2003, the following individuals:

- Marco Tronchetti Provera, Chairman;
- Carlo Alessandro Puri Negri, Deputy Chairman and Chief Executive Officer;
- Giovanni Nassi, Deputy Chairman;

- Carlo Bianco, Managing Director of Residential Asset Management;
- Emilio Biffi, Managing Director of Land and Development Asset Management;
- Reginald Bartholomew;
- Carlo Buora;
- William Dale Crist;
- Sergio Lamacchia;
- Giulio Malfatto;
- Claudio Recchi;
- Vincenzo Sozzani;
- Livio Strazzerà;
- Dario Trevisan.

On 10 May 2004 the Meeting took steps to appoint the new Board of Directors, confirming all the members of the board whose office was about to expire, with the sole exception of Giulio Malfatto and Livio Strazzerà, who were replaced by Messrs:

- Olivier de Poulpiquet;
- Roberto Haggiag.

The current Board of Directors, formed of 14 members, was appointed for a single financial year, for the purposes of allowing the minority shareholders to benefit as early as possible from the list voting system that ensures the qualification for office of directors appointed by them if they are in possession of at least 2% of the share capital with the right to vote at ordinary meetings, and thus its term of office shall lapse at the moment of the meeting to approve the financial statement closed on 31 December 2004.

Below are reported all the offices of director or auditor held by the directors in other publicly traded companies on regulated markets (even foreign), or in financial, banking, or insurance companies, or other large companies.

Marco Tronchetti Provera:

- Pirelli & C. S.p.A., Chairman
- Camfin S.p.A., Chairman
- G.P.I. – Gruppo Partecipazioni Industriali S.p.A., Chairman
- Marco Tronchetti Provera & C. A.p.A., Chairman
- Olimpia S.p.A., Chairman
- Telecom Italia S.p.A., Chairman

Carlo Alessandro Puri Negri:

- Pirelli & C. S.p.A., Deputy Chairman
- Pirelli & C. Real Estate SGR S.p.A., Chairman
- Pirelli & C. Real Estate SGR Private S.p.A., Chairman
- GPI – Gruppo Partecipazioni Industriali S.p.A., Chief Executive Officer
- Camfin S.p.A., Deputy Chairman
- Olimpia S.p.A., Director
- Telecom Italia S.p.A., Director
- Aon Italia S.p.A., Director
- Capitalia S.p.A., Director
- Eurostazioni S.p.A., Director

- Istituto Europeo di Oncologia S.r.l., Director

Reginald Bartholomew:

- Merryl Lynch, Chief Executive Officer
- Benetton Group S.p.A., Director

Carlo Buora:

- Tim S.p.A., Chairman
- Pirelli & C. S.p.A., Chief Executive Officer
- Telecom Italia S.p.A., Chief Executive Officer
- RCS Mediagroup S.p.A., Director
- Mediobanca – Banca di Credito Finanziario S.p.A., Director
- Olimpia S.p.A., Director
- RAS – Riunione Adriatica di Sicurtà S.p.A., Director

Olivier de Poulpiquet:

- CFT Finanziaria S.p.A., Chairman
- Beta S.r.l., Chairman
- Erice S.r.l., Chairman
- Pirelli & C. Real Estate SGR Private S.p.A., Director
- Pirelli & C. Real Estate Credit Servicing S.p.A., Director

Roberto Haggiag:

- E.C.L.A. S.p.A., Honorary Chairman and Director

Claudio Recchi:

- CIR S.p.A., Director and member of the Internal Audit Committee
- AON Italia S.p.A., Director
- Banca Albertini SYZ & C. S.p.A., Director

Vincenzo Sozzani:

- Banco di Desio e della Brianza S.p.A., Director
- Pirelli & C. S.p.A., Director
- Pirelli & C. Real Estate SGR S.p.A., Director
- Pirelli & C. Credit Servicing S.p.A., Director

### **1.3 *Non-executive and independent Directors***

The current Board is composed of 14 directors of which 5 are executive directors, and namely – according to article 2.1 of the Code – the Deputy Chairman and Chief Executive Officer Carlo A. Puri Negri, the Deputy Chairman Giovanni Nassi (who is an executive in the health care area) and the Directors Carlo Bianco (Managing Director of Residential Asset Management), Signor Emilio Biffi (Managing Director of Asset Management and Land & Development in addition to the office of Director General) and Mr Olivier de Poulpiquet (Director General of Commercial Asset Management and Non Performing Loans).

The Civil Code requires – in accordance with Article 3.1 – the Independent Directors to be those who:

- a) do not entertain, directly nor indirectly, (or through third parties) nor have recently entertained, economic relations with the Company, its subsidiaries, the chief executives, or a shareholder or group of shareholders that control the Company to an extent that might compromise the autonomy of judgement;
- b) are not direct nor indirect (or through third parties) shareholders to the extent that would allow them to exert control or noticeable influence over the Company, nor do they take part in partner agreements for the control of the Company itself;
- c) are not close relatives of the chief executives of the Company or individuals that may find themselves in the situations described in points (a) and (b) above

Given the above definition, the Board of Directors has evaluated that five of the remaining nine non executive directors (Reginald Bartholomew, William Dale Crist, Roberto Haggiag, Claudio Recchi and Dario Trevisan) qualify as Independent Directors.

Finally, the following individuals are not considered independent directors: Mr. Marco Tronchetti Provera and Mr. Carlo Buora, given the executive offices held by the latter within the Pirelli & C. Group, and – only due to the long period in which these titles have been held in the latter group – Mr. Sergio Lamacchia and Mr. Vincenzo Sozzani.

It should be noted that the non-executive directors by number and authority have the possibility of significantly influencing the resolutions of the meetings, and that the number of directors which qualify as being independent is certainly adequate. In accordance with the above, since the exact criteria for the evaluation of the adequacy of the relationship between executive and non executive/independent directors have not been determined, also the criteria used for the STAR segment have been taken into account. These criteria set the number of non-executive and independent directors at 3 if the Board of Directors is composed of 9 to 14 members.

#### **1.4 Committees**

In accordance with the Code, the Company has established within its Board of Directors two committees with consulting and propositional functions:

- Remuneration Committee;
- Committee for Internal Audit and Corporate Governance.

The Board of Directors did not, however, consider it appropriate to form an internal committee for the proposed appointments for the office of director, as the prerequisites on the basis of which this was provided for by the Code, do not exist, and more specifically, not being able to predict – in consideration of the current ownership structure – particular difficulties in providing the proposed appointments.

In fact, these proposals are presented by the controlling shareholder after a prior selection of candidates and takes into account rigorous evaluation criteria as far as personal and professional characteristics of the candidate, as well as the authority and experience and – for some – the necessary independence required to significantly contribute to the decisions of the Board.

Finally, should the meeting be called to approve the consolidated financial statements as at December 31st, 2003 – and should it approve, in an extraordinary meeting, the adoption of the so-called list voting mechanism, the constituency of this Committee would be even less necessary, given the ability of this appointment mechanism to provide transparency for the selection procedure of candidates.

### Remuneration Committee

The Remuneration Committee — fully in compliance with article 8.1 of the Civil Code — is composed of three non-executive directors: Mr. Sergio Lamacchia and the independent directors Mr. Reginald Bartholomew and Mr. Claudio Recchi, who holds the office of Chairman; each member of the Remuneration Committee is given a compensation of 10,000 euro for the functions covered.

With reference to the Remuneration Committee, the Board has determined that:

- a) with regard to its functions:
  - it shall formulate proposals to the Board regarding the remuneration of directors who are entrusted with particular titles, in accordance with article 2389 of the Civil Code (part of which is linked to the economic results attained by the Group and, possibly, with the attainment of specific objectives) in addition to determining, if indicated by the Deputy Chairman and Chief Executive Officer, the criteria for the remuneration of high level management in the Company;
  - it shall carry out a preliminary examination of the proposals for adoption of stock option plans;
- b) with regard to its composition:
  - it shall be generally composed exclusively of non-executive directors (totalling not less than three) who then appoint a Chairman and a Secretary who is not a member;
  - its meetings shall be attended by the Board of Statutory Auditors and the Deputy Chairman and Chief Executive Officer, so long as the latter remains committed to leaving the meetings in the case of conflicts of interest;
- c) with regard to its functioning:
  - it shall meet every time the Chairman deems it necessary or when a request is made by another member or by a chief executive.

In 2004, four meetings were held and the following topics were examined and evaluated. Proposals were then prepared for the Board of Directors:

- The gross annual compensation, a variable compensation based on the achievement of objectives linked to the activities and results of the annual plan (MBO), and the Long Term incentive (LTI) plan linked to the objectives set in the three-year plan of the Chief Executives and General Managers

- The adoption of stock option plans for employees and directors of certain service companies controlled by the Company and of Pirelli RE SGR.

Both the Board of Statutory Auditors and the Deputy Chairman/Chief Executive Officer attended all meetings; the latter always left the meetings whenever topics directly relating to his office were discussed.

Some external consultants also attended some of the meetings and provided collaboration in the research and drawing up phases of some of the more technical aspects of the subjects under scrutiny by the Committee; they provided clarifications and the necessary support for a clear and correct evaluation on the part of the Committee of the analyzed topics.

In relation to the directors' remuneration, and in accordance with article 21 of the Articles of Association stating that the latter must be reimbursed for expenses generated as a result of their office, the Board of Directors, also taking into consideration the resolutions passed by the Shareholders' Meeting on 10 May 2004, established a compensation of 25,000 euro per year for each member of the Board of Directors; the committee is also entitled to determine any additional remuneration for directors entrusted with particular tasks, including the Deputy Chairman and Chief Executive Officer, the Deputy Chairman and the members of the committees that the Board deems appropriate to appoint.

In particular, the remuneration of the Deputy Chairman and Chief Executive Officer (in addition to Chief Executives of the sectors, Mr. Carlo Bianco and Emilio Biffi as well as the General Managers') is significantly linked to the economic results of the Company and to the objectives set by the Board of Directors (MBO and LTI, in addition to the participation in stock option plans).

For an analytical identification of the compensation provided to the directors entrusted with particular tasks, during 2004, please see the attached table included in the Notes to the Consolidated Financial Statements of 2004.

Finally, with reference to the participation of chief executives in incentive plans, see the appropriate table found within the 2004 Annual Report and financial statements.

#### *Committee for Internal Audit and Corporate Governance*

The Committee for Internal Audit and *Corporate Governance* — fully in accordance with Article 10.1 of the Code — is composed of three independent directors: Mr. William Dale Crist, Roberto Haggiag and Dario Trevisan, which latter holds the office of Chairman. Each member of the Committee for Internal Audit and *Corporate Governance* receives an annual compensation, for tasks undertaken as part of this committee, equal to euro 10,000.

With reference to the Committee for Internal Audit and *Corporate Governance*, the Board of Directors has determined that:

- a) it shall provide consulting and propositional support with respect to the Board of Directors, and in particular:
- it shall assist the Board in determining the guidelines for the internal audit system, and in the regular verification of its adequacy and effective functioning in order to ensure that all corporate risks are properly managed;
  - it shall evaluate, in conjunction with the financial executives of the Company and its Auditors, the adequacy of the main accounting principles used;
  - it shall evaluate the work plan developed by those responsible for internal audit and shall receive regular reports from the latter;
  - it shall evaluate the proposals formulated by the Auditing Company in order to be entrusted with its task as well as the work plan prepared for the audit and the results exposed in the report and suggestion letter;
  - it shall oversee the observance and regular updating of the *corporate governance* rules, as well as the respect for the codes of conduct eventually adopted by the Company and its subsidiaries;
  - it shall brief the Board at least bi-yearly — at the time of the approval of the financial statements and the half-year report — on the activities conducted and the adequacy of the internal audit system;
  - it shall accomplish any further task assigned to it by the Board of Directors, particularly in connection with relationships with the independent Auditing Company;
- :
- b) with regards to its composition:
- it shall generally be composed exclusively of non-executive and independent directors (totalling not less than three) who then appoint a Chairman and a Secretary who is not a member;
  - the Board of Auditors, the Vice Chairman and Managing Director shall participate at its meetings, in addition to, by invitation, one or more Directors General and any further persons whose intervention is necessary or appropriate in relation to the matters to be dealt with (for example, the Head of Audit Management of Pirelli & C. S.p.A.);
- c) with regards to its functioning:
- it meets at least twice a year, before the board meetings scheduled to approve the financial statement and the six-monthly report, or whenever the Chairman considers it appropriate or is requested to hold a meeting by another board member or by a Managing Director. Subsequently, it was decided to increase the frequency of the meetings of the Committee, which – as a rule – now also meets for approval of the quarterly reports relating to the first and third quarters of each year.

In 2004, during the four meetings held, the finalized and programmatic activity of the Internal Audit Head Responsible was evaluated including the substantial adequacy of the internal audit system of the Company.

## **2. Company Functions and Procedures**

## ***2.1 Internal Procedures of the Board of Directors and the Committees***

### **Board of Directors**

The Articles of Association (articles 14, 15, 16 and 17) determines the rules for the proper functioning and progress of the Board of Directors' meetings.

The Chairman shall call the Board meeting and regulates the course of the discussion, ensuring that the directors receive – with reasonable advance – all necessary documentation and information needed for them to express their opinions on the topics of the agenda of the day, and communicating – even with the aid of qualified internal resources – any legislative and regulatory news to the directors which may affect the Company and its Constituents. This way, the flow of information to the members of the Board of Directors is both adequate and quick.

In particular, it should be noted that the Board meets, upon invitation of the Chairman or a proxy of the latter, in the company head office or in the location specified in the invitation letter (so long as in Italy or in a European Union member state), every time the former deems it appropriate for the company, or when a request is made by one of the Chief Executives or by one fifth of the board members in office or by at least two standing auditors.

However, the Board of Directors may also pass valid resolutions even without a formal meeting being called, if all the members and standing auditors in office are present.

Although the Charter does not require a minimum number of meetings, and it is customary for at least six meeting to be held throughout the year, (for the examination of the preliminary data on June 30th and on December 31st, the financial statements review and the quarterly and bi-yearly reports), in accordance with the dispositions of Borsa Italiana (“Italian Stock Exchange” – article 2.6.2, paragraph 1, letter (C ) of the Stock Exchange Regulations), the time schedule of the major company events forecast in the upcoming year (in other words, Board meetings and shareholders' meetings) is immediately communicated to the market after each Board meeting. Any change within the schedule is rapidly communicated to the market.

The Board of Directors notifies of a call through registered letter, telegram, telex, telefax or email sent at least five days before (or, in urgent cases, by telegram, telex, telefax or email sent at least six hours before) the time of meeting, to the home address of each director and Standing Auditor.

Meetings of the Board can be held by telecommunication. In this case, the following must be ensured:

- a) participation in the discussion;
- b) the same amount of information received by all those in attendance.

The meeting shall be considered as held in the same location where, simultaneously, both the Chairman and the Secretary are.

In order for the resolutions of the Board to be valid, the majority of directors holding office must be present and the favorable vote of the absolute voting majority of those intervening is required. In the case of parity, the Chairman's vote will prevail.

The Board's resolutions, even if passed at meetings held using telecommunications equipment, are entered in the appropriate register. Each report is signed by the Chairman and the Secretary of the meeting. The related copies and extracts which are not notarised are certified by the Chairman.

At the Board meetings, company managers (usually General Managers or other Executives) or third parties (normally consultants to the company), whose attendance may be necessary or convenient in relation to the matters on the agenda, may take part, upon invitation, in order to provide the Board of Directors with the information or details required for resolutions on topics subject to their deliberation.

### Committees

With reference to Committees, although specific regulations have not been formalized, it should be noted that these units operate in compliance with the procedures and formalities required for the Board of Directors and in particular with regard to the following: the notice, the information on topics to be discussed, committee functioning (constituency and resolutions) and the participation by third parties. In addition, the Board is briefed, on the occasion of its first meeting after that of any Committee.

## **2.2 Procedures for Handling Confidential Information**

### External communication of documents and information

Management of confidential information, and in particular *price sensitive* information, is directly handled by the Deputy Chairman and Chief Executive Officer.

External communication of documents and information related to the Company and its subsidiaries is conducted by the Board or company Secretary Office – and always in conjunction with the Deputy Chairman and Chief Executive Officer – by the Board's Secretary and by the Legal and Corporate Affairs department for notices to the authorities and to shareholders, by the Press Office for press releases and by the Investor Relations department for those addressed to corporate investors and financial analysts.

The Deputy Chairman and Chief Executive Officer and those responsible for the functions described above are constantly ready to collaborate in order to respond to any urgent needs for external communications.

For external communication of documents and information, constant reference is made to the principles set in the Guide for Market Information – written by Forum ref. on company information flow, and the press releases are drawn up in compliance with the recent directives of the Italian Stock Exchange which has set the criteria for defining the structure and minimum content of such press releases.

### Insider Dealing

In accordance with current regulations (article 2.6.3 of Borsa Italiana's Regulations), and starting from December 1st, 2002, the Company has adopted a "Code of Conduct for Insider Dealing" (the "Insider Dealing" Code) which regulates communication of operations relating to the Group's Press Office. In March 2004, a Public Relations office was officially constituted within the firm. Financial Instruments (in brief, ordinary and savings shares of Pirelli & C. S.p.A., Pirelli & C. Real Estate S.p.A. shares, financial instruments that give the right to buy or undersign the above mentioned shares, as well as shares in real estate investment funds promoted and managed by Pirelli & C. Real Estate S.G.R. S.p.A.) conducted by "Relevant Individuals".

By "Relevant Individuals", we refer to those people who, according to tasks within the company, may have access to information on facts or events that can cause significant variations in economic or financial forecasts of the Company and the Group and which may, if made public, considerably influence the price of listed financial instruments. For a better understanding of the parties involved, as well as the definition of Financial Instruments considered relevant in relation to communication requirements, please refer to the *Insider Dealing* Code (the text of which is attached to this report and which is also published on the web site of the Company).

This Code, the primary goal of which is to ensure maximum transparency with respect to the market on all operations undertaken by parties that have a special relationship with the Company and its subsidiaries, as well as regulate the periods during which these parties can operate on the securities in question, can be broken down into the following provisions:

- 1) Identification of the number of individuals subject to *disclosure* obligations
- 2) Immediate communication to the market on operations involving Financial Instruments of significant financial caliber – in other words those with a value, even if cumulative with other operations of the quarter, exceeding euro 80,000
- 3) Quarterly mandatory communication to the market on operations involving Financial Instruments with a cumulative total ranging between euro 80,000 and euro 35,000;
- 4) Forecasts on certain periods during which the Relevant Individuals may not undertake operations with the Financial Instruments.

The *Insider Dealing* Code requires, in case of violation of the specified duties, a rigorous system of fines which – for Directors and Auditors – also includes the possibility of proposing a revocation of the latter's right to attend the Meeting.

In particular, it should be highlighted that, with respect to Borsa Italiana (Italian Stock Exchange), the *Insider Dealing* Code has voluntarily adopted stricter communication rules, having fixed a 35,000 euro value for quarterly communication and an 80,000 euro threshold for immediate communication.

### ***2.3 Procedures for the Appointment of Directors and Auditors***

#### ***Appointment of Directors***

For the appointment of the members of the Board of Directors, following the statutory amendments resolved at the meeting of 10 May 2004, the so-called list voting system

will be used. This provision is intended to guarantee that – if the shareholders take advantage of the options provided for therein by presenting, according to the specified measures, at least two lists – one fifth of the members of the board will be chosen from among individuals indicated by the so-called minorities. The lists may be presented by shareholders who, alone or together with others, overall hold shares representing at least 2% of the share capital with the right to vote at ordinary meetings, and must be registered, also pursuant to art. 7 of the Articles of Association, at the company's registered office at least ten days prior to the date set for the first calling of the meeting. At the time of registration, the curriculum vitae of the individual candidates must be presented, together with the declarations of acceptance of the candidacy, with a certification that no impediments exist due to disqualification or incompatibility, as well as the existence of requirements which may be prescribed for the respective offices, and with a possible indication of the suitability of such persons to be classified as independent (pursuant to art. 3 of the Charter).

The current Board of Directors in office was appointed for a single financial year, on the basis of the proposal presented by the controlling shareholder Pirelli & C. S.p.A., and its term of office will expire at the meeting for approval of the financial statement closed on 31 December 2004. For renewal of the Board of Directors, the list voting system will be applied for the first time at that meeting.

#### Appointment of Auditors

As far as appointment of the members of the Board of Auditors is concerned, this is also appointed on the basis of lists and a special procedure, permitting the election of one standing member and one alternate member by the minorities, with the obligation to register, also pursuant to art. 7 of the Articles of Association, the proposed appointments at the company's registered office at least 10 days prior to the date set for the first calling of the meeting, to which a description of the curriculum vitae of the designated individuals should be attached. Please refer to paragraph 4 below for a detailed analysis of the procedure.

## **2.4 Internal Audit System**

### Internal Audit

The Internal Audit System of Pirelli & C. Real Estate S.p.A. and the group that it heads is structured to ensure a proper information flow and an adequate coverage of control on all the activities of the group, with particular attention to the areas considered at risk.

The responsibility for the Internal Audit System falls upon the Board of Directors which establishes its guidelines and regularly verifies its adequacy and effective functioning. For this purpose, the Board makes use of the Committee for Internal Audit and Corporate Governance as well as the Auditing Management division of the controlling company Pirelli & C. S.p.A.. This division has the primary duty of overseeing the dynamics and adequacy, both in terms of efficiency as well as effectiveness, of the Internal Audit system of the whole group under Pirelli & C. S.p.A..

The Chief Executive Officer, in accordance with the Board of Directors, has completed his functions of implementation, management and monitoring of the internal audit system and has constituted a specific “internal audit function” for which Mr. Sergio Romiti, Head of Audit Management at Pirelli & C. S.p.A., has been nominated as Head Responsible and therefore is not hierarchically subordinate to any operational area head of the company.

The Head Responsible for internal audit prepares a “working plan” for the auditing activities and verifies the observance and efficacy of the overall directives, procedures and techniques adopted by the company for the attainment of pre-set objectives, periodically briefing the Deputy Chairman and Chief Executive Officer and the Auditors on conducted activities and for any decisions requiring the latter’s expertise, as well as the Committee for Internal Audit and *Corporate Governance*.

During 2004, the Head Responsible for internal audit, on average, briefed the Deputy Chairman and Chief Executive Officer on a monthly basis, and the Committee for Internal Audit and *Corporate Governance* three times.

There is also a planning and control system according to sector and operational unit which, on a monthly basis, produces a detailed report addressed to the General Management so that the latter are endowed with a useful tool to control specific activities.

For the attainment of the strategies and goals adopted by the group head, General Managers and Managers of each sector and function will sit on the Boards of the main subsidiary companies.

### **Organizational Model 231**

In 2003, the Internal Audit System described above was further strengthened by the adoption of an organizational model, approved by the Board of Directors on July 29th, 2003. This model – which aims to ensure the creation of a system molded on the specific requirements of Legislative Decree n. 231/2001 concerning the administrative responsibility of the company for offences committed by its employees – is based on a pyramidal system of principles and procedures described delineated as follows:

- Ethical code of the Group, representing the general principles that inspire the conduct of business (transparency, integrity, loyalty);
- Internal Audit System, in other words the totality of “instruments” aimed at supplying a reasonable guarantee for the attainment of objectives relative to operational efficiency and effectiveness, reliability of financial and managerial information, the compliance with laws and regulations, as well as the safeguarding of the share capital against possible fraud. The Internal Audit System is based upon certain general principles and purposely defined within the organizational model, whose application extends transversally along all organizational levels (*Business Units*, Central Functions, Company);

- Guidelines for conduct, which introduce specific rules for the relationships with public administration representatives and which are in concrete terms active “dos” and passive “don’ts”, translating the concepts expressed in the Ethical Code of the Group into operational ideas;

- Internal audit schemes, elaborated for all high and medium risk operational processes and for instrumental processes. These schemes present a similar structure and are represented concretely by a series of rules aimed at identifying the main principles of each phase, the offences that could be committed in relation to individual processes, the specific control activities used to reasonably prevent the related risks of offences, as well as the information flows versus the *Supervisory Authority* in order to highlight situations where the procedures established by the organizational models are not observed. The internal audit schemes are drawn up according to three cardinal rules, and include:

1. separation of roles in conducting activities inherent in the processes;
2. the so-called “traceability” of choices – in other words the visibility of the latter (for example through documental evidence) in order to allow the identification of precise points of “responsibility” and the “motivation” of the choices themselves;
3. the objectification of the decision-making processes, in the sense of understanding that, when making decisions, one avoids making purely subjective evaluations and refers to pre-set criteria.

The organizational model finally includes the *Supervisory Authority*, endowed with autonomous powers of initiative and control that have the purpose of supervising the functioning and observance of the organizational model itself and also providing for the latter’s constant upgrading. This Authority, appointed by the Board of Directors on July 29th, 2003, is composed of Mr. Dario Trevisan, an independent Director and Chairman of the Committee for Internal Audit and *Corporate Governance*, Mr. Roberto Bracchetti, Chairman of the Board of Statutory Auditors, and Mr. Nicolas Marchi of the Auditing Management division of Pirelli & C. S.p.A.. The latter, in 22 February 2005, was replaced by Massimo Cunico from the Audit Management department of Pirelli & C. S.p.A..

With reference to the other Italian companies of the Group that are not listed, the Supervisory Authority has been identified through the research of a technical/operational solution which, while respecting the mandates and powers reserved by law, was deemed adequate for the size and organizational context of each company.

Finally, a disciplinary system – suitable for imposing sanctions for disrespect of the measures indicated in the organizational, management and control models – will be introduced.

In 2004, the operational processes for the implementation of systems for specific information flows versus the Supervisory Authority will be consolidated, in accordance with Article 6, paragraph 2, letter d) of the Legislative Decree 231/2001 and which

identifies precise obligations of information disclosure with respect to the Authority set to oversee the functionality and observance of the models.

### Evaluation of the Internal Audit System

With reference to the evaluation of the Internal Audit System, and as far as the efficient presiding over the typical risks of the principal company activities and its subsidiaries is concerned, as well as the monitoring of the economic-financial situation of the company and the Group, the Committee for Internal Audit and *Corporate Governance* and the Board of Directors – also on the basis of the recommendations provided by the Board of Statutory Auditors – considered the Internal Audit System to be substantially adequate and, therefore, suitable for the protection of company interests and the goals for which it was created.

### **2.5 The Investor Relations Unit**

The company works to create a constant dialogue with shareholders and institutional investors, based on an understanding of reciprocal roles, and never failing to periodically promote meetings with members of the financial community (not only Italian) and in full respect of the standards regulating the matter and in relation to the handling of *price sensitive* information.

For this purpose, the company has appointed an *Investor Relations Manager*, and established the related company structure within the Central Management Division for Administration and Control, and to whom the relative section of the company's website, [www.pirellire.com](http://www.pirellire.com), is dedicated.

In this section, investors can find all useful documents published by the company, both financial (such as, for example, half-year reports, quarterly reports) and regarding its *Corporate Governance System* (such as, for example, the Code of Conduct for the implementation of operations with correlated parties, the Procedure for the fulfilment of obligations in accordance with Article 150, paragraph 1, Legislative Decree 58/1998, or the *Insider Dealing Code*). In this section it is also possible to access documentation made available by analysts and/or financial investors in the course of presentations and/or company meetings with the latter and find all forms of useful information related to the composition of the share capital and shareholding.

Shareholders and investors may contact the *Investor Relations Unit* at the following address:

- address: Via Negri, 10 - Milano;
- tel. 02/85354057;
- fax 02/85354387;
- e-mail: [dario.fumagalli@pirellire.com](mailto:dario.fumagalli@pirellire.com).

The company, in conducting investor relations activities, refers to the recommendations

contained in the Guide for Market Information, written by Forum ref. On company information flows.

### **3. Shareholders meeting**

It is a constant company policy to use meetings to communicate to shareholders information related to the company and its prospects – obviously while respecting the regulations on price sensitive information – and, where appropriate, proceeding to a simultaneous diffusion of this information to the market.

In addition, attention is paid to the choice of location, date and time of call in order to favor, as much as possible, shareholders' attendance at meetings; in addition, all Directors and auditors attend – by rule – meetings, particularly those Directors who, due to their roles, may provide useful feedback to the meeting discussions.

At the meeting of 10 May 2004, Meeting Regulations were adopted (the text of which is attached to this report and published on the company's website) for the purposes of governing, as recommended by the Code of Conduct for Listed Companies, the orderly, functional conduct of the ordinary and extraordinary meetings and to guarantee the right of each shareholder to take the floor concerning matters being discussed.

### **4. Auditors**

Appointment of auditors is based on procedurally transparent criteria in accordance with Art. 14 of the Self-discipline Code and requires the presentation of lists that allow the election of a standing auditor and an alternate auditor by the minority, in compliance with Art. 148 of the Finance Consolidation Act (Legislative Decree 58/99). These principles are incorporated in Art. 22 of company's Articles of Association.

The Board of Statutory Auditors is made up of three standing auditors and two substitute auditors, all of whom must be qualified in accordance with current standards and regulations, and to that end the subjects and business sectors must be closely related to the company's purpose, particularly with reference to companies or entities operating in the financial, industrial, banking, insurance, real estate or general services fields.

The ordinary shareholders' meeting elects the Board of Auditors and determines its compensation. The election of one Standing auditor and one substitute auditor is reserved to minority investors.

The Board of Auditors is appointed on the basis of lists presented by the shareholders, on which the candidates are listed according to progressive numbers.

Those shareholders who, alone or together with other shareholders, represent at least 2% of the shares with the right to vote at ordinary meetings, have the right to present a list.

The preference lists, signed by those who submit them, must be filed at the company's head office at least ten days prior to the date fixed for the meeting on first call. A description of the candidates' professional qualifications of the designated subjects and the declarations in which they accept their candidacy must be attached to the lists; the declaration must confirm, under personal responsibility, the absence of causes of

ineligibility or incompatibility as well as the existence of the prerequisites required by law or by the Articles of Association.

In addition, persons who do not fill the required prerequisites or who already hold the title of Standing auditor at more than five companies with shares listed on official Italian markets – excluding parent companies or subsidiaries of Pirelli & C. Real Estate S.p.A. – may not be elected as auditors.

The list voting system will be used for election of the Board members. This system provides for the appointment of two standing members and one substitute member taken from the list that has obtained the greatest number of votes (“majority list”) and for the remaining standing member and the other alternate member taken from the list obtaining the greatest number of votes after the first (“minority list”). If several lists have obtained the same number of votes, a second ballot will be held.

The chairmanship of the Board of Statutory Auditors is reserved for the standing member indicated as the first candidate on the list obtaining the highest number of votes.

If only one list is presented, the shareholders’ meeting shall vote; if the list obtains a relative majority, the first three candidates listed in progressive order will be elected as standing auditors and the fourth and fifth candidates will be elected as substitute auditors. The chairmanship of the Board of Statutory Auditors is assumed by the candidate obtaining the highest number of votes on the presented list.

If there are no lists, the shareholders’ meeting elects the Board of Statutory Auditors and its Chairman by legal majorities. Outgoing auditors may be re-elected.

The shareholders’ meeting on 10 May 2004, elected the following as standing auditors: Mr. Roberto Bracchetti, Chairman, Mr. Paolo Carrara and Mr. Gianfranco Polerani. Mr. Franco Ghiringhelli and Mrs. Paola Giudici were appointed as substitute auditors.

The term of office of the current Board, the result of the proposals made by the controlling shareholder, since at the time of its appointment no minority lists were presented, terminates at the meeting to be called to approve the financial statement closed on 31 December 2006.

With regard to the other titles of Director or auditor held by the Auditors in other financial, banking, insurance or significantly large companies listed on regulated (including foreign) markets, companies in which these auditors hold the following positions are listed below:

Roberto Bracchetti (Chairman of the Board of Statutory Auditors):

- Pirelli & C. Real Estate SGR S.p.A., Chairman of the Board of Statutory Auditors
- Pirelli & C. Real Estate SGR Private S.p.A., Chairman of the Board of Statutory Auditors
- Mediolanum Farmaceutici S.p.A., Chairman of the Board of Statutory Auditors
- Olimpia S.p.A., Chairman of the Board of Statutory Auditors
- Ratti S.p.A., Chairman of the Board of Statutory Auditors
- Pirelli & C. S.p.A., Standing Auditor
- Viscontea Coface S.p.A., Standing Auditor

- ABB S.p.A., Standing Auditor
- Alstom Power Italia S.p.A., Standing Auditor
- Intesa Fiduciaria SIM S.p.A., Standing Auditor

Paolo Carrara (Standing Auditor):

- Zirifich Investments Life S.p.A., Standing Auditor
- Sicurtà 1879 Assicurazioni S.p.A., Standing Auditor
- Zurigo SIM S.p.A., Standing Auditor
- Peg Perego S.p.A., Standing Auditor

Gianfranco Polerani (Standing Auditor):

- Mediaset S.p.A., Substitute Auditor
- Mediolanum Assicurazioni S.p.A., Substitute Auditor

Franco Ghiringhelli (Substitute Auditor):

- Mondadori Pubblicità S.p.A., Chairman of the Board of Statutory Auditors
- Camfin S.p.A., Standing Auditor
- CFT Finanziaria S.p.A., Standing Auditor
- Grifogest SGR S.p.A., Standing Auditor
- I Grandi Viaggi S.p.A., Standing Auditor
- Localto S.p.A., Standing Auditor
- Partecipazioni Real Estate S.p.A., Standing Auditor
- Pirelli & C. Real Estate Credit Servicing S.p.A., Standing Auditor
- Pirelli & C. S.p.A., Substitute Auditor

Paola Giudici (Substitute Auditor):

- Pirelli & C. S.p.A., Substitute Auditor

Auditors' attendance at meetings of the Board of Auditors in 2004 was equal to 100% for all standing Auditors and, as far as the meetings of the Board of Directors are concerned, was equal to:

- 88,89% for Chairman Roberto Bracchetti;
- 77,78% for Auditor Gianfranco Polerani;
- 88,89% for Auditor Paolo Carrara,

with an overall participation percentage of 85,2%.

The following attached tables summarize the implementation procedures of recommendations of the main Code on behalf of the company:

1. Structure of the Board of Directors, the Committee for Internal Audit and *Corporate Governance* and the Remuneration Committee.
2. Structure of the Board of Auditors.
3. Other provisions of the Self-discipline Code.

**TABELLA 1: STRUTTURA DEL CSA E DEI COMITATI**

Consiglio di Amministrazione					Comitato Controllo Interno				Comitato Controllo Risparmio				Comitato Controllo Risparmio		Comitato Investimenti		
Carica	Componenti	Assente	Non-essenziali	Indipendenti	***	Numero di altri incarichi**	***	***	***	***	***	***	***	***	***	***	
<b>Presidente</b>	Tronchetti Provera Marco		X		100%	6										X	100%
<b>Vice Presidente o Amministratore Delegato</b>	Rui Negri Carlo Alessandro	X				11										X	100%
<b>Vice Presidente Amministratore Delegato di Software</b>	Baszi Giovanni	X			88,89%												
<b>Amministratore Delegato di Software</b>	Blanca Carlo	X			88,89%												
<b>Amministratore Delegato di Software</b>	Blanchi Carlo	X			100%												
<b>Amministratore</b>	Buchonero Reginald		X	X	100%	2			X	80%							
<b>Amministratore</b>	Diura Carlo		X		55,56%	7										X	25%
<b>Amministratore</b>	Crivellari Dale		X	X	77,78%		X	100%									
<b>Amministratore (incarico 01/03/2014)</b>	de Praggiol Carlo		X		100%	6											
<b>Amministratore (incarico 01/03/2014)</b>	Figazzi Roberto		X		100%	1	X	100%									
<b>Amministratore (incarico 01/03/2014)</b>	Lanzetta Sergio		X		100%	1			X	80%							
<b>Amministratore (incarico 01/03/2014)</b>	Mattello Guido		X		30%												
<b>Amministratore</b>	Recon Guido		X	X	88,89%	2			X	80%						X	100%
<b>Amministratore</b>	Scattin Vittorio		X		88,89%	8										X	75%
<b>Amministratore (incarico 01/03/2014)</b>	Stanzani Luigi		X		0%		X	0%									
<b>Amministratore</b>	Trovan Carlo		X	X	88,89%	2	X	100%									

\* Differenza tra le votazioni dell'assemblea azionaria del Comitato o diverso composizione rispetto alle raccomandazioni del Codice.

\*\* Entità delle istituzioni dell'eventuale assenza del Comitato o diverso composizione rispetto alle raccomandazioni del Codice.

\*\*\* In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati italiani, anche società in società familiari.

**NOTE**

\*La presenza dell'asterisco indica se l'amministratore è stato designato attraverso liste presentate dalla minoranza.  
 \*\*In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati italiani, anche società in società familiari.  
 \*\*\*In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati italiani, anche società in società familiari.  
 \*\*\*\* In questa colonna è indicato il numero di partecipazioni degli amministratori rispettivamente alle riunioni rispettivamente del CSA e del Comitato.

**TABELLA 2: COLLEGIO SINDACALE**

Carica	Componenti	Percentuale di partecipazione alle riunioni del Collegio	Numero altri incarichi**
<b>Presidente</b>	Bracchetti Roberto	100%	2
<b>Sindaco effettivo</b>	Carrara Paolo	100%	-
<b>Sindaco effettivo</b>	Polerani Gianfranco	100%	1
<b>Sindaco supplente</b>	Ghiringhelli Franco	-	3
<b>Sindaco supplente</b>	Giudici Paola	-	1

**Numero riunioni svolte durante l'esercizio di riferimento: 7**  
**Indicare il quorum richiesto per la presentazione delle liste da parte delle minoranze per l'elezione di uno o più membri effettivi (ex art. 148 TUF): 2%**

**NOTE**

\*L'asterisco indica se il sindaco è stato designato attraverso liste presentate dalla minoranza.  
 \*\*In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati italiani. Nella Relazione sulla corporate governance i principali incarichi, anche in società non quotate, sono indicati per esteso.

**TABELLA 3: ALTRE PREVISIONI DEL CODICE DI AUTODISCIPLINA**

	SI	NO	Sintesi delle motivazioni dell'eventuale scostamento dalle raccomandazioni del Codice
<b>Sistema delle deleghe e operazioni con parti correlate</b>			
Il CdA ha attribuito deleghe definendone:			
a) limiti	X		
b) modalità d'esercizio	X		
c) e periodicità dell'informativa?	X		
Il CdA, si è riservato l'esame e approvazione delle operazioni aventi un particolare rilievo economico, patrimoniale e finanziario (incluse le operazioni con parti correlate)?	X		
Il CdA ha definito linee-guida e criteri per l'identificazione delle operazioni "significative"?	X		
Le linee-guida e i criteri di cui sopra sono descritti nella relazione?	X		
Il CdA ha definito apposite procedure per l'esame e approvazione delle operazioni con parti correlate?	X		
Le procedure per l'approvazione delle operazioni con parti correlate sono descritte nella relazione?	X		
<b>Procedure della più recente nomina di amministratori e sindaci</b>			
Il deposito delle candidature alla carica di amministratore è avvenuto con almeno dieci giorni di anticipo?	X		
Le candidature alla carica di amministratore erano accompagnate da esauriente informativa?	X		
Le candidature alla carica di amministratore erano accompagnate dall'indicazione dell'idoneità a qualificarsi come indipendenti?	X		
Il deposito delle candidature alla carica di sindaco è avvenuto con almeno dieci giorni di anticipo?	X		
Le candidature alla carica di sindaco erano accompagnate da esauriente informativa?	X		
<b>Assemblee</b>			
La società ha approvato un Regolamento di Assemblea?	X		
Il Regolamento è allegato alla relazione (o è indicato dove esso è ottenibile/scaricabile)?	X		
<b>Controllo interno</b>			
La società ha nominato i preposti al controllo interno?	X		
I preposti sono gerarchicamente non dipendenti da responsabili di aree operative?	X		
Unità organizzativa preposta del controllo interno (ex art. 9.3 del Codice)	Direzione Revisioni della controllante Pirelli & C. S.p.A.		
<b>Investor relations</b>			
La società ha nominato un responsabile <i>investor relations</i> ?	X		
Unità organizzativa e riferimenti (indirizzo/telefono/fax/e-mail) del responsabile <i>investor relations</i>	<b>Investor Relations</b> - indirizzo: Via Negri, 10 - Milano; - tel. 02/85354057; - fax: 02/85354367; e-mail: dario.tunagalli@pirellire.com		

## **Procedure for performance of obligations in accordance with Article 150, part one, Government Decree n. 58 of 1998**

### **Introduction**

In accordance with Article 150, part one, Government Decree n. 58 of 1998 (henceforth, “Single Text of Finance”), “as established in the articles of incorporation, and at least quarterly, the directors must brief the Board of Statutory Directors on all activities and any operations of major economic and financial caliber that are undertaken by the company or its subsidiaries and, in particular, report on operations in which they have an interest, personally or on behalf of others, or which are influenced by the subject that exercises “direction and coordination” (1).

In compliance with the above-mentioned decree, now recalled, and the Consob guidelines for internal audit (5), the current procedure defines the subjects and operations involved in the information flow directed at Auditors of Pirelli & C. Real Estate S.p.A. (henceforth “P&C. R.E.” or “the Company”), as well as the phases and the timelines that characterize these flows. In particular, the procedure defines:

1. the procedures, the timing and the information content;
2. the information gathering.

The aim of this procedure is firstly to supply the Board of Statutory Auditors with the practical information required by the Financial Consolidation Act (article 149) to carry out the supervisory activities.

Secondly, the procedure makes it possible to implement the corporate governance instruments and recommendations contained in the Self discipline Code; this Code was created by the Committee for the corporate governance of listed companies and of which P&C. R.E. is a part. In particular, this procedure allows for an increase in the management transparency of the company permitting each director to become more informed on management activities. In addition, the procedure activates information flows between the delegated directors and the Board of Directors as recommended by the Self discipline Code, whose aim is to sanction the “centrality” of the management body of the whole company and reinforce the internal control functions.

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<sup>4</sup> This provision was implemented in the PIRELLI RE Articles of Association. Article 18, paragraphs 3 and 4, of the Articles of Association, lays down that the “Board of Directors and the Board of Statutory Auditors receive information, also from the bodies holding mandates, about the activities carried out, the general progress of operations, the future outlook, and the most important profitability, financial, assets and liabilities operations performed by the Company and by its subsidiaries; in particular, the bodies holding mandates report on the operations in which they have an interest, personally or on behalf of others, or which are influenced by the subject that exercises “direction and coordination” activities, where these exist. Notification must be made in a timely manner, at least quarterly, when the Board of Directors and the Executive Committee – if appointed – call meetings or by written memo.”

Procedures, timing and information content.

The Board of Directors, also through proxy bodies, briefs the Board of Statutory Auditors every quarter with a written report on:

- a) Conducted activities;
- b) Operations of major economic and financial caliber;
- c) Operations with potential conflicts of interest, meaning:
  - c1) Intragroup operations,
  - c2) Operations with related parties that are not intragroup operations,
- d) Atypical or unusual operations and or any activity or operation that is deemed relevant for communication to the Board of Statutory Auditors.

The information supplied refers to conducted activities and the operations undertaken in the period of time following the previous report.

The report in question is simultaneously transmitted to all Board directors and standing Auditors.

## **1. Business Activities**

The information refers to executive activities and the development of operations carried out by the Board of Directors, in addition to the activities of the Committees (Committee for Internal Control and Corporate Governance; Remuneration Committee and other internal committees). In particular, it focuses on the activities carried out by the executive directors in terms of the powers granted to them and must include any initiatives taken and projects started.

## **2. Operations of major economic and financial caliber**

The information deals with operations of major economic and financial caliber, highlighting in particular their strategic goals, their coherence with the management plan, the three-year plan and executive procedures. They include the terms and the economic conditions required for their completion and cover the developments, effects and implications that these will have on the Pirelli RE Group activities.

For the purposes of this procedure, operations of major economic and financial caliber conducted by Pirelli RE and its subsidiaries – in addition to the operations reserved by the Board of Directors in accordance with Article 2381 of the Civil Code and the Articles of Association – include the following:

- 1) the issue of financial instruments for a total exchange value exceeding 100 million euro;
- 2) the issue of personal guarantees or collateral, i.e. financing in the interest of controlled companies (as well as in the interest of Pirelli RE for collateral), by means of bonds with unit value exceeding 25 million euro;
- 3) the granting of finance or favorable securities, i.e. in the interest of third parties, for amounts exceeding 10 million euro;

- 4) investment and disinvestment operations, including property, and operations for the acquisition or transfer of shareholdings, company or company branches, assets or other activities, for amounts exceeding a value of 50 million euro;
- 5) merger or spin off operations involving subsidiaries in cases when one of the parameters indicated below is equal to or greater than 15%:
  - a. Total assets of the incorporated (merged) company i.e. of all assets that are subject to spin off/total assets of the company (taken from the consolidated financial statements);
  - b. The result before tax and extraordinary items of the incorporated (merged) company, i.e. spin off assets/result before tax and extraordinary items of the incorporated (merged) company (taken from the consolidated financial statements);
  - c. Total shareholder's equity of the incorporate (merged) company i.e. of the company branch subject to spin off/total shareholder's equity of the company (taken from the consolidated financial statements).

Merger operations (by incorporation or union) between listed companies, as well those involving the merger by union between a listed and non-listed company, or by incorporation of the listed company into a non-listed company, are not considered operations of major economic and financial caliber for the purposes of this procedure.

This information also deals with the operations which, despite being singularly inferior to the quantitative thresholds described above or those which are exclusively within the province of the Board of Directors, may turn out to be linked within the same strategic or executive structure and therefore, from a global standpoint, pass the threshold of relevancy.

### **3. Operations with potential conflicts of interest:**

#### *3a) Intragroup operations*

Information relating to intragroup operations illustrates the underlying interest and logic within the context of the Group, as well as the executive operating procedures which include the economic terms and conditions for completion, with particular attention being paid to the evaluation procedures that are undertaken.

Operations whose value exceeds 50 million euro together with those of lower value concluded under non-standard conditions (6) are highlighted. Despite being singularly lower than the indicated quantitative threshold, the operations may turn out to be linked within the same strategic or executive structure and therefore, from a global standpoint, pass the threshold of relevancy.

For the purposes of this procedure, intragroup operations (7) are those undertaken by Pirelli RE, or its subsidiaries, with:

- a) Companies which directly or indirectly, i.e. also through trustee companies or third party interposition, control Pirelli RE in accordance with Article 2359, parts 1 and 2, of the Civil Code and Article 93 of the Financial Consolidation act;
- b) Companies which directly or indirectly, i.e. also through trustee companies or third party interposition, are controlled by Pirelli RE in accordance with Article 2359, parts 1 and 2, of the Civil Code and Article 93 of the Financial Consolidation Act;
- c) Companies which directly or indirectly, i.e. also through trustee companies or third party interposition, are controlled by the same companies that control Pirelli RE in accordance with Article 2359, parts 1 and 2, of the Civil Code and Article 93 of the Financial Consolidation Act;
- d) Companies associated with Pirelli RE in accordance with Article 2359, part 3, of the Civil Code and those which exert considerable influence on Pirelli RE; there is no association with the associated company of the associated company.

3b) *Operations with related parties that are not intragroup operations*

The information dealing with operations with related parties that are not intragroup operations highlights the underlying interest and illustrates the executive procedures of the operations (including the terms and conditions and the economic ones, for their completion). Particular attention is also paid to the evaluation procedures that are undertaken.

For the purposes of this procedure, operations with related parties (8) are those undertaken by Pirelli RE or by its subsidiaries with parties that are directly or indirectly connected to Pirelli RE.

Parties that are directly connected with Pirelli RE include:

- a) Individuals who directly or indirectly, i.e. also through trustee companies or third party interposition, hold shareholdings equal to or superior to 10% of the share capital represented by the ordinary shares of Pirelli RE;
- b) Individuals who directly or indirectly, i.e. also through trustee companies or third party interposition or partner agreements, are capable of appointing the majority of the members of the Board of Directors of Pirelli RE, either alone or in conjunction with other parties adhering to these agreements;
- c) Individuals who directly or indirectly, i.e. also through trustee companies or third party interposition, and despite shareholdings which are lower than the quota indicated in a), own a majority of exercisable votes in the ordinary shareholders meeting of Pirelli RE either alone or in conjunction with other parties adhering to these agreements;
- d) The Directors of the Board and the Effective Auditors of Pirelli RE;
- e) The General Managers and the Secretary of the Board of Directors and the Managers of Business Units/Central Functions/Operational Activities of Pirelli RE. who report directly to the Deputy Chairman and Chief Executive Officer or to the General Managers (so-called first reporting).

Parties that are indirectly connected with Pirelli RE include:

- f) Spouses - not legally separated - of the individuals indicated in letters a) through e);
- g) relatives and kin up to second generation of the individuals indicated in letters a) through e);
- h) the companies in which the individuals indicated in letters a) through g) directly or indirectly, i.e. also through trustee companies or third party interposition, hold shareholdings equal to or superior to 10% (for a listed company) or 20% (for a non-listed company) of the sharecapital represented by shares with voting rights in the ordinary shareholders' meeting;
- i) the company in which the individuals indicated in letters a) through g) despite owning shareholdings lower than the quotas indicated in letter h), are capable – due to partner agreements, and either alone or in conjunction with other parties adhering to these agreements – of appointing the majority of the members of the Board of Directors of the company itself;
- j) the companies in which the individuals indicated in letters a) through g) despite owning shareholdings lower than the quotas indicated in letter h), own – either alone or in conjunction with other parties adhering to these agreements – a majority of exercisable votes in the ordinary shareholders' meeting of the company concerned;
- k) the companies in which the individuals indicated in letters a) through g) have a strategic role in the company itself or its subsidiaries
- l) the companies which have a majority of directors in common with Pirelli RE.

Those belonging, even indirectly, to the partner agreements, in accordance with Article 122, part 1, of the Legislative Decree no. 58/9 which deals with the right to vote, are also related parties if these agreements are conferred with an overall shareholding control.

Operations whose value exceeds 500 thousand euro and those, even if of lower value, concluded in non-standard conditions, or conducted (with third-party interposition) with parties directly or indirectly connected with P&C. R.E. are subjects of this information flow. Operations are also highlighted, which despite being singularly inferior to the indicated quantitative threshold, may turn out to be linked within the same strategic or executive structure and therefore, from a global standpoint, pass the threshold of relevancy.

#### **4. Atypical or unusual or other operations**

Information on atypical or unusual operations, even if undertaken by subsidiaries, and on any other activity or operation on which it is considered necessary to provide information, highlights the underlying interest and illustrates the executive procedures of the operations, including the terms and conditions and economic for their completion. Particular attention is paid to the evaluation procedures that are undertaken.

For the purposes of this procedure, atypical or unusual operations are those in which the objective or nature of the operation is extraneous to the company's normal business and those which represent particular critical elements due to their characteristics, inherent risks, the nature of the counterparty or the timing of their completion (9).

### *Procedure for Information Gathering*

The Board of Directors briefs the Board of Statutory Auditors through proxy bodies. In order to complete the relative report, information must be delivered to the Deputy chairman and Chief Executive Officer in accordance with the following procedure:

1. Information on ongoing business, operations of major economic and financial caliber, intragroup operations and atypical or unusual operations.

The General Managers and the Secretary of the Board of Directors and the Managers of Business Units/Central Functions/Operational Activities of Pirelli RE, who report directly to the Deputy Chairman and Chief Executive Officer or to the General Managers (so-called first reporting) through the Central Administration and Control Office, must communicate the business to date from their structural area quarterly to the Deputy Chairman and Chief Executive Officer, with the appropriate note. Operations of major economic and financial caliber, intragroup operations that exceed a value of 50 million euro or are concluded in non-standard conditions, as well as atypical or unusual operations and the executive activities and operational developments resolved by the Board of Directors must be highlighted as well as the main activities conducted under the proxies attributed to directors and including the most important started projects and most significant initiatives undertaken.

Operations which may turn out to be linked within the same strategic or executive structure or which are within the exclusive province of the Board of Directors, and therefore, from a global position, pass the threshold of relevancy, must also be communicated despite being singularly lower than the required quantitative threshold (10).

Information on the activities of the Committee for Internal Control and Corporate Governance, the Remuneration Committee and the various internal committees is supplied by their respective Chairmen.

2. Information on non-intragroup operations with related parties

The Central Administration and Control Office collects and transmits to the Vice Chairman and the Managing Director, with the same regularity mentioned in point 1 above, declarations in which the parties directly related to Pirelli RE supply evidence of the operations :

- that have been made, directly or through one of the individuals indicated in paragraph 3.b. above, letter h) to letter l) and including by interposition of

- others, with Pirelli RE or with its subsidiaries, by themselves, by the spouse (not legally separated), relatives or other kin to the second generation;
- that are valued at more than 500 thousand euros, or if of a lesser value, which have been concluded at non-standard conditions.

In supplying this information, evidence must be given of any operations that are individually under the value limit indicated above, but are connected in the framework of the same relationship and therefore, when considered together, exceed the aforementioned limit <sup>2</sup>.

The Central Administration and Control Office also collects declarations in which the directly related parties (i) list the companies which, through their intermediary, supplement the case point described in paragraph 3.b. above, letter h) to letter k) as well as the companies in which they hold the office of director; (ii) update this list.

The Central Administration and Control Office transmits the list of the parties related to Pirelli RE as identified above to the General Managers and the Heads of the Business Units/Central Offices/Operating Divisions of Pirelli who report directly to the Vice Chairman and the Managing Director (the “Primi Riporti”).

“Primi Riporti” notify the Vice Chairman and the Managing Director quarterly of the operations carried out with Pirelli RE – or with subsidiaries of Pirelli RE – also including those with the interposition of others, by the parties indirectly related (identified in the list provided by the Central Administration and Control Office), valued at more than 500 thousand euros, or if of a lesser value, which have been concluded at non-standard conditions.

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<sup>2</sup> See note above.

## **Behavioral operating principles with related parties**

1. The Board of Directors must approve operations with related parties, including intragroup operations, unless typical or usual operations or those concluded in standard conditions.
2. Typical or usual operations are those defined by objective or by their nature, are not extraneous to the company's normal course of business and those which, by their nature, do not present particular critical elements. Standard operations are those concluded in line with the company's standard procedures.
3. The Board of Directors must receive adequate information on the nature of the connection including the operating procedures, all the conditions including the economic for completion, details of the evaluation procedure, the interests and motivations of those involved and any potential risks for the company. If the connection is through a Director or a related party through a Director, the Director involved need only provide clarifications and must excuse himself from the Board meeting when the time comes for the resolution.
4. In order to avoid the operation being carried out in suspicious circumstances, the Board of Directors is assisted by one or more experts that express an opinion on the economic conditions, and/or legitimacy, and/or technical aspects of the operation.
5. For operations with related parties, including intragroup operations, that are not submitted to the Board of Directors because they are typical or usual and/or carried out under standard conditions, the proxy Directors or the managers responsible for the completion of the operation – while in accordance with the appropriate procedure as per Article 150, part 1, Financial Consolidation Act, collect and conserve, even by type or group of operations, adequate information on the nature of the correlation, the executive modalities of the operation, the conditions (also economic) for their completion, the evaluation procedure that was conducted, the interests and motivations of those involved and any potential risks for the company. One or more experts may be appointed, as described above, also for these operations.
6. In the choice of experts, individuals with recognized professionalism and competence on the subjects of interest – and who will be subject to careful scrutiny with regard to their independence and lack of conflicts of interest – must be chosen.

## **Code of Conduct for Pirelli & C. Real Estate in relation to insider dealing**

### **1. Introduction**

Given the provisions in Article 180 and foll. of the Legislative Decree n. 58/1998 concerning the abuse of privileged information, the current Code of Conduct for Pirelli & C. Real Estate (the “Code”) focuses on discipline, with possible legal action, and obligations regarding information flow and the procedures to be adopted by Relevant Individuals and their communications with respect to the market.

### **2. Definitions**

For the purposes of the Code, the following definitions are provided:

A. Relevant Individuals: members of the Board of Directors (executive and non-executive), Current Auditors, General Managers, the Secretary of the Board of Directors and the Management Heads. The following also fall under this definition: organizational heads including General Finance Management, Central Management for Administration & Control, Central Management For Legal & Corporate Affairs, Central Management for Advisory and Corporate Development and the Public Relations Office.

The following company heads of function in Pirelli & C. S.p.A. are also considered relevant individuals: Central Management for Administration & Control, General Finance Management, Central Management For Legal & Corporate Affairs, External Communications Management and Central Auditing Management.

Each relevant individual must advise other Relevant Individuals about the business undertaken or the assigned task. Notification within imposed limits must be communicated immediately to the interested party.

B. Financial Instruments: (i) financial instruments issued by Pirelli & C. Real Estate and its controlling companies and subsidiaries, excluding non-convertible bonds and submitted for negotiation in Italian and foreign regulated markets, (ii) financial instruments, even if not listed, that ascribe the right to undersign, acquire or sell the instruments as described in (i) as well as representative certificates of the instruments in part (i), (iii) derivative financial instruments. In addition, they include covered warrants, whose underlying activity includes the financial instruments as per point (i), even when their exercising occurs through a payment with a cash differential. Included in the definition of financial instruments, as per point (i) are the shares in common property investment funds that are promoted and managed by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., given the latter’s status as the savings management company.

C. Operation(s): any type of act constituting, modifying or withdrawing the rights on financial instruments, even in the area of management, on an individual basis, of an

investment portfolio. This category also includes procedures for exercising stock options or preemption rights relative to Financial Instruments.

D. Significant Operation: any Operation of which the total amount, including cumulative with the other Operations, carried out in the three months prior and which have not yet been communicated to the Company, is more than €80,000. For derivative instruments or covered warrants, the notional value is calculated as the product of the number of shares controlled by the instrument and the official price of the underlying asset, on the date the operations are concluded.

E. The Referee is the Secretary of the Board of Directors of Pirelli & C. Real Estate. They are recipient of all communications and manage the information on the operations undertaken by the Relevant Individuals and will handle disclosures to the market in accordance with the Code procedures.

### **3. Statement Obligations for Relevant Individuals**

Relevant individuals must send the Referee a list of operations conducted in the quarter related to Financial Instruments, whose total value is equal to or exceeds 35,000 euro by the seventh calendar day after each of calendar quarter.

In the case of a Significant Operation being undertaken, the Relevant Individual must communicate this without hesitation to the Referee together with a list of all operations conducted in the last three months and which are still not an object of communication to the company.

Operations undertaken by a non-legally separated spouse or the underage children of the Relevant Individual, or by third parties, whether individuals, trustee companies or subsidiaries, are also subject to this obligation.

The statement made to the Referee must be done through the use of a form suggested by Borsa Italiana S.p.A. in its Regulations for Markets Organized and Managed by Borsa Italiana concerning the communication of information.

### **4. Exemptions from Statement Obligations on Operations**

The Operations undertaken between the Relevant Individual and spouse or minors are exempt from statement obligations.

Securities loan operations are also exempt. Such a case is when the Relevant Individual, directly or indirectly, or the non-legally separated spouse or minors become borrowers including Operations requiring liens or life interest.

### **5. Limitations on the Implementation of Operations**

The implementation of operations on the part of Relevant Individuals other than non-executive members of the Board of Directors or Auditors is allowed only after

the disclosure of the definite economic/financial data for the period relative to each quarter (12) and up until the closing of the quarter. The non-executive members of the Board of Directors and the Auditors must abstain from executing Operations from the day when the Board calls the Auditors to examine the above-mentioned economic/financial data or from the moment of knowledge of the latter and up until its disclosure.

The Relevant Individuals can execute Operations outside of the restricted period only in exceptional cases when suitable proof of need must be shown. The evaluation of this subjective need is delegated to the Chairman of the Board of Directors.

The exercise of stock options or pre-emption rights concerning Financial Instruments and their consequent Operations are not subject to the limitations of this Article as long as the latter is simultaneously executed at the time of exercise.

It is within the right of the Board of Directors to identify any further periods or circumstances in which the execution of Operations is subject to limits and conditions. These must be immediately communicated to the Referee and the Relevant Individuals.

## **6. Communication of Operations to the Market**

The Referee advises the market of all the information communicated by the Relevant Individuals by the tenth day of open markets following each calendar quarter by sending a communication to Borsa Italiana in accordance with the Regulations for Markets Organized and Managed by Borsa Italiana.

Significant Operations are communicated to the market immediately in accordance with procedures mentioned in the previous paragraph.

## **7. Sanctions**

With the exception of the possibility of Pirelli & C. Real Estate to recover all damages and/or responsibilities resulting from violations of the Code, non-adherence to statement obligations or the limitations on the execution of Operations results in: (i) enforcement of applicable disciplinary procedures for employees, (ii) immediate termination of any agreements for business partners; (iii) dismissal at the next Shareholders meeting in the case of a Board member or an Auditor.

## **8. Acceptance**

Each Relevant Individual accepts the terms of the Code by signing the attached form.

## **9. Code Updates and Handling of Personal Data**

The Referee is entrusted with monitoring compliance of the Code and may submit potential modifications to the Board of Directors for approval.

The Referee must keep all written statements from the Relevant Individuals which attest to their full knowledge and acceptance of the Code and give their consent to the processing of requested personal data in accordance with Legislative Decree n. 196/2003.

**ATTACHMENT**

**Statement of full knowledge and acceptance of the Code and authorization for  
the processing of  
personal data in accordance with Legislative Decree n. 196/2003.**

The undersigned ....., born  
in....., resident in....., St/Square.....,  
holding the title  
of.....  
....., acknowledging inclusion into the class of Relevant Individuals in accordance  
with the Code of Conduct on Insider Dealing of Pirelli & C. Real Estate (the  
“Code”), attests to having received a copy of the aforementioned Code and to have  
understood and accepted its contents.

\_\_\_\_\_  
(signature)

In accordance with Legislative Decree n. 196/2003, the undersigned gives specific  
consent to the processing (even if carried out by third parties) of personal data  
required to comply with the Code and fulfill the requirements of the regulatory rules  
issued by Borsa Italiana S.p.A..

\_\_\_\_\_  
(signature)

## **RULES FOR SHAREHOLDERS' MEETINGS**

### **Article 1**

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

### **Article 2**

- To the extent not specified in the Rules, the Chairman of the meeting (hereafter "the Chairman") ensures the proper conduct of business at general meetings, adopting – as provided for by law and in the Articles of Association – the measures and practices deemed most appropriate.

### **Article 3**

- Attendance at the Shareholders' Meeting with a right to intervene in the discussions and to vote is reserved for those so entitled pursuant to the applicable regulations (hereafter "the Participants").
- Unless specified otherwise in the notice of meeting, checking of identities and of the right to participate at the Shareholders' Meeting begins, at the meeting location, at least one hour before the scheduled time. Under supervision from the Chairman, the support staff made available by the Company identify the Participants, verify their right to attend and give them a meeting pass to be used for voting and vote-checking purposes.
- Participants are guaranteed the right to follow and intervene in the debate, as well as to cast their vote, in accordance with the procedures determined from time to time by the Chairman.
- Following admission to the Shareholders' Meeting, Participants who leave the meeting place for any reason must inform the support staff.

### **Article 4**

- The meeting may be attended by the Directors, by the managers and employees of the Company or companies of the Group and by other persons whose presence is deemed useful in relation to the business to be discussed.
- With consent from the Chairman, professional advisors, consultants, experts, financial analysts and specialized journalists, specifically accredited for each Meeting, may observe the proceedings and may be allocated a specific area in which to gather.
- Persons accredited to observe the proceedings must identify themselves to Company personnel at the entrance to the Meeting location and collect a Meeting pass, which must be exhibited upon request.

### **Article 5**

- In accordance with current legislation and the Articles of Association, the Chairman directs business and ensures optimal conditions for the orderly and effective conduct of the Meeting.
- The Chairman may authorize the use of audio-video recording and transmission equipment.

### **Article 6**

- The Chairman is assisted by a Secretary in the conduct of business and the preparation of the minutes, unless the presence of a Public Notary is required. The Secretary and the Public Notary may, in turn, be assisted by persons in their trust.
- With regard to the administration of voting, the Chairman is assisted by scrutineers; support staff may also be used to provide the necessary technical support and security services.

#### **Article 7**

- If the attendance required to establish a quorum for the Meeting is not reached after an appropriate time interval, the Participants are informed of the situation and discussion of the items on the agenda is deferred to the next calling, if applicable.
- If considered appropriate by the Chairman and not opposed by a majority of the capital represented at the Meeting, the discussion of business during the Meeting may be suspended for a period that does not exceed three hours.

#### **Article 8**

- The Chairman establishes the order of discussion for the business to be conducted, which may differ from the order indicated in the notice of meeting.
- The Chairman may decide to unite the discussion of several items on the agenda, or hold separate discussions for each item on the agenda.
- The Chairman and, on his invitation, those following the meeting pursuant to art. 4.1 above, explain the items on the agenda.

#### **Article 9**

- The Chairman is responsible for directing and moderating discussion, ensuring proper debate and preventing disturbances to the normal conduct of the Meeting.
- At the start of the meeting, having regard for the subject matter and the importance of each item on the agenda, the Chairman may fix the time available for the contribution from each speaker which, in any case, shall not be less than 15 minutes.
- The Chairman calls on Participants to respect the time limits set for contributions at the start of the Meeting, as well as to keep to the subject of the items on the agenda. In the event of exaggeration and/or abuse of the right to speak, the Chairman removes this right from the person concerned.

#### **Article 10**

- Those intending to speak must first apply to the Chairman or the Secretary, indicating the subject matter of their contribution. This application may be presented at any time until the Chairman declares the discussion closed on the matter to which the request to contribute relates.
- Participants may ask to speak for a second time during the same discussion, for a period of not more than five minutes, solely to reply to other contributions or to declare their voting intentions.

#### **Article 11**

- The Board of Directors and the Participants may present, together with their reasons, proposals for alternative resolutions or for amendments or additions to

those, if applicable, originally proposed by the Board of Directors. The Chairman assesses the compatibility of these proposals with the items on the agenda for the Meeting.

**Article 12**

- The members of the Board of Directors and the Statutory Auditors may intervene in the discussions; observers pursuant to art. 4.1 above may also take the floor, on invitation from the Chairman, in order, for example, to answer any requests for clarification.

**Article 13**

- The Chairman adopts appropriate measures to ensure that voting is conducted in an orderly manner, determining that voting on a matter shall either take place immediately following the closure of the related discussion, or after discussion of all items on the agenda.
- The Chairman establishes how each vote shall be conducted, as well as how votes shall be identified and counted, and is responsible for checking the results of voting.

**Article 14**

- On the completion of voting and the necessary counting, with help from the scrutineers and the Secretary, the results of voting are announced to the Meeting.