



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

**Head office at Via G. Negri 10, Milano,  
Milan Company Register no. 02473170153**

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**Corporate Governance Annual Report  
(2005 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 adopting the “Corporate Governance Code” drawn up by the Corporate Governance Committee for Listed Companies (henceforth known as the “Code”). It also adopted the subsequent revised version issued in July 2002.

In addition, the shareholders’ meeting held on May 10th, 2004 voted to make a series of amendments to the Company’s articles of association, aimed at creating greater participation by all shareholders in the running of the Company and in the decisions that affect its success, thereby confirming its desire for a fair, transparent relationship with investors.

In compliance with the Instructions accompanying the Regulations for the markets organized and managed by Borsa Italiana (Italian Stock Exchange) and bearing in mind the recommendations contained in the “Guidelines for preparing the annual corporate governance report” issued by Borsa Italiana and in the “Guidelines for the compilation of the corporate governance report” published by Assonime, the following paragraphs describe the key features of the Company’s own system of corporate governance.

## **PART I**

### **Governance structure of the Company**

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

The Company is managed by a Board of Directors consisting of from five to nineteen members who remain in office for three financial years (unless a shorter period is established by the shareholders’ meeting at the time of their appointment) and may be re-elected (article 12 of the articles of association).

In compliance with article 7 of the Code, the Company’s articles of association provide that members of the Board of Directors shall be elected on the basis of lists presented by shareholders who, alone or together with other shareholders, collectively hold shares representing at least 2% of share capital entitled to vote at ordinary meetings. These lists must be deposited at the Company’s registered office at least 10 days before the date fixed for meeting in first call.

The list voting system is one of the ways of fostering additional involvement in the Company’s management by persons designated by the so-called minority. In fact, if at least two candidate lists are presented in accordance with the procedures specified in article 12 of the articles of association, then one-fifth of the directors shall be appointed from the minority list.

In accordance with the articles of association (article 18), the Board manages the Company and is consequently vested with the broadest powers for its ordinary and extraordinary management, excluding only those powers that the law and the articles of association reserve on a mandatory basis to the shareholders’ meeting. The Board exercises its powers in accordance with article 1.2 of the Code - as better explained in paragraph 1.1 below.

Within the limits envisaged by law, the Board of Directors is vested with the power to decide on merger of the companies in which the Company possesses at least 90 per cent of the shares or quotas, reduction of the share capital in the event of withdrawal by a shareholder, amendment of the articles of association in conformity with statutory and regulatory provisions, move of the registered office within the borders of Italy, and the opening or closure of secondary offices.

For the purposes of managing the Company, the Board of Directors is authorized to delegate those powers – except those reserved to it on a mandatory basis – to one or more of its members, possibly with the title of Chief Executive Officer, or to an Executive Committee consisting of some of its members. The Board may also appoint one or more committees to provide advice and make proposals, partly in order to make the corporate governance structure comply with the recommendations periodically issued by the competent authorities (article 19 of the articles of association).

## **2. Board of Statutory Auditors**

The Board of Statutory Auditors consists of three standing auditors and two alternate auditors who satisfy the requirements envisaged in applicable statutes and regulations; when identifying these auditors, it will be taken into account that matters and sectors of activity strictly connected with those of the Company are those specified in its object (article 4 of the articles of association), with particular reference to companies or entities operating in the financial, industrial, banking, insurance, real estate, and service sectors in general (article 22 of the articles of association). In accordance with the law, members of the Board of Statutory Auditors remain in office for three financial years and may be re-elected.

The Board of Statutory Auditors' duty is to monitor the following: – observance of the law and the Company's articles of association;

– respect for correct management practice;

– adequacy of the Company's organizational structure within the scope of its brief, of the internal control system and the administrative-accounting system, as well as the reliability of the latter in correctly representing the results of operations;

– how the corporate governance rules contained in the Code, adopted by the Company, are actually being implemented;

– adequacy of the instructions issued by the Company to subsidiary companies in relation to their reporting obligations concerning price sensitive information.

The Board of Statutory Auditors fulfils its duties by exercising all the powers conferred on it by law and by being able to rely upon a constant detailed flow of information from the Company, even outside the regular meetings of the Board of Directors.

In fulfilling its duties, the Board of Statutory Auditors not only takes part in all the meetings of the Board of Directors and shareholders, it also participates in the work performed by the Executive Investment Committee, the Compensation Committee and the Audit and Corporate Governance Committee.

## **3. Shareholders' meeting**

Even though the Company provides a steady flow of information to the market even when price sensitive requirements do not so demand, the shareholders' meeting is considered to be the best place

for the Company to create a productive, effective relationship with its shareholders. The meeting is the best forum for the direct exchange of ideas, with shareholder requests for information being duly met within the bounds of complying with rules on price sensitive information.

The directors therefore encourage and facilitate the widest possible participation of shareholders at the meeting and pay great attention to the choice of the meeting's date, time and place in order to make it easier for everybody to attend it. The call of shareholders' meetings, which may be held at the Company's registered office or elsewhere in Italy, the right of participation, and representation at the meeting are governed by law and the articles of association. The regular convening of the shareholders' meeting and the validity of its resolutions are governed by law.

The proceedings of shareholders' meetings are governed both by law, the articles of association, and the rules for shareholders' meetings, approved by resolution of the ordinary shareholders' meeting.

The shareholders' meeting is chaired, in order, by the Chairman of the Board of Directors, by a Deputy Chairman, or by a Chief Executive Officer; if there are two or more Deputy Chairmen or Chief Executive Officers, the meeting will be chaired by the person who is the oldest, respectively. If the aforementioned individuals are absent, the meeting shall be chaired by another person chosen by the shareholders' meeting, by majority vote of the share capital represented at the shareholders' meeting.

The Chairman of the meeting is assisted by a Secretary appointed by the shareholders' meeting, who may be chosen from outside the ranks of shareholders; the assistance of the Secretary is not necessary when a notary public has been appointed for drafting the minutes of the shareholders' meeting.

It is the Chairman's responsibility to confirm that the meeting was properly convened; to ascertain the identity of the participants and their right to participate, including by proxy; to ascertain the legal quorum for passing resolutions; to direct its proceedings, which may include setting a different order of discussion of the topics specified in the notice of call; to adopt appropriate measures for orderly discussion and voting, defining their procedures and certifying their results.

The resolutions of the shareholders' meeting are confirmed in minutes signed by the Chairman and Secretary of the shareholders' meeting or by the notary public. The minutes for extraordinary shareholders' meetings must be drafted by a notary public appointed by the Chairman of the shareholders' meeting. The shareholders' meeting votes on the matters set out in the agenda, taking account of those reserved to it on a mandatory basis by law.

The ordinary shareholders' meeting must be called within 120 days or, if necessary due to special circumstances, within 180 days after the end of the Company's financial year; in the event of calling the meeting within 180 days, the directors shall disclose the reasons for this delay in their management report accompanying the financial statements.

#### **4. Share capital and shareholders**

At March 27th, 2006 the Company's subscribed and paid-up share capital was €21,258,053.50 divided into 42,516,107 shares with a par value of €0.50 each. The shares are all ordinary and registered. There are no other classes of share.

Share capital is periodically increased as a result of the exercise of options granted to company directors and employees and their consequent subscription to new Pirelli RE shares. Such a capital increase was approved in the resolutions passed by the shareholders on April 2nd, 2002 (capital increase for cash on a split basis, to be carried out in one or more instalments, reserved for directors and employees of the Company and/or its subsidiaries, to service one or more stock option plans, to be

completed by the final date of December 31st, 2006 – article 5 of the articles of association) and by the Company's Board of Directors on May 9th, 2002 (approval of a new stock option plan for 2002-2005 for granting directors and employees of the Company and/or its subsidiaries options carrying the entitlement to subscribe to a maximum number of 2,150,000 ordinary shares, provided the plan's conditions were satisfied). The Company periodically files, within the legally required deadline, the certification required by article 2444.1 of the Italian Civil Code, stating the new amount of share capital, with the Milan Company Register and also notifies the variation to the Italian Stock Exchange and Consob (Italy's stockmarket regulator).

The Company is under the legal control of Pirelli & C. S.p.A. whose interest is equal to 50.398% of share capital (54.6% of share capital including the shares held by group companies). There are no shareholders' agreements.

As far as the controlling interest held by Pirelli & C. S.p.A. is concerned, this company does not play a key role in deciding Pirelli RE's long-term strategic plans, annual budgets or investment decisions, nor does it define policy for the acquisition of assets and services on the market, nor does it co-ordinate business ventures and operations in the various sectors in which Pirelli RE (and its subsidiaries) operates. Furthermore, since Pirelli RE is organizationally and managerially independent, there is a presumption that article 2497 sexies of the Italian Civil Code does not apply and so that Pirelli & C. S.p.A. does not carry out executive management or co-ordination activities in the Company's regard.

## **PART II**

### **Information on the implementation of the Corporate Governance Code**

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

##### **1.1 Allocation of duties and delegation of authority**

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

The Board of Directors plays a central, policy-making role in the Company's management and so it:

- examines and approves the company's strategic, operational and financial plans and the corporate structure of the Group it heads;
- delegates powers to the directors, specifying the limits and manner of their exercise, and revokes such powers;
- determines, after examining the proposal of the special committee and consulting the Board of Statutory Auditors, the remuneration of the directors and of those directors who are appointed to particular positions within the company and, where the shareholders' meeting has not already done so, allocates the Board's overall remuneration to its individual members;
- monitors the company's general performance, with special reference to situations of conflict of interest, paying particular attention to the information received from the Chief Executive Officers and the Audit and Corporate Governance Committee and periodically comparing the results achieved with those planned;
- examines and approves transactions having a significant impact on the company's operating performance, capital structure and financial position, with special reference to transactions involving related parties, reporting through the delegated bodies to the Board of Statutory Auditors, during meetings of the Board of Directors and – as a general rule – at least every three

months, on the activity performed and the more important transactions carried out including those by subsidiaries;

- checks the adequacy of the general organizational and administrative structure established by the Chief Executive Officers for the company and the Group;
- reports to the shareholders at shareholders' meetings.

#### Chairmanship of the Board of Directors and company representation

The Board of Directors appoints from its members a Chairman, if the shareholders' meeting has not done so, and possibly one or more Deputy Chairmen. If the Chairman is absent, the chairmanship is assumed, in order, by a Deputy Chairman or by a Chief Executive Officer; if there are two or more Deputy Chairmen or Chief Executive Officers, the meeting will be chaired by the person who is the oldest, respectively. The Board of Directors appoints a Secretary, who does not have to be a director.

In accordance with article 20 of the articles of association, the Company is severally represented vis-à-vis third parties and in court by the Chairman of the Board of Directors and, if appointed, by the Deputy Chairmen and the Chief Executive Officers, within the limits of the powers granted to them by the Board of Directors. Each one of the foregoing individuals has full power to file lawsuits and petitions in court and at any level of jurisdiction, including revocation and annulment proceedings, to file charges and complaints in criminal court, to enter appearance as injured party on behalf of the Company in criminal proceedings, to file actions and appeals in all administrative jurisdictions, to participate and defend the Company in lawsuits and appeals that involve the Company, granting the necessary retainers and powers of attorney.

The Board of Directors and, within the limits of the powers granted by the Board of Directors, the Chairman and, if appointed, the Deputy Chairmen and Chief Executive Officers are authorized to assign representation of the Company vis-à-vis third parties and in court to company managers and, in general, to employees or third parties.

The current Chairman of the Board of Directors - Marco Tronchetti Provera - has not been granted operational powers and so qualifies as a "non-executive director" within the meaning of article 2.1 of the Code, but he is not "independent" because of his position as Chairman and Chief Executive Officer of the ultimate parent company Pirelli & C. S.p.A..

#### Executive Investment Committee

As permitted by article 19 of the articles of association, the Board of Directors appointed an "Executive Investment Committee" on April 27th, 2005, consisting of the following members:

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

to whom an yearly amount equal to €15,000 for each one was given for their specific functions.

The Executive Investment Committee was granted the following powers:

- to purchase real estate or real estate portfolios, non performing loans and equity interests provided the overall financial commitment for each transaction does not exceed €150,000,000;
- to assume loans and financing from third parties; to grant loans to companies that are partly owned by the Company; to issue secured or unsecured guarantees to associated companies and/or third parties; all these powers may be exercised within the limit of €150,000,000 per transaction.

Investment Committee meetings are properly formed if attended by a majority of its members; resolutions are passed by absolute majority vote of those present and, in the case of a tie, the Chairman shall have the casting vote.

Investment Committee resolutions are severally executed by the Chairman or the Deputy Chairman & Chief Executive Officer, who are also authorized to delegate such power; its resolutions are then recorded in the minutes transcribed in the related book, signed by the Chairman and the Secretary; the Committee's Secretary is the same as that of the Board of Directors, if appointed.

### Other delegated bodies

The Board of Directors also voted on April 27th, 2005 to grant:

- the Deputy Chairman & Chief Executive Officer Carlo Alessandro Puri Negri, with authority to sign on his own, all powers for the Company's ordinary and extraordinary management, except those that cannot be delegated under article 2381.4 of the Italian Civil Code and those specified in article 18.2 of the articles of association; as well as the authority to:
  - i) purchase and sell financial instruments, controlling and non-controlling equity investments in companies and consortia, shared ownership interests, businesses and business divisions, contracts, payables and/or receivables in general, including non performing loans, within the limit of €50,000,000 per transaction;
  - ii) purchase and exchange real estate within the limit of €50,000,000 per transaction and sell real estate within the limit of €100,000,000 per transaction;
  - iii) apply for and receive loans, financing and credit lines in any form from banks, companies, financial institutions, ultimate parent companies and subsidiaries, within the limit of €50,000,000 per transaction;
  - iv) grant, in tandem with other shareholders, loans, including non-interest bearing and deferred payment ones, and non-repayable amounts (i) to companies in which the Company has an interest equal to or less than 50% of their share capital for amounts up to €50,000,000 per transaction, or provided the loan or non-repayable payment, for whatever amount, is proportionate to its related equity interest, (ii) to companies in which the Company has an interest of over 50% of their share capital, provided the loan or non-repayable payment, for whatever amount, is proportionate to its related equity interest;
  - v) subscribe to capital increases by companies in which the Company has an equity investment, exercising the related rights including over any rights not exercised by other shareholders, and non-repayable payments, within the limit of €50,000,000 per transaction;
  - vi) issue secured guarantees (i) if in the interests of the Company and companies in which it holds an equity investment, for obligations for amounts of up to €50,000,000 per transaction, unless they are guarantees in the interests of companies in which the Company has an equity investment relating to loans without recourse – ie. loans which do not require the Company to give guarantees other than the quotas/shares in the investee company and/or the Company's receivables, including future ones, due from the investee company itself – given by third parties to the above-mentioned companies as part of deals to acquire real estate portfolios or non performing loans or businesses or business divisions, in which case there is no limit on the amount, (ii) if in the interests of third parties, for obligations for amounts of up to €10,000,000 per transaction;
  - vii) issue of, or application to banks and insurance companies to issue, unsecured guarantees, including of the first demand kind, (i) if in the interests of companies in which the Company has an equity investment, for amounts of up to €50,000,000 per transaction, (ii) if in the interests of third parties for amounts of up to €10,000,000 per transaction;

- the directors Carlo Bianco and Emilio Biffi, respectively holding the offices of CEO Residential and Trading Asset Management (now also Deputy Chairman) and CEO Development Asset Management (now also Chief Technical Officer) the following powers, with the authority to sign on their own:
  - i) to present manifestations of interest, in any form, relating to public and private competitive bids or negotiations and sign confidentiality agreements, including with the possibility of naming another investee company for this purpose;
  - ii) to sign non-binding agreements and/or offers in general relating to investments in real estate portfolios and/or non performing loans, including with the possibility of naming another investee company for this purpose, where the price does not exceed €25,000,000 per transaction;
  - iii) to sign non-binding agreements and/or offers in general relating to the purchase and/or sale of businesses, including with the possibility of naming another investee company for this purpose, where the price does not exceed €10,000,000 per transaction;
  - iv) to enter into agreements to purchase financial instruments, equity investments in companies and consortia, where the price does not exceed €10,000,000 per transaction;
  - v) to sign shareholders' agreements, in any legal form, including those governed by foreign legislation, in relation to companies in which the Company has invested, for the appointment of corporate bodies, and to carry out all necessary actions and sign all deeds, contracts, agreements and documents required for this purpose; to agree the division of duties and responsibilities between shareholders;
  - vi) to grant, in tandem with the other shareholders, loans in proportion to their respective equity investments, including non-interest bearing and deferred repayment loans, to companies in which the Company has invested, for up to €10,000,000 per transaction;
  - vii) to take part in public or private competitive bids, in any legal form, called in Italy or abroad, concerning the performance of services in the Company's sector of activity, when the consideration for the related activities/services does not exceed €1,500,000 per year or per competitive bid;
  - viii) to sign offers and enter into agreements for the execution of deeds and/or performance of services in the Company's sector of activity, amend them, add to them and revoke them, in relation to mandates or engagements for which the consideration for the activities/services provided does not exceed €1,500,000 per year or per contract;
  - ix) to enter into, with all the necessary clauses, as well as amend, rescind, assign and acquire by assignment, terminate by withdrawal, preliminary and final contracts for: (i) the granting of sub-mandates and sub-contracts for the execution (totally or in part) of mandates and/or engagements taken on by the Company where the total consideration for the activities/services purchased does not exceed €500,000 per contract; (ii) the acquisition of contracts and services for up to €500,000 per contract; (iii) the acquisition of marketing, promotion and publicity services for up to €150,000 per contract; (iv) the acquisition of professional services for up to €500,000 per contract; (v) the purchase, sale, or exchange of materials, equipment, plant and moveable property, excluding registered moveable property, for up to €150,000 per contract; (vi) the assumption or grant under lease or gratuitous use of real estate for periods that last for up to nine years or more for up to €500,000 per contract; (vii) the establishment of both active and passive user rights, ground leases and easements; (viii) the insuring of individuals, moveable assets and real estate against all damages and risks for up to €150,000 per contract;
  - x) additional powers for the Company's ordinary management in their respective sectors of business;
- the director Olivier de Poulpiquet, in his position as General Manager, the same powers as those granted to the directors Carlo Bianco and Emilio Biffi.

During the same meeting of April 27th, 2005, the Board of Directors also voted to charge the director Emilio Biffi with the specific duties of:

- (i) implementing all necessary, appropriate and required measures relating to occupational safety, accident prevention and occupational hygiene, internal and external environmental

protection, and the supervision of urbanization and building activities, in accordance with current laws, rules and regulations;

- (ii) ensuring implementation of the requirements of Decree 196/03 and subsequent amendments thereto relating to personal data protection. In order to carry out these duties, Emilio Biffi is authorized to delegate these powers to his staff.

Specific and more limited powers – to be used within their appropriate areas of responsibility – were also granted to other executives and managers of the Company.

During 2005, both the Deputy Chairman & Chief Executive Officer, the sector CEOs, the General Managers and executives and managers used the powers granted to them solely for normal management purposes (on which the directors were regularly informed), surrendering these powers to the Board of Directors in the case of transactions classified as “significant” either in terms of their nature or amount.

On January 25th, 2006 the Board of Directors appointed:

- the director Carlo Bianco as a new Deputy Chairman to support the Deputy Chairman & Chief Executive Officer in (i) developing strategic real estate projects not only in the Residential sector but also in other sectors, including projects in the tourism sector and those involving the sale of public-sector assets, (ii) managing relationships with governmental bodies and retirement pension funds where real estate deals are concerned, (iii) any other projects and specific ventures that might be delegated to his responsibility by the Deputy Chairman & Chief Executive Officer. At the same time, the Board revoked the powers that had previously been granted to Carlo Bianco;
- the director Emilio Biffi to the position of Chief Technical Officer, in support of the Asset Management, Fund Management and Service Provider businesses, who now heads up the newly-formed Technical Department. At the same time, the Board confirmed the powers that had previously been granted to Emilio Biffi;
- the director Olivier De Poulpiquet, formerly General Manager Commercial Sector and Non Performing Loans, to the new position of General Manager Investment & Asset Management, bringing together management of the activities and responsibilities relating to acquisitions in the sectors of Asset Management, Fund Management and Non Performing Loans and those relating to expansion abroad. At the same time, the Board confirmed the powers that had previously been granted to Olivier De Poulpiquet.

#### Information to be provided to the Board of Directors

In accordance with article 18 of the articles of association (which implements the provision contained in article 150.1 of Decree 58/1998), the Board of Directors and the Board of Statutory Auditors are regularly informed or at least once every three months, by the delegated bodies or others, about the activities performed, the Company’s general operating performance, its business outlook, and the most significant transactions carried out by the Company or its subsidiaries with an affect on its operating performance, capital structure and financial position, and about any transactions that are atypical, unusual or with related parties or nonetheless representing a potential conflict of interest, providing all the necessary details for evaluating such transactions.

For the purposes of fostering organized disclosure, the Company adopted a set of specific Guidelines on July 29th, 2002 (a copy of which can be found in an appendix to this report and is also published on

the Company's website). These define precise rules to be followed for complying with the reporting obligations under article 150 relating to the work performed by executive directors, both in the exercise of their delegated authority and in the implementation of transactions approved by the Board itself, and transactions carried out with group companies or related parties. These guidelines were subsequently amended on July 28th, 2004, requiring, amongst others, related parties to notify the Company of any companies to be treated as indirectly related parties through themselves, in order to create (and keep constantly updated) a database allowing the Company to check such transactions directly.

#### Guidelines for conducting transactions with related parties

The Company has also drawn up a set of guidelines for conducting transactions with related parties, including group companies (a copy of which can be found in an appendix to this report and is also published on the Company's website). These guidelines also underwent minor amendment on July 28th, 2004.

These guidelines are designed to ensure effective, substantive and procedural fairness and transparency in this area, fostering the full sharing of responsibility of the Board of Directors in the related decisions.

According to these guidelines, the Board of Directors must approve in advance both related party and intragroup transactions, except for typical or normal transactions or those to be completed under standard terms.

For this purpose the Board of Directors shall receive adequate information on the nature of the relationship, on how the transaction is conducted, the terms of its conclusion, financial and otherwise, the evaluation procedure adopted, the underlying interest and reasons and any risks to the Company. If the relationship is with a director or a related party through a director, the director concerned shall simply provide clarifications and shall leave the meeting when the relevant resolution is put to the vote.

Depending on the nature, value or other characteristics of the transaction, the Board of Directors is assisted by one or more experts in order to ensure that the transaction is not completed under inappropriate terms. Depending on the circumstances, these experts shall express an opinion on the transaction's economic terms, and/or its legitimacy, and/or its technical merits.

The rules contained in these two sets of guidelines therefore make it possible to identify: the more important transactions affecting operating performance, capital structure and financial position; transactions with group companies and related parties; atypical or unusual transactions as well as other transactions for which it is advisable to apply the same rules; as well as the rules to follow concerning notification and prior approval of such transactions.

Furthermore, the above guidelines make it possible to check how the Board of Directors, by benefiting from the specific procedures described above, has carried out its duties under article 1.2 of the Code. Transactions with related parties which are either typical or normal and concluded under standard terms do not require the Board's prior approval but must be disclosed expost in the Quarterly Report required under article 150 of Decree 58/1998, prepared in accordance with the Company's specific guidelines in this respect.

### Meetings of the Board of Directors

The articles of association do not specify a minimum number of meetings; however, it is practice to call it at least five times a year (to review the preliminary results at June 30, the draft annual financial statements and the quarterly and half-year interim financial reports).

A total of ten Board meetings were held in 2005; the directors' overall attendance record at meetings was 93.33%, while that of the independent directors was around 96.67%.

As a rule, all necessary documentation and information is provided to the directors in reasonable advance so as to allow the Board to express its opinion on the business to be discussed in an informed manner. Any additional documentation made available to Board meeting participants is also sent to those linked up to the meeting via audioconference, in order to ensure that everyone has the same information.

The Board of Directors has already met once in 2006, with plans to meet at least another five times.

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

The shareholders' meeting held on April 27th, 2005 appointed the new Board of Directors, consisting of the following persons:

- Marco Tronchetti Provera, Chairman;
- Carlo Alessandro Puri Negri, Deputy Chairman & Chief Executive Officer;
- Giovanni Nassi, Deputy Chairman;
- Carlo Bianco, Deputy Chairman;
- Emilio Biffi, CEO Development Asset Management;
- Reginald Bartholomew;
- Carlo Buora;
- William Dale Crist;
- Olivier De Poulpiquet;
- Roberto Haggiag;
- Sergio Lamacchia;
- Paola Lucarelli;
- Claudio Recchi;
- Vincenzo Sozzani;
- Dario Trevisan.

On January 25th, 2006 the Board of Directors co-opted Carlo Croce to replace Sergio Lamacchia, who had died on December 29th, 2005. This appointment will be valid until the shareholders' meeting called to approve the financial statements for the year ending December 31st, 2005 and, if confirmed by the shareholders, it will have the same term as that of the current Board of Directors. In the same shareholders' meeting the directors' Carlo Bianco ed Emilio Biffi were appointed, respectively, Deputy Chairman and Chief Technical Officer.

The current Board of Directors, consisting of 15 members, has been appointed for three financial years, meaning that its mandate ends on the date of the shareholders' meeting called to approve the financial statements for the year ending December 31st, 2007.

Below is a list of the offices of director or statutory auditor held by the directors in other companies listed on regulated markets in both Italy and abroad, or in financial, banking, insurance 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. S.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 Opportunities SGR S.p.A., Chairman;
- Pirelli & C. Real Estate Franchising Holding S.r.l., Chairman;
- Partecipazioni Finanziarie S.r.l., Chairman;
- Partecipazioni Real Estate S.p.A., Chairman;
- Pirelli & C. Ambiente Holding S.p.A., Deputy Chairman & Chief Executive Officer;
- 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:

- Merrill Lynch International, Chairman;
- Merrill Lynch Holdings Limited, Deputy Chairman;
- Benetton Group S.p.A., Director;

Carlo Buora:

- Pirelli & C. S.p.A., Chief Executive Officer;
- Telecom Italia S.p.A., Chief Executive Officer;
- RCS Mediagroup S.p.A., Director;
- Mediobanca S.p.A., Director;
- Olimpia S.p.A., Director;
- RAS S.p.A., Director;
- Istituto Europeo di Oncologia S.r.l., Director;

Olivier De Poulpiquet:

- CFT Finanziaria S.p.A., Chairman;
- Pirelli & C. Real Estate Opportunities SGR S.p.A., Director;
- Credit Servicing S.p.A., Director;
- Partecipazioni Real Estate 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 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. Real Estate SGR S.p.A., Director.

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

#### **Executive directors**

Article 2.1 of the Code recommends that the following be executive directors: chief executive officers, the chairman, when he or she has delegated powers, and those directors who perform management functions within the company.

In view of this definition, the Board of Directors considers that 5 out of its 15 members are executive, namely the Deputy Chairman & Chief Executive Officer Carlo Alessandro Puri Negri, the Deputy Chairman Giovanni Nassi (who carries out executive functions in the health care sector) and the Deputy Chairman Carlo Bianco (who carries out executive functions involving strategic real estate projects in various sectors of business), the directors Emilio Biffi (Chief Technical Officer, as well as General Manager) and Olivier De Poulpiquet (General Manager Investment & Asset Management).

### Independent directors

Article 3.1 of the Code requires that independent directors:

- a) do not entertain, directly or indirectly or on behalf of third parties, nor have recently entertained business relationships with the company, its subsidiaries, the executive directors 2005 Annual Report or the shareholder or group of shareholders who controls the company of a significance able to influence their independence of opinion;
- b) neither own, directly or indirectly or on behalf of third parties, a quantity of shares enabling them to control the company or exercise a considerable influence over it nor participate in shareholders' agreements to control the company;
- c) are not immediate family members of executive directors of the company or of persons in the situations referred to in points a) and b).

Bearing in mind this definition, the Board of Directors considers that 6 of the remaining 10 nonexecutive directors (Reginald Bartholomew, William Dale Crist, Roberto Haggiag, Paola Lucarelli, Claudio Recchi and Dario Trevisan) qualify as independent directors.

Furthermore, on March 9th, 2006, the Company's Board of Directors not only carried out the periodic review of directors' independence required by the Code, it also assessed the extra independence requirements, already applying to statutory auditors and now required for at least one of the directors in the case of boards with more than seven members. This was to comply with the amendment to paragraph 4, article 147-ter of Decree 58/1998, introduced in Law 262 of December 28th, 2005 (the "Investment Savings Act"). These additional criteria state that the following persons cannot be treated as independent:

- a) persons in the circumstances described in article 2382 of the Italian Civil Code;
- b) the spouse, blood relatives and relatives by marriage up to four times removed of the company's directors, the directors, spouse, blood relatives and relatives by marriage up to four times removed of directors of companies under the company's control, of companies which control it and those under common control;
- c) persons who are connected with the company or companies under its control or with companies which control it or are under common control or with the company's directors and persons listed in b) through employment or consulting contracts or by other economic or professional ties that compromise their independence.

It was also confirmed that all six independent directors, defined as such by the Code, also met the additional criteria now called for by Decree 58/1998.

The number and authority of the non-executive and independent directors are such as to ensure that their opinions carry a significant weight in influencing the Board's decisions. Furthermore, the number

of directors qualifying as independent is undoubtedly sufficient. There are no specific rules for determining the adequacy of the ratio of executive to non-executive and independent directors, and so reference has also been made to the criteria dictated by the Italian stockmarket's STAR segment, which consider 4 "non executive and independent directors" to be a sufficient number for Boards with more than 14 members.

For the purposes of enhancing the role of the independent directors, the Board of Directors decided on March 9th, 2006 to introduce the position of Lead Independent Director. This person – identified as Dario Trevisan, Chairman of the Audit and Corporate Governance Committee – acts as a point of reference and co-ordination for the work and contributions of the independent directors. The Lead Independent Director may also call - at his own initiative or at the request of other directors – special meetings for just the independent directors ("independent directors' executive sessions") to discuss issues considered of interest in relation to the operation of the Board of Directors or management of the business.

#### Non-executive directors

Bearing in mind the executive positions held within the Pirelli & C. Group and other relationships, the other 4 non-executive directors – Marco Tronchetti Provera, Carlo Buora, Vincenzo Sozzani and Carlo Croce – do not qualify as independent directors and so are classified as simply non-executive directors.

#### Integrity requirements

Again on March 9th, 2006, the Company's Board of Directors took note of the new provisions of article 147-quinques of Decree 58/1998 introduced in Law 262 of December 28th, 2005 (the "Investment Savings Act") and reviewed whether directors satisfied the related integrity requirements, already established for the Board of Statutory Auditors and now also required for the Company's directors and general managers. Until such time as new rules are issued, these requirements will refer to those established in Decree 162, issued by the Ministry of Justice on March 30th, 2000.

It was confirmed that all the directors and general managers satisfied the integrity requirements called now for by Decree 58/1998.

### **1.4 Board committees**

In accordance with the Code, the Company has established as offshoots of the Board of Directors two committees with the function of providing advice and making proposals:

- Compensation Committee;
- Audit and Corporate Governance Committee.

The Board of Directors has decided, however, not to form a committee for proposing nominations to the office of director, since – based on the current ownership structure – there is no particular trouble in coming up with candidates.

In fact, these proposals are presented by the controlling shareholder after a prior selection of candidates using rigorous evaluation criteria as regards their personal and professional characteristics, their authority and experience and – in the case of some – the necessary independence to be able to make a significant contribution to the Board's decisions.

Lastly, bearing in mind that the shareholders' meeting called to approve the financial statements for the year ending December 31st, 2003 approved, in extraordinary session, the adoption of a list voting system, this makes such a committee even less necessary in view of such a system's ability to render the candidate selection and presentation process transparent.

### Compensation Committee

In compliance with the recommendation contained in article 8.1 of the Code, the Compensation Committee consists of three independent directors: Paola Lucarelli (who replaced the nonexecutive director Sergio Lamacchia), Reginald Bartholomew and Claudio Recchi, who holds the office of Chairman; each member of the Compensation Committee receives an annual fee of €15,000 for the work performed.

More specifically, the Board has decided with reference to the Compensation Committee:

- a) to make it responsible for presenting proposals to the Board of Directors regarding the remuneration of directors charged with particular office within the meaning of article 2389 of the Italian Civil Code, and for determining, if so requested by the Deputy Chairman & Chief Executive Officer, remuneration criteria for the Company's top management;
- b) that its meetings shall be attended by the Board of Statutory Auditors, the Deputy Chairman & Chief Executive Officer, so long as the latter undertakes to leave the meeting in the case of conflicts of interest, as well as other such persons, upon invitation, whose input is deemed necessary in relation to the matters being discussed;
- c) that its rules of procedure shall be the same as those applying to the Executive Investment Committee, to which reference should be made.

The Committee met 4 times in 2005, during which it examined and evaluated the following topics, making associated proposals to the Board of Directors:

- gross annual compensation, variable compensation based on the achievement of objectives linked to activities and results in the annual budget ("MBO" schemes) and long-term incentive schemes ("LTI") - linked to achieving the objectives set in the three-year plan – for Chief Executive Officers and General Managers, and end-of-office indemnities for the Deputy Chairman & Chief Executive Officer;
- adoption of stock option plans for directors and employees of Pirelli & C. Real Estate S.p.A. and its subsidiaries and remuneration schemes for top management of the Pirelli RE Group.

### Audit and Corporate Governance Committee

In compliance with the recommendation contained in article 10.1 of the Code, the Audit and Corporate Governance Committee consists of three independent directors: William Dale Crist, Roberto Haggiag and Dario Trevisan, who holds the office of Chairman; each member of the Audit and Corporate Governance Committee receives an annual fee of €15,000 for the work performed.

More specifically, the Board has decided with reference to the Audit and Corporate Governance Committee:

- a) with regard to its functions, that it shall provide advice and makes proposals to the Board of Directors and more specifically that (a) it shall assist the Board of Directors in laying down

the guidelines for the internal control system and in periodically checking that it is adequate and working properly, for the purpose of ensuring that the main risks facing the Company are managed appropriately; (b) it shall assess the work programme prepared by the persons responsible for internal control and receive their periodic reports; (c) it shall assess, together with the heads of administration and the independent auditors, the appropriateness of the accounting standards adopted; (d) it shall assess the proposals put forward by auditing firms to obtain the audit engagement, the audit work programme and results thereof as set out in the independent auditors' report and their letter of recommendations; (e) it shall report to the Board of Directors on its activity, the adequacy of the internal control system and the observance and periodic updating of the Company's corporate governance rules, at least once every quarter, at the time of approving the annual financial statements and quarterly and half-year interim financial reports; (f) it shall perform other functions involving the giving of advice and making of proposals entrusted to it by the Board of Directors, particularly as regards relations with the auditing firm; (g) it shall monitor the observance and periodic updating of the Company's rules on corporate governance;

- b) that its meetings may be attended by members of the Board of Statutory Auditors, the Deputy Chairman and the Chief Executive Officer, and, upon invitation, one or more General Managers and other such persons whose input is deemed necessary in relation to the matters being discussed;
- c) that its rules of procedure shall be the same as those applying to the Executive Investment Committee, to which reference should be made.

The Committee met 4 times in 2005, during which, amongst others, it assessed the work performed and that planned by the person in charge of internal control, and acknowledged that the Company's internal control system was generally adequate.

### **1.5 Remuneration of directors**

Under the articles of association (article 21) the directors are entitled not only to reimbursement of the expenses that they incur on official business but also to an annual fee as determined by the shareholders' meeting. Bearing in mind the shareholders' resolution adopted on April 27th, 2005, the Board of Directors has accordingly set the fee for each director at €30,000 for each financial year, without prejudice to the Board's right to determine additional compensation for directors vested with special duties, amongst whom the Deputy Chairman & Chief Executive Officer, the Deputy Chairman and members of any committees that the Board decides to set up.

In detail, an important part of the remuneration of the Deputy Chairman & Chief Executive Officer (along with that of the sector CEOs, Emilio Biffi and Carlo Bianco – now Deputy Chairman –, and that of the General Managers) is linked to the Company's performance and the objectives set by the Board of Directors (MBO and LTI, as well as participation in stock option plans).

For more details on the compensation awarded to directors vested with special duties, please refer to the specific table contained in the explanatory notes to the 2005 financial statements.

Lastly, for more details on the participation of Chief Executive Officers and General Managers in incentive schemes, please refer to the specific table contained in the Note of financial statements to which direct refers the Directors' management report.

## **2. Company functions and procedures**

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

#### Board of Directors

The Company's articles of association (articles 14, 15, 16 and 17) contain rules on the functioning and conduct of meetings of the Board of Directors.

In fact, it is the Chairman who calls the Board and moderates its meetings, ensuring that the directors receive in due advance – where possible and reasons of urgency do not exist – the documentation and information needed so as to allow them to express their opinion on the topics on the agenda in an informed fashion; the Chairman shall, including with the assistance of qualified in-house resources, inform directors and, if appropriate, discuss the principal legislative and regulatory changes affecting the Company and its corporate bodies. The flow of this type of information to members of the Board of Directors is regarded as satisfactory and quick.

The Board of Directors is called by the Chairman or his substitute at the registered office or at another place to be specified in the letter of call (provided that it is in Italy or in a country belonging to the European Union), whenever he deems it to be in the Company's interest, or when written request for such is made by one of the Chief Executive Officers or by one-fifth of the directors in office or by at least two standing statutory auditors.

Nevertheless, the Board of Directors may pass valid resolutions, even if not formally called, when all its members and all the standing statutory auditors are present. While the articles of association do not specify a minimum number of meetings, it is nonetheless standard practice to call the Board at least five times a year (to review the preliminary results at June 30, the draft annual financial statements and the quarterly and half-year interim financial reports). In compliance with Italian Stock Exchange instructions (letter c), paragraph 1, article 2.6.2 of the Stockmarket Regulations), the Company usually announces at the end of the last Board meeting in each financial year its corporate calendar for the following year (ie. the dates of board meetings and shareholders' meetings). The market is promptly informed of any changes in this calendar.

The notices calling the meeting are sent in the form of a registered letter, telegram, fax, or e-mail to each director and standing statutory auditor at least five days in advance of the meeting (or, in urgent cases, in the form of a telegram, fax or e-mail sent at least six hours in advance of the meeting).

Board meetings can be held using telecommunication systems. In this case, such systems must allow all participants to (i) take part in the discussion and (ii) have access to the same information. The Board of Directors meeting is considered to be held in the place where the Chairman and Secretary are simultaneously located.

The Board of Directors meetings are duly assembled if the majority of directors in office are present and the resolutions are passed with a majority of the votes cast. In the event of a tie, the Chairman shall have the casting vote.

The resolutions of the Board of Directors, even if adopted at meetings held by means of telecommunications systems, are transcribed in the specific minute book; the minutes for each meeting are signed by the Chairman and the Secretary of the meeting. The respective copies and excerpts that are not drafted by a notary public shall be certified as true by the Chairman.

Board meetings may be attended – upon invitation – by those company managers (usually General Managers and other managers) or third parties (usually the Company's advisors) whose participation is

necessary or advisable in relation to the matters being discussed, in order to provide the Board of Directors with the information or details required for the passing of the associated resolutions.

### Board committees

Although specific procedural rules have not been formalized for board committees, these bodies operate in compliance with the same procedures and formalities as the Board of Directors specifically with regard to the method of calling, the information on topics to be discussed, their proceedings (formation and resolutions) and the participation of third parties. In addition, these committees shall always brief the Board of Directors at its earliest subsequent meeting after that of any committee meeting.

## **2.2 Procedures for handling confidential information**

### External communication of confidential documents and information

The Deputy Chairman & Chief Executive Officer is directly responsible for handling confidential information, with particular reference to “price sensitive” information.

Documents and information regarding the Company and its subsidiaries are published – always with the consent of the Deputy Chairman & Chief Executive Officer – by the Board Secretary’s office and the Legal and Corporate Affairs office where notices to the authorities are concerned, while notices to shareholders are handled by the Press Office for press releases and by the Investor Relations office for those addressed to institutional investors and financial analysts.

The Deputy Chairman & Chief Executive Officer and the heads of the departments described above are constantly ready to respond to any urgent external communication needs.

For external communication of documents and information, constant reference is made to the corporate reporting principles contained in the “Guide to the Disclosure of Information to the Market”, written by Forum ref. Press releases are prepared in accordance with the Italian Stock Exchange’s recent recommendations setting out guidelines on the structure and minimum content of such press releases.

Bearing in mind the new provisions resulting from Italy’s adoption of EC directives on market abuse, on March 9th, 2006 the Board of Directors adopted, after prior evaluation by the Audit and Corporate Governance Committee, a special set of “Guidelines for handling and publishing price sensitive information” (which can be found in an appendix to this report). This procedure formalizes and clarifies the correct processes and flows for handling price sensitive information, assigning consequent duties and responsibilities in the different circumstances, in order to ensure full compliance in this area, also taking account of the large number of people who might be involved or who nonetheless come into contact with price sensitive information. In fact, in accordance with article 115 of Decree 58/1998, the guidelines provide for the creation of a special “Register of persons with access to price sensitive information”, establishing how it should be maintained, managed and searched.

### Internal Dealing

As required by prevailing regulations (article 2.6.3 of the Italian Stock Exchange Regulations), the Company has had an “Internal Dealing Code” since December 1st, 2002. This governs the reporting of transactions in the Group’s Financial Instruments (meaning ordinary and savings shares in Pirelli & C. S.p.A., shares in Pirelli & C. Real Estate S.p.A., instruments carrying the right to buy/subscribe to such

shares, units in real estate investment funds set up and managed by Pirelli & C. Real Estate SGR S.p.A.) carried out by “relevant persons”.

“Relevant Persons” mean those people who, by virtue of the position held in the Company, can have access to information on facts such as to determine significant changes in the Company’s and Group’s prospective earnings, financial position and balance sheet and which could, if published, significantly affect the price of the associated listed financial instruments. For a detailed definition of such persons and of the Financial Instruments to which reporting refers, please refer to the Internal Dealing Code (a copy of which can be found in an appendix to this report and is also published on the Company’s website).

The primary purpose of this Code is to ensure the market the utmost transparency with regard to dealings by persons who have a special relationship with the Company and its subsidiaries and to determine the periods during which such persons can deal in the securities in question.

The Code’s main provisions are as follows:

- 1) details of the group of persons with a duty to disclose;
- 2) duty to notify the market immediately of any major dealings in Financial Instruments, meaning those whose aggregate amount, ie. including other deals carried out in the quarter, exceeds €80,000;
- 3) duty to inform the market on a quarterly basis of dealings in Financial Instruments whose aggregate amount is between €80,000 and €35,000;
- 4) specification of blackout periods during which Relevant Persons cannot deal in Financial Instruments.

In the event of breaching the reporting duties, the Internal Dealing Code provides for a tough system of penalties which, in the case of directors and statutory auditors, also includes the possibility of proposing that the shareholders remove them from office.

It should be noted that the Internal Dealing Code has voluntarily adopted stricter reporting rules than those contemplated by the Italian Stock Exchange, having set the quarterly reporting threshold at €35,000 and the threshold for major dealings, requiring immediate notification, at €80,000.

Furthermore, the new provisions of article 114.7 of Decree 58/1998 will come into force on April 1st, 2006. These concern the reporting duties of persons carrying out administrative, supervisory or managerial functions in the Company and of its managers with regular access to price sensitive information, and who have the power to adopt management decisions that might affect the Company’s future development and prospects, and by other “relevant” persons. The Company will adopt the necessary measures accordingly.

## **2.3 Procedures for appointing directors and statutory auditors**

### Appointment of directors

Further to the amendments to the articles of association approved by the shareholders in the meeting of May 10th, 2004, members of the Board of Directors are now appointed using the list voting system. This provision seeks to ensure that – if the shareholders take advantage of the options allowed therein by presenting at least two lists in the manner specified – one-fifth of the Board’s members are chosen from persons designated by the so-called minority. The lists may be submitted only by those shareholders who, alone or together with other shareholders, are together the owners of shares

representing at least 2% of share capital with voting rights at the ordinary shareholders' meeting and, in compliance with article 7 of the Code, must be deposited at the Company's registered office at least ten days before the date fixed for the shareholders' meeting in first call. The lists must be accompanied at the time of deposit by a curriculum vitae for each candidate, along with statements in which the candidates accept their candidacy and certify that there are no reasons of ineligibility and incompatibility preventing them from holding office and that they satisfy the requirements that might be prescribed for the respective positions. These statements also specify whether they meet the criteria for them to qualify as independent (within the meaning of article 3 of the Code).

The current Board of Directors was the first to be appointed using the list voting mechanism. It will remain in office for three financial years until the shareholders' meeting called to approve the financial statements for the year ending December 31st, 2007.

#### Appointment of statutory auditors

The appointment of members of the Board of Statutory Auditors is based on principles of procedural transparency in compliance with the provisions of article 14 of the Code and involves presenting candidate lists, in accordance with article 148 of Decree 58/1998. These principles are reflected in the articles of association (article 22).

The ordinary shareholders' meeting elects the Board of Statutory Auditors and determines its compensation. The minority is reserved the right to elect one statutory auditor and one alternate auditor, in the manner specified below. The Board of Statutory Auditors is appointed on the basis of lists submitted by the shareholders in which the candidates are listed with a progressive number. Those shareholders who, alone or together with other shareholders, represent at least 2 per cent of the shares with voting rights at the ordinary shareholders' meeting are entitled to submit a list.

The candidate lists must be deposited at the Company's registered office at least 10 days before the date fixed for the shareholders' meeting in first call. A curriculum vitae of the nominees and statements in which the individual candidates accept their candidacy and certify, under their own responsibility, that they are not ineligible or incompatible for any reason and that they satisfy the requirements prescribed by law or the articles of association for the position must be appended to the lists.

Furthermore, those who do not satisfy the requirements envisaged by applicable statutes and regulations or who already hold the position of statutory auditor in more than five companies listed on regulated Italian markets, with the exclusion of the ultimate parent companies and subsidiaries of Pirelli & C. Real Estate S.p.A., may not be elected as statutory auditors.

Members of the Board of Statutory Auditors are then elected using the list voting system, which involves appointing two standing auditors and one alternate auditor from the list that obtained the highest number of votes ("the majority list") and the remaining standing member and other alternate auditor from the list that obtained the second highest number of votes ("the minority list"); if several lists have obtained the same number of votes, a run off election will be held between these lists.

The Board of Statutory Auditors shall be chaired by the statutory auditor indicated as the first candidate on the list that obtained the highest number of votes.

If just one list is presented, the shareholders' meeting shall express its vote accordingly; if the list obtains the related majority, the first three candidates listed in progressive order are elected as standing auditors, while the fourth and fifth candidates are elected as alternate auditors; the Board of Statutory Auditors shall be chaired by the person indicated as the first candidate on the list presented.

In the absence of lists, the Board of Statutory Auditors and its Chairman shall be appointed by the shareholders' meeting with the majorities envisaged by law. The outgoing statutory auditors can be re-elected.

The current Board of Statutory Auditors was appointed using the list voting mechanism for three financial years. It will remain in office until the shareholders' meeting called to approve the financial statements for the year ending December 31st, 2006.

## **2.4 Internal control system**

### Internal control

The internal control system of Pirelli & C. Real Estate S.p.A. and the Group it heads is designed to ensure the provision of correct information about and adequate supervision of all the Group's activities, with special reference to areas considered to be potentially at risk.

The Board of Directors is responsible for the internal control system; it lays down the guidelines for the system and periodically checks that it is adequate and working properly. For this purpose the Board makes use of the Audit and Corporate Governance Committee as well as the Auditing Department of the ultimate parent company Pirelli & C. S.p.A.. This department's primary task is to oversee developments in the internal control system and monitor its adequacy, effectiveness and efficiency on a group-wide basis.

The Deputy Chairman & Chief Executive Officer, in agreement with the Board of Directors, has carried out his duties of implementing, managing and monitoring the internal control system and has set up a specific "internal control function" to which Sergio Romiti has been nominated as "person in charge". Sergio Romiti is Head of Internal Audit at Pirelli & C. S.p.A. and so does not report to any heads of the Company's operational areas.

The person in charge of internal control prepares an audit "work programme" and verifies the observance and efficacy of the overall directives, procedures and methods adopted by the Company to achieve its predetermined objectives, periodically briefing the Deputy Chairman & Chief Executive Officer on the work performed for any decisions falling under the latter's responsibility, as well as the Audit and Corporate Governance Committee and the statutory auditors.

During 2005, the person in charge of internal control briefed the Deputy Chairman & Chief Executive Officer once a month on average and the Audit and Corporate Governance Committee four times.

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

For the purposes of achieving the strategies and goals adopted by the parent company, general managers and senior executives from each sector and function sit on the boards of the main subsidiaries.

### The 231 organizational model

The internal control system described above was further strengthened by the introduction of an organizational model that the Board of Directors approved on July 29th, 2003. Intended to ensure the creation of a system responding to the specific requirements deriving from the introduction of Decree 231/2001 on the administrative liability of companies for criminal offences committed by their

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

- Group Ethical Code, which formulates the general principles (transparency, honesty and fairness) inspiring the conduct of business;
- Internal control system, meaning the set of processes aimed at providing a reasonable guarantee of the efficiency and effectiveness of operations, the reliability of financial and operational information, the compliance with laws and regulations and the safeguarding of the company's assets, including against possible fraud. The internal control system is based on and characterized by a number of general principles defined within the framework of the organizational model, whose scope extends across all the different organizational levels (Business Units, Head Office Functions and Companies);
- Code of Conduct, which sets out rules for dealing with representatives of governmental bodies. The rules are framed as both positive "do's" and negative "don'ts" and translate into practical terms the principles established by the Group Ethical Code;
- Internal control checklists, which have been prepared for all high and medium-risk operational processes and related processes. These lists have a similar structure, involving a set of rules designed to identify the main phases of each process, the criminal offences that could be committed in connection with each process and the specific checks to be performed with a view to their prevention. They also specify the reports to be sent to the Supervisory Board to draw its attention to situations of non-compliance with the procedures established in the organizational model. These internal control checklists have been prepared on the basis of three cardinal rules as follows:
  1. separation of duties in the performance of activities involved in each process;
  2. traceability of decisions, ie. their constant visibility (eg. through specific documentary proof), to allow identification of precise "points" of responsibility and the "reason" for the decisions themselves;
  3. decision-making on an objective basis, meaning that decisions should ignore purely subjective considerations, referring instead to predetermined principles.

The organizational model is completed with the Supervisory Board, which has autonomous powers of action and control. This Board is charged with monitoring the model's functioning and compliance with it, also ensuring that it is constantly updated. This Board currently consists of Dario Trevisan, an independent director and Chairman of the Audit and Corporate Governance Committee, Roberto Bracchetti, Chairman of the Board of Statutory Auditors and Massimo Cunico, from the Internal Audit Department of Pirelli & C. S.p.A..

With reference to the Group's unlisted Italian companies who have adopted their own organizational models, the Supervisory Board has been adapted by identifying the technical and operational solution that, while respecting the mandate and the powers reserved to that body by law, is appropriate to the size and organizational context of each company.

Lastly, a suitable disciplinary system has been introduced to punish non-compliance with the measures specified in the organizational, operational and control models.

Specific procedures for reporting information to the Supervisory Boards were introduced in 2005 to implement article 6.2d) of Decree 231/2001, which establishes precise reporting requirements vis-à-vis the Board charged with monitoring the functioning of and compliance with the models.

Work started at the start of 2006 on examining and reviewing the current organizational model, in order to ensure that it continues to function in an adequate, effective manner, by introducing the necessary amendments and additions or those that are simply advisable.

#### Internal control system evaluation

The Audit and Corporate Governance Committee and the Board of Directors have evaluated the internal control system with regard to its effective protection against the risks typifying the principal activities of the Company and its subsidiaries and its monitoring of the economic performance and financial position of the Company and its Group. These bodies have concluded, also on the basis of information received from the Board of Statutory Auditors, that the internal control system is basically adequate and thus suitable for protecting the Company's interests and purpose.

### **2.5 Investor relations office**

The Company actively endeavours to promote a dialogue with shareholders and institutional investors based on the recognition of their respective roles and periodically organizes meetings with representatives of the Italian and international financial communities, while not failing to observe current rules in this area and those relating to the handling of price sensitive information. Accordingly, the Company has appointed an investor relations manager and created a specific office as part of the HQ Administration and Control Department, which has its own section on the Company's website at [www.pirellire.com](http://www.pirellire.com).

In this section of the website investors can find every document of interest published by the Company as regards financial reporting (for example, the annual report and the half-year and quarterly interim financial reports) and the Company's corporate governance system (for example, the Guidelines for conducting transactions with related parties, the Guidelines for compliance with the obligations under article 150.1 of Decree 58/1998, the Internal Dealing Code). This section also gives access to the documentation provided by the Company to the financial community during presentations and/or meetings and information on the composition of the Company's share capital and shareholders.

The investor relations office may be contacted by shareholders and investors as follows:

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

The Company's investor relations activities adopt the recommendations on corporate disclosure contained in the "Guide to the Disclosure of Information to the Market" written by Forum ref.

### **3. Shareholders' meetings**

It is the Company's constant policy to use shareholders' meetings to inform the shareholders about the Company and its prospects; it does so in compliance with the rules governing price sensitive information and, where necessary, it will simultaneously communicate the same information to the market.

The Company carefully considers the choice of the date, time and place for convening shareholders' meetings in order to facilitate shareholder participation. All the directors and statutory auditors make every possible effort to attend the meetings, especially those directors whose position means that they can make a useful contribution to the debate.

The shareholders' meeting held on May 10th, 2004 adopted a set of Rules for shareholders' meetings (a copy of which is appended to this report and also published on the Company's website), in order to ensure, as recommended by the Corporate Governance Code, the orderly and effective conduct of ordinary and extraordinary shareholders' meetings, while guaranteeing the right of each shareholder to speak on the matters on the agenda.

#### **4. Statutory auditors**

The shareholders' meeting held on May 10th, 2004 appointed the following as standing auditors: Roberto Bracchetti, Chairman, Paolo Carrara and Gianfranco Polerani. Franco Ghiringhelli and Paola Giudici were appointed as alternate auditors.

As already mentioned, the current Board – reflecting the nominations presented by the controlling shareholder since no minority lists were submitted at the time of its election – ceases to hold office at the shareholders' meeting called to approve the financial statements for the year ending December 31st, 2006.

Below is a list of the other offices of director or statutory auditor held by the statutory auditors in other companies listed on regulated markets in both Italy and abroad, or in financial, banking, insurance or other large companies:

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 Opportunities SGR 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;
- Coface Assicurazioni S.p.A., Standing auditor;
- Coface Factoring Italia S.p.A., Standing auditor;
- ABB S.p.A., Standing auditor;
- Alstom Power Italia S.p.A., Standing auditor;
- Rinascente/Upim S.p.A., Standing auditor;

Paolo Carrara (Standing auditor):

- Zürich SIM S.p.A., Chairman of the Board of Statutory Auditors;
- Peg Perego S.p.A., Chairman of the Board of Statutory Auditors;

- Zürich Investments Life S.p.A., Standing auditor;
- Züritel S.p.A., Standing auditor;

Gianfranco Polerani (Standing auditor):

- Mediolanum Assicurazioni S.p.A., Alternate auditor;
- Mediolanum Vita S.p.A., Alternate auditor;

Franco Ghiringhelli (Alternate auditor):

- Mondadori Pubblicità S.p.A., Chairman of the Board of Statutory Auditors;
- Camfin S.p.A., Standing auditor;
- Grifogest SGR S.p.A., Standing auditor;
- I Grandi Viaggi S.p.A., Standing auditor;
- Pirelli & C. S.p.A., Alternate auditor.

All the standing auditors had a 100% attendance record at meetings of the Board of Statutory Auditors in 2005, while their attendance at meetings of the Board of Directors was as follows:

- 100% for the Chairman Roberto Bracchetti;
- 90% for the standing auditor Gianfranco Polerani;
- 100% for the standing auditor Paolo Carrara,

with an overall average attendance record of 96.67%.

## **5. Investment Savings Act**

The Company has recognized the importance of the amendments made by Law 262 of December 28th, 2005 (the “Investment Savings Act”), to Decree 58/1998 and has immediately implemented all the provisions which have immediate effect. As regards all the other provisions due to come into force at a later date or nonetheless dependent upon the issue of statutory rules or implementation rules by Consob or other competent authorities, the Company will promptly take all the necessary steps, including amending its articles of association as appropriate.

The following tables summarize how the Company has adopted the Code’s main recommendations:

1. Structure of the Board of Directors, the Audit and Corporate Governance Committee and the Compensation Committee.
2. Structure of the Board of Statutory Auditors.
3. Other recommendations contained in the Corporate Governance Code.

**TABLE 1: STRUCTURE OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES**  
**BOARD OF DIRECTORS**

Table 1: Structure of the board of directors and board committees

| Board of Directors Office held              | Members                     | Executive | Non-executive | Independent | Number of other appointments | Audit Committee * |     | Compensation Committee † |      | Nominations Committee, if any ‡ |     | Executive Investment Committee |        |
|---|-----------------------------|-----------|---------------|-------------|------------------------------|-------------------|-----|--------------------------|------|---------------------------------|-----|--------------------------------|--------|
|   |                             |           |               |             |                              | ( )               | ( ) | ( )                      | ( )  | ( )                             | ( ) | ( )                            | ( )    |
| Chairman                                    | Tronchetti Provera Marco    |           | X             |             | 100%                         | 6                 |     |                          |      |                                 |     | X                              | 100%   |
| Deputy Chairman and Chief Executive Officer | Puri Negri Carlo Alessandro | X         |               |             | 100%                         | 15                |     |                          |      |                                 |     | X                              | 66.66% |
| Deputy Chairman                             | Nassi Giovanni              | X         |               |             | 100%                         | -                 |     |                          |      |                                 |     |                                |        |
| Sector Chief Executive Officer (1)          | Bianco Carlo                | X         |               |             | 100%                         | -                 |     |                          |      |                                 |     |                                |        |
| Sector Chief Executive Officer              | Biffi Emilio                | X         |               |             | 90%                          | -                 |     |                          |      |                                 |     |                                |        |
| Director                                    | Bartholomew Peginakl        |           |               | X           | 100%                         | 3                 |     | X                        | 100% |                                 |     |                                |        |
| Director                                    | Buora Carlo                 |           | X             |             | 50%                          | 7                 |     |                          |      |                                 |     | X                              | 33.33% |
| Director                                    | Crist William Dale          |           |               | X           | 90%                          | -                 | X   | 100%                     |      |                                 |     |                                |        |
| Director                                    | de Poulpiquet Olivier       | X         |               |             | 90%                          | 4                 |     |                          |      |                                 |     |                                |        |
| Director                                    | Haggiag Roberto             |           |               | X           | 100%                         | 1                 | X   | 75%                      |      |                                 |     |                                |        |
| Director (vacated office on 12/29/2005)     | Lamacchia Sergio            |           | X             |             | 100%                         | -                 |     | X                        | 100% |                                 |     |                                |        |
| Director (appointed 1/25/2006)              | Croce Carlo Emilio          |           | X             |             | -                            | -                 |     |                          |      |                                 |     |                                |        |
| Director (appointed 4/27/2005)              | Lucarelli Paola             |           |               | X           | 100%                         |                   |     |                          |      |                                 |     |                                |        |
| Director                                    | Pecchi Claudio              |           |               | X           | 90%                          | 3                 |     | X                        | 100% |                                 |     | X                              | 66.66% |
| Director                                    | Sozzani Vincenzo            |           | X             |             | 90%                          | 2                 |     |                          |      |                                 |     | X                              | 33.33% |
| Director                                    | Trevisan Dario              |           |               | X           | 100%                         | -                 | X   | 100%                     |      |                                 |     |                                |        |

\* Summary of reasons for lack of any committee or different composition relative to that recommended by the Code:

† Summary of reasons for lack of any committee or different composition relative to that recommended by the Code:

‡ Summary of reasons for any different composition relative to that recommended by the Code:

|   |                        |                    |                           |                          |                         |
|---|------------------------|--------------------|---------------------------|--------------------------|-------------------------|
| Number of meetings held during the year | Board of Directors: 10 | Audit Committee: 4 | Compensation Committee: 4 | Nominations Committee: - | Investment Committee: 3 |
|---|------------------------|--------------------|---------------------------|--------------------------|-------------------------|

NOTES

(\*) Indicates whether the director was nominated through lists presented by the minority.

(\*\*) This column indicates the number of other appointments as a director or statutory auditor held by this person in other listed companies, in Italy or abroad, and in financial, banking, insurance or other large companies. Full details of the appointments are provided in the Corporate Governance Report.

(\*\*\*) These columns indicate with an "X" the director's membership of the committee in question.

(\*\*\*\*) This column indicates the director's attendance record at meetings of the Board of Directors and Board Committees.

(1) Appointed to the office of Deputy Chairman from January 25th, 2006.

## **TABLE 2: BOARD OF STATUTORY AUDITORS**

**Table 2: Board of statutory auditors**

| Office held       | Members             | Attendance record at board meetings | Number of others (*) appointments |
|-------------------|---------------------|-------------------------------------|-----------------------------------|
| Chairman          | Bracchetti Roberto  | 100%                                | 1                                 |
| Standing auditor  | Carrara Paolo       | 100%                                | –                                 |
| Standing auditor  | Polerani Gianfranco | 100%                                | –                                 |
| Alternate auditor | Ghiringhelli Franco | –                                   | 3                                 |
| Alternate auditor | Giudici Paola       | –                                   | –                                 |

Number of meetings held during the year: 6

Specify the quorum required for minorities to present lists for the election of one or more standing auditors (under article 148 of Decree 58/1998): 2%

### NOTES

(\*) Indicates whether the statutory auditor was nominated through lists presented by the minority.

(\*\*) This column indicates the number of other appointments as a director of statutory auditor held by this person in other listed companies in Italy. Details of their principal appointments, including in unlisted companies, are provided in the *Corporate Governance Report*.

**TABLE 3: OTHER RECOMMENDATIONS CONTAINED IN THE CORPORATE GOVERNANCE CODE**

**Table 3: Other recommendations contained in the corporate governance code**

|   | YES | NO | Summary of reasons for any discrepancy with the Code's recommendations  |
|---|-----|----|---|
| <b>System of delegating powers and monitoring related-party transactions</b>  |     |    |   |
| Has the Board of Directors delegated powers, establishing their:  |     |    |   |
| a) limits   | X   |    |   |
| b) manner of exercise   | X   |    |   |
| c) and frequency of reporting?  | X   |    |   |
| Has the Board of Directors reserved for itself the examination and approval of transactions with a significant impact on the company's income statement, balance sheet and financial position (including related-party transactions)? | X   |    |   |
| Has the Board of Directors established guidelines and principles for identifying "significant" transactions?  | X   |    |   |
| Are the guidelines and principles referred to above described in the report?  | X   |    |   |
| Has the Board of Directors defined specific procedures for examining and approving related-party transactions?  | X   |    |   |
| Are the procedures for approving related-party transactions described in the report?  | X   |    |   |
| <b>Conduct of the most recent appointment of directors and statutory auditors</b>   |     |    |   |
| Were the names of candidates for the office of director filed at least ten days in advance?   | X   |    |   |
| Were the nominations to the office of director accompanied by full and sufficient information?  | X   |    |   |
| Were the nominations to the office of director accompanied by a statement of their suitability to qualify as independent directors?   | X   |    |   |
| Were the names of candidates for the office of statutory auditor filed at least ten days in advance?  | X   |    |   |
| Were the nominations to the office of statutory auditor accompanied by full and sufficient information?   | X   |    |   |
| <b>Shareholders' meetings</b>   |     |    |   |
| Has the company approved a set of Rules for shareholders' meetings?   | X   |    |   |
| Are these Rules appended to the report (or is it stated where they may be obtained/downloaded)?   | X   |    |   |
| <b>Internal control</b>   |     |    |   |
| Has the company appointed persons to be in charge of internal control?  | X   |    |   |
| Are the persons appointed not hierarchically responsible to persons in charge of operational areas of the business?   |     | X  |   |
| Organizational unit in charge of internal control (under article 9.3 of the Code)   |     |    | Internal Audit Department of the parent company Pirelli & C. S.p.A., whose services are used by the person appointed by the company to be in charge of internal control |
| <b>Investor relations</b>   |     |    |   |
| Has the company appointed someone to be responsible for investor relations?   | X   |    |   |
| Organizational unit and references of person responsible for investor relations (address/tel/fax/e-mail)  |     |    | <u>Investor Relations</u><br>– address: Via Negri, 10 - Milan;<br>– tel. 02/85354057;<br>– fax 02/85354387;<br>– e.mail: dario.fumagalli@pirellire.com                  |

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

**GUIDELINES FOR COMPLIANCE WITH THE OBLIGATIONS UNDER ARTICLE 150.1 OF  
DECREE 58/1998**

**Introduction**

Article 150.1 of Decree 58/1998 (henceforth the “Consolidated Finance Act”) requires that “the directors report to the Board of Statutory Auditors in a timely manner, in accordance with the guidelines laid down in the company’s articles of association and at least on a quarterly basis, on the work performed and transactions having a major impact on the operating performance, capital structure and financial position of the company and its subsidiaries; they must specifically report any transactions in which they have an interest, on their own account or that of third parties, or which are influenced by the party which conducts management and co-ordination activities”<sup>1</sup>.

In implementation of the requirements mentioned above and in light of CONSOB circulars concerning corporate governance<sup>2</sup>, these guidelines define the parties and transactions involved in the information provided to the statutory auditors of Pirelli & C. Real Estate S.p.A. (henceforth “Pirelli RE” or the “Company”), as well as the steps and timing characterizing such reporting. More specifically, these guidelines define:

1. the type, frequency and contents of the information;
2. the procedures for gathering the information.

The purpose of these guidelines is first and foremost to provide the Board of Statutory Auditors with the information needed for performing its supervisory duties required under article 149 of the Consolidated Finance Act.

Secondly, the guidelines implement the tools of corporate governance recommended in the Corporate Governance Code issued by the Italian Committee for the Corporate Governance of Listed Companies, which has been adopted by Pirelli RE. More specifically, these guidelines increase the transparency of the Company’s management and so allow each director to participate in its management in a more knowledgeable and informed fashion. In addition, these guidelines cover information flows between executive directors and the board of directors, as recommended by the Corporate Governance Code. They are designed, on the one hand, to confirm the “centrality” of the Company’s ultimate governing body and, on the other, to reinforce the functions of internal control.

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<sup>1</sup> This requirement has been included in the articles of association of PIRELLI RE; paragraphs 3 and 4 of article 18 of the articles of association establish that “The Board of Directors and the Board of Statutory Auditors are informed, including by the delegated bodies, of the work performed, the general performance of the business and its outlook, and of transactions with a major impact on the operating performance, capital structure and financial position of the company and its subsidiaries; the delegated bodies must specifically report any transactions in which they have an interest, on their own account or that of third parties, or which are influenced by the party which conducts management and co-ordination activities, if relevant. This information is presented on a timely basis and in any case at least every quarter during meetings of the Board or the Executive Committee, if appointed, or by means of a written report”.

<sup>2</sup> See CONSOB Circular 97001574 dated February 20th, 1997; CONSOB Circular 1025564 dated April 6th, 2001. As well as Circular 2064231 dated September 30th, 2002, which defines the concept of related parties.

## **Type, frequency and contents of information**

The Board of Directors, including through delegated bodies, reports every quarter to the Board of Statutory Auditors by means of a specific written report on:

- a) the work performed;
- b) the more important transactions affecting operating performance, capital structure and financial position;
- c) transactions featuring potential conflicts of interest, i.e.:
  - c1) intercompany transactions;
  - c2) related-party transactions other than intercompany transactions;
- d) abnormal or unusual transactions and every other activity or transaction that is deemed appropriate to report to the Board of Statutory Auditors.

The information provided refers to the work performed and the transactions carried out in the period of time since that covered by the previous report.

The report in question is sent to all Board members and standing statutory auditors at the same time.

### ***1. Work performed***

The information concerns executive activities and progress in operations already approved by the Board of Directors, as well as the activities of the various Committees (Audit and Corporate Governance Committee; Compensation Committee and other internal committees). The report includes details on the work performed by the executive directors in the exercise of their authority - including through the organizational structures of the Company and its subsidiaries – and also describes any initiatives undertaken and projects started.

### ***2. More important transactions affecting operating performance, capital structure and financial position***

The information concerns the more important transactions affecting operating performance, capital structure and financial position. Specific details must be given about their strategic objectives, consistency with the operational and three-year plans, their practical implementation (including the terms and conditions for their completion, including those of a financial nature) and developments, plus any constraints and implications caused by such transactions for the Pirelli RE Group's business.

For the purposes of these guidelines, the more important transactions affecting operating performance, capital structure and financial position are defined as the following transactions undertaken by Pirelli RE and its subsidiaries (in addition to those that are the prerogative of the Board of Directors under article 2381 of the Italian Civil Code and the Company's own articles of association):

- 1) the issue of financial instruments for a total value in excess of €100 million;
- 2) the grant of secured and unsecured guarantees or loans in the interest of subsidiary or associated companies (as well as in the interest of Pirelli RE in the case of secured guarantees) against obligations for individual sums in excess of €25 million;

- 3) the grant of loans or guarantees to or in the interest of third parties for amounts in excess of €10 million;
- 4) investments and disinvestments, including in real estate, purchases and sales of equity investments, companies or businesses, fixed and other assets, for amounts in excess of €50 million;
- 5) mergers and demergers involving subsidiaries, if at least one of the following parameters, where applicable, is equal to or greater than 15%:
  - a) total assets of the merged company or the business being demerged / total assets of the Company (as per the consolidated financial statements);
  - b) result before income taxes and extraordinary items of the merged company or business being demerged/result before income taxes and extraordinary items of the Company (as per the consolidated financial statements);
  - c) total shareholders' equity of the merged company or business being demerged/total shareholders' equity of the Company (as per the consolidated financial statements).

For the purposes of these guidelines, mergers by absorption or aggregation between listed companies, as well as mergers by absorption of a listed into an unlisted company, are treated as being one of the more important transactions affecting operating performance, capital structure and financial position.

The information also concerns those transactions that, although individually below the quantitative thresholds indicated earlier or falling within the exclusive prerogative of the Board of Directors, form part of the same strategic or operational design and so, taken as a whole, exceed the limits defining importance.

### ***3. Transactions featuring potential conflicts of interest***

#### ***3a) Intercompany transactions***

The information concerning intercompany transactions must explain the underlying interest and rationale within the Group context, as well as details of their practical implementation (including the terms and conditions – also of a financial nature – for their completion) with special attention to the valuation methods adopted.

Specific disclosure must be made of transactions in excess of €50 million, and those conducted under non-standard terms, even if lower than this figure <sup>3</sup>. Transactions must also be disclosed if, although individually lower than the threshold indicated, they form part of the same strategic or operational design and so, taken as a whole, exceed the limit. For the purposes of these guidelines, intercompany transactions <sup>4</sup> are defined as those undertaken by Pirelli RE or its subsidiaries with:

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<sup>3</sup> For the purposes of these guidelines, transactions under standard terms are those concluded under the same conditions applied by the Company to any party.

<sup>4</sup> For the purposes of these guidelines, relevant transactions include disposals, also without consideration, of intangible and tangible assets, as well as of rights with economic value; transactions involving the supply of work and services; the grant or receipt of loans and guarantees; agreements to conduct and develop business activities.

- a) companies which, directly or indirectly, ie. via trust companies or third parties, control Pirelli RE within the meaning of paragraphs 1 and 2 of article 2359 of the Italian Civil Code and article 93 of the Consolidated Finance Act;
- b) companies which, directly or indirectly, ie. via trust companies or third parties, are controlled by Pirelli RE within the meaning of paragraphs 1 and 2 of article 2359 of the Italian Civil Code and article 93 of the Consolidated Finance Act;
- c) companies which, directly or indirectly, ie. via trust companies or third parties, are controlled by the same companies that control Pirelli RE within the meaning of paragraphs 1 and 2 of article 2359 of the Italian Civil Code and article 93 of the Consolidated Finance Act;
- d) companies associated with Pirelli RE within the meaning of paragraph 3 of article 2359 of the Italian Civil Code and those which exercise a significant influence over Pirelli RE; no relationship is deemed to exist with associated companies of associated companies.

*3b) Related-party transactions other than intercompany transactions*

The information concerning related-party transactions other than intercompany transactions must explain the underlying interest and details of their practical implementation (including the terms and conditions for their completion, including those of a financial nature) with special attention to the valuation methods adopted.

For the purposes of these guidelines, related-party transactions<sup>5</sup> are defined as those undertaken by Pirelli RE or by companies controlled by Pirelli RE with parties that are directly or indirectly related to Pirelli RE.

Parties directly related to Pirelli RE are:

- a) individuals who own (directly or indirectly, ie. including via trust companies or third parties) an equity interest equal to or greater than 10% of Pirelli RE's ordinary share capital;
- b) individuals who, even though they own (directly or indirectly, ie. including via trust companies or third parties) an equity interest below the threshold indicated in point a) above, can appoint, by virtue of shareholder syndicates, – either alone or together with other members of such syndicates – the majority of the members of Pirelli RE's Board of Directors;
- c) individuals who, even though they own (directly or indirectly, ie. including via trust companies or third parties) an equity interest below the threshold indicated in point a) above, can exercise, by virtue of shareholder syndicates, – either alone or together with other members of such syndicates – the majority of voting rights exercisable at Pirelli RE's ordinary shareholder meetings;
- d) directors and standing statutory auditors of Pirelli RE;
- e) Pirelli RE general managers, the secretary to the Board of Directors and the heads of business units/HQ functions/operations who report directly to the Deputy Chairman and Chief Executive Officer or to the general managers (the so-called first-level reports).

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<sup>5</sup> See previous note.

Parties indirectly related to Pirelli RE are:

- f) spouses of persons specified in points a) to e) above, unless legally separately; blood relations and relations by marriage up to the second degree of the persons specified in points a) to e) above;
- g) companies in which the persons specified in points a) to g) own, directly or indirectly (ie. including via trust companies or third parties), an equity interest equal to or greater than 10% (if the company is listed) or 20% (if the company is unlisted) of the share capital consisting of shares with voting rights at ordinary shareholder meetings;
- h) companies in which the persons specified in points a) to g), even though owning equity interests below the limits listed in point h), can appoint, by virtue of shareholder syndicates, either alone or together with other members of such syndicates – the majority of the members of the company’s Board of Directors;
- i) companies in which the persons specified in points a) to g), even though owning equity interests below the limits listed in point h), can exercise, by virtue of shareholder syndicates, either alone or together with other members of such syndicates the majority of voting rights exercisable at the company’s ordinary shareholder meetings;
- j) companies and their subsidiaries in which the persons specified in points a) to g) hold a strategic management position;
- k) companies that have the majority of directors in common with Pirelli RE.

Related parties are also those who are members, including indirectly, of shareholder syndicates, as defined by paragraph 1 of article 122 of Decree 58/98, for the exercise of voting rights if an overall controlling interest is in the hands of such a syndicate.

Transactions worth over €500 thousand must also be reported, plus those, even if for a lower amount, that are concluded (even via third parties) under non-standard conditions with parties directly or indirectly related to Pirelli RE. Transactions must also be disclosed if, although individually lower than the threshold indicated, they form part of the same strategic or operational design and so, taken as a whole, exceed the limit.

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

The information concerning abnormal or unusual transactions, including by subsidiaries, and any other activity or transaction which it is deemed appropriate to report, must explain the underlying interest and details of their practical implementation (including the terms and conditions for their completion, including those of a financial nature) with special attention to the valuation methods adopted.

For the purposes of these guidelines, abnormal or unusual transactions are those in which the transaction’s object or nature is outside the Company’s normal course of business and those that feature special problems due to their characteristics and inherent risks, the counterparty’s nature, or the timing of their completion.<sup>6</sup>

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<sup>6</sup> Transactions completed close to the year end or at the beginning of the financial year.

## **Procedures for gathering the information**

The Board of Directors reports to the Board of Statutory Auditors via its delegated bodies. In order to prepare the relevant report, the Deputy Chairman and Chief Executive Officer must receive information in accordance with the following procedures.

### ***1. Information on work performed; on the more important transactions affecting operating performance, capital structure and financial position; on intercompany transactions and on abnormal or unusual transactions***

Pirelli RE general managers and heads of business units/HQ functions/operations who report directly to the Deputy Chairman, CEO and the general managers (the so-called first-level reports) communicate on a quarterly basis via the HQ Administration & Control Department to the Deputy Chairman and CEO, in a specific memorandum, detailing the work performed in the period in their areas of responsibility, with special reference to the more important transactions affecting operating performance, capital structure and financial position; intercompany transactions exceeding €50 million in value or in any case completed under non-standard terms; abnormal or unusual transactions; operational activities and progress of transactions already approved by the Board of Directors, as well as the main activities performed in the exercise of the powers delegated to executive directors, including the more important projects started and more significant initiatives undertaken.

They must also report those transactions that, although individually below the quantitative thresholds indicated earlier or falling within the exclusive prerogative of the Board of Directors, form part of the same strategic or operational design and so, taken as a whole, exceed the limits defining importance.<sup>7</sup>

Information on the activities of the Audit and Corporate Governance Committee, the Compensation Committee and various internal committees is provided by their respective chairmen.

### ***2. Information on related-party transactions other than intercompany transactions***

The HQ Administration and Control Department collects and sends to the Deputy Chairman and CEO, with the same frequency as in point 1) above, the notifications received from parties directly related to Pirelli RE reporting the following types of transactions:

- those that were carried out, directly or through one of the parties listed in paragraph 3.b above from letters h) to l) and including through third parties, with Pirelli RE or companies under its control, by themselves, by their spouse unless legally separated, by blood relations and relations by marriage up to the second degree;
- those worth over €500 thousand, or those concluded under non-standard terms, even if below this figure.

Such information must also include transactions which, although individually lower than the threshold specified earlier, are connected and so, taken as a whole, exceed the stated limit.<sup>8</sup>

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<sup>7</sup> In this case, transactions are reportable even if executed in a time span going beyond the quarter covered by the memorandum.

<sup>8</sup> See previous note.

The HQ Administration and Control Department also receives the declarations in which directly related parties (i) list the companies that fall under the definition of paragraph 3.b, letters h) to k), and the companies in which they hold the office of director; (ii) update this list.

The HQ Administration and Control Department sends the list of Pirelli RE related parties, as identified above, to Pirelli RE's general managers and heads of business units/HQ functions/operations who report directly to the Deputy Chairman and Chief Executive Officer (so-called first-level reports).

The first-level reports report on a quarterly basis to the Deputy Chairman and CEO the transactions carried out with Pirelli RE – or with subsidiaries of Pirelli RE – including via third parties, by indirectly related parties as identified in the list provided by the HQ Administration and Control Department, whose amount exceeds €500 thousand and which were conducted under nonstandard terms, even if lower than this figure.

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

### **GUIDELINES FOR CONDUCTING TRANSACTIONS WITH RELATED PARTIES**

1. The Board of Directors shall approve in advance all transactions with related parties, including intragroup transactions, except for typical or normal transactions or those to be completed under standard terms.
2. Typical or normal transactions are those that, by virtue of their subject or nature, are not outside the company's normal course of business and do not feature any particularly critical elements due to their characteristics or risks inherent to the type of counterparty, or the timing of their completion. Transactions under standard terms are those concluded under the same conditions applied by the company to any party.
3. The Board of Directors shall receive adequate information on the nature of the relationship, on how the transaction is conducted, the terms of their conclusion, financial and otherwise, the evaluation procedure adopted, the underlying interest and reasons and any risks to the company. If the relationship is with a director or a related party through a director, the director concerned shall simply provide clarifications and shall leave the meeting when the relevant resolution is put to the vote.
4. Depending on the nature, value or other characteristics of the transaction, the Board of Directors is assisted by one or more experts in order to ensure that the transaction is not completed under inappropriate terms. Depending on the circumstances, these experts shall express an opinion on the transaction's economic terms, and/or its legitimacy, and/or its technical merits.
5. For related-party transactions, including intragroup transactions, which are not submitted to the Board of Directors, since they are typical or normal and/or under standard terms, the directors so authorized or the managers responsible for completing the transaction – notwithstanding compliance with the specific procedure under article 150.1 of the Italian Consolidated Finance Act – shall collect and preserve, including by types or groups of transaction, appropriate information on the nature of the relationship, on the manner of the transaction's conduct, its terms of completion, financial and otherwise, the evaluation process adopted, the underlying interest and reasons and any risks to the company. Again, in accordance with the procedures specified above, one or more experts may be appointed to assess these transactions.
6. Experts must be selected from parties with recognized professional skills and expertise in the matters concerned and their independence and absence of conflicts of interest will be evaluated carefully.

## **GUIDELINES FOR HANDLING AND PUBLISHING PRICE SENSITIVE INFORMATION**

### **Index**

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3. Persons to whom these Guidelines apply
4. Sources of reference
5. Definitions
6. Criteria for classifying information as price sensitive
7. Classification of market sensitive information
8. List
9. Confidentiality measures applied to market sensitive information
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10. Disclosure to the market of price sensitive information - general rules
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### **Appendixes**

- A - Notification to be sent to persons placed on the list
- B - Procedures for maintaining, managing and retrieving the data
- C - Confidentiality Agreement (in both Italian and English)

## **1. - Introduction**

1.1 - Information concerning events, circumstances, facts or projects of specific relevance and purpose to corporate activities represent a strategic part of a company's assets fundamental for its success. Such information underlies the most important company processes and its correct and timely disclosure is necessary if the company is to pursue its business objectives in an effective manner.

1.2 - Without prejudice to specific statutory provisions relating to the protection and publication of certain types of information (like personal, sensitive data governed by Decree 196/2003, known as the Privacy Code), information shall be used in compliance with the general principle of efficiently employing and safeguarding company resources, reflected in this instance in the principle of the "need to know". The use of information for purposes other than the pursuit of the corporate purpose must be regarded as an abuse and, as a general rule, all those who work in the interests of the Pirelli RE Group (the Group) are subject to the obligation to maintain the confidentiality of information learned or developed as a result of or during the conduct of their duties.

1.3 - The law also dictates an obligation to disclose to the market any information of a precise nature which has not been made public, relating to the Company or its subsidiaries, that if published could have a significant effect on the price of its financial instruments (known as price sensitive information). The law also requires that parity of information be restored if price sensitive information is learned by third parties who are not subject to confidentiality requirements based on law, regulations, the company's articles of association or a contract.

1.4 - This is why the period before "finalizing" the price sensitive information is so delicate, not only because price sensitive information that is usually defined as "potentially" sensitive must be treated in a special classified manner in order to avoid the obligation to publish it immediately, but also because its early publication could mislead the market and/or harm the company's business.

1.5 - These guidelines cover the handling – including the public disclosure – of price sensitive information and information that could become price sensitive. They seek to reconcile the need for smooth internal information flows with the need to protect information, with specific reference to the conflict between disclosure of price sensitive information and its confidentiality during the formation process. As such these guidelines interface with the general internal rules on classifying and handling confidential information.

## **2 - Scope and field of application**

2.1 - These guidelines (the Guidelines) establish:

- the criteria and responsibility for classifying price sensitive information;
- the methods of tracing access to potentially price sensitive information, with particular reference to the establishment of the list required by article 115-bis of Decree 58/1998 and article 152-bis of the Consob Regulations adopted in its resolution 11971 of May 14th, 1999 and subsequent amendments thereto;
- the methods and rules for safeguarding the confidentiality of potentially price sensitive information;
- operating procedures for disclosing price sensitive information to the market and for generally handling contacts with the public and/or analysts/investors.

2.2 - The Guidelines are an essential part of the Pirelli RE Group's internal control system. They directly govern price sensitive information relating to Pirelli, its unlisted subsidiaries and the Group's listed financial instruments and represent a template for similar measures that every group company that issues listed financial instruments on regulated markets in Italy (including the companies which set up and manage listed real estate investment funds), is independently required to implement.

2.3 - The gravity of the consequences of incorrectly applying these Guidelines means that their strict observance must be rigorously and continuously checked; any instances of noncompliance shall be promptly reported to the Audit and Corporate Governance Committee by the person in charge of internal control.

### **3 - Persons to whom these Guidelines apply**

3.1 - All corporate officers and employees of group companies with access to information likely to become price sensitive are required to observe these Guidelines. More specifically, first-level managers confirm in writing, upon their appointment, that they have examined the Guidelines and are aware of the responsibility arising therein.

3.2 - The conduct of "outsiders" who, for whatever reason, have similar access are governed by the rules contained in the confidentiality agreement described below.

3.3 - These Guidelines also act as instructions to companies controlled by Pirelli in order that they immediately provide all the information required for prompt and correct fulfilment of the obligations to disclose information to the public envisaged by current statutory and regulatory requirements and in order that listed subsidiaries or those with financial instruments listed on Italy's regulated markets or which set up and manage listed real estate investment funds can adopt equivalent measures.

### **4 - Sources of reference**

- EU Directive on market abuse (Directive 2003/6/EC of the European Parliament and of the Council dated January 28th, 2003; European Commission Directive 2003/124/EC dated December 22nd, 2003; European Commission Directive 2004/72/EC dated April 29th, 2004).
- Articles 114 et seq. of Decree 58/1998.
- Law 262/2005.
- Consob Regulations adopted under resolution 11971 of May 14th, 1999 and subsequent amendments.
- Ethical Code of the Pirelli RE Group.
- General principles of internal control.
- Operational rule "OP.SEG.01" dated April 6th, 1994 "REGULATIONS ON THE CLASSIFICATION, CONTROL AND PROTECTION OF INFORMATION" (Group Policy).<sup>1</sup>

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<sup>1</sup> Being updated.

## **5 - Definitions**

- Price sensitive information – Under the statutory definition Pirelli RE’s price sensitive information is any information of a precise nature which has not been made public, relating to the Company or its subsidiaries, that if published could have a significant effect on the price of the financial instruments issued by itself or its subsidiaries. Price sensitive information, once finalized, is the subject of a general obligation to make immediate public disclosure thereof in accordance with the rules contained in these Guidelines.
- Market sensitive information – For the purposes of these Guidelines, market sensitive information means information that could become price sensitive, i.e. “potentially” price sensitive information. Under this meaning, market sensitive information can include actual or forecast data, a business-related offer, a project, a contract, an event, including an organizational one, a corporate action, a business decision. Market sensitive information 2005 Annual Report is subject to the specific confidentiality procedures established in these Guidelines; this does not prevent the same information from also being classified using the standard classification methods, contained in specific internal rules, to avoid the risk of damage to which the Group would be exposed resulting from its improper circulation.
- Information environment – An information environment is all the information relating to a specific event/transaction/project, including auxiliary or associated information and all the related documents and reports. Certain recurring or ongoing activities/processes within the business also represent information environments.
- List – This is the computerized database, created in accordance with law, containing the list of persons who, by virtue of their employment or profession or duties, have access of market sensitive information.
- Market Sensitivity Support Group – The technical support for classifying information as market sensitive is provided by a team consisting of the heads of the following functions: HQ Human Resources & Corporate Development Department, HQ Legal & Corporate Affairs Department, HQ Administration, Finance & Control Department, Press Office, Investor Relations, coordinated by the Company’s Information Administrator.

## **6 - Criteria for classifying information as price sensitive**

6.1 - The first criteria for classifying information as price sensitive is its precise nature. Accordingly, in order for information to be price sensitive it must refer to:

- √ an event that has occurred or may reasonably be expected to do so, or
- √ a set of circumstances which exists or may reasonably be expected to come into existence

and which is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or event on the prices of the financial instruments of the Company and its subsidiaries.

6.2 - The price sensitive information relates to events and circumstances that have occurred or are likely to occur. This excludes surveys, research reports and analyses developed using information that is already in the public domain.

6.3 - The price sensitive information must also refer to the Company or its subsidiaries. In this respect, price sensitive information can:

- √ have an “intentional” origin (like unilateral business decisions, extraordinary financial transactions and agreements) or
- √ arise from the recognition of objective facts, events or circumstances affecting the company’s business and/or price of its issued financial instruments (like actual results for a period, or the resignation of a top manager).

The referability of the information to the Company shall be assessed according to whether the decision (price sensitive information of an “intentional” origin) or act of recognition (price sensitive information of an “external” origin) can be legally attributed to it.

6.4 - If the price sensitive information is of an “intentional” origin, it is perfected when the fact (transaction, unilateral decision or agreement) to which the information refers is finalized in accordance with the procedures required by the applicable principles of corporate governance i.e. those resulting from the law, the articles of association and internal documents. In short, price sensitive information will be disclosed once the decision-making body responsible for the matters covered by the information itself (i.e. the Board of Directors or other delegated body) has made its decision.

6.5 - As regards price sensitive agreements, it is the moment when their contents are basically agreed and become legally binding that is relevant, rather than the time they are actually formalized (concluded): price sensitive information is finalized as soon as the parties agree on the essential terms of the agreement, without reservation to carry on further negotiations. For the purposes of ensuring that the “intent” refers to the Company itself (or its subsidiaries) and hence to the information, the Company’s “intent” (or that of its subsidiaries) must be expressed by an agent capable of binding the Company (or its subsidiaries).

6.6 - If the price sensitive information is of an “external” origin, i.e. information involving the recognition of objective facts, events or circumstances, when the fact is instantaneous (eg. notification of a penalty or the resignation of a top manager) and not open to discretionary interpretation, the moment it is acknowledged by the Company coincides with its referability to the Company (or its subsidiaries) and so with the finalization of price sensitive information carrying the consequent obligation to disclose.

6.7 - More often the recognition of price sensitive information of external origin arises over a period of time and is organized in successive stages, sometimes designed to construct information (like actual results for a period), sometimes designed to interpret a set of circumstances (like a profit warning). In the case in point the moment price sensitive information is finalized is governed by corporate governance rules (statute, articles of association, in-house rules) relating to responsibility at the end of the recognition process.

## **7- Classification of market sensitive information**

7.1 - In the case of price sensitive information of an “intentional” origin, persons entitled to submit the event/transaction/process to the competent decision-making body are authorized to classify the information as market sensitive. Therefore,

- strategic projects and decisions falling under the responsibility of the Board of Directors (i.e. extraordinary financial transactions) are classified as market sensitive by the Chairman of the Board of Directors, who may delegate such responsibility to the Board Secretary, who will coordinate with the Deputy Chairman & Chief Executive Officer and/or General Managers for this purpose;

- decisions referred to a delegated body (i.e. a business-related agreement, or the acquisition or disposal of real estate and non performing loans), it is the person reporting directly to the delegated body who is responsible for deciding whether the information is market sensitive.

7.2 - The competent decision-making body itself may decide whether the information is market sensitive or not (i.e. the Board of Directors, or its delegated bodies).

7.3 - Once the information has been classified as market sensitive, the person making this decision will take steps to segregate the corresponding information environment in order to prevent its improper circulation within the organization but above all outside of it.

7.4 - In the case of price sensitive information of an “external” origin, assuming that the instantaneous event is not open to interpretation, meaning its mere acknowledgement by the organization triggers the disclosure obligation, the information is classified as market sensitive (and so subject to the specific confidential treatment associated with this status),

- if its content is the object of a formalized recognition/development process (i.e. processing of data due to be reported in a financial report), starting with the stage of the process identified by the first-level manager in charge of the process itself. This decision must reconcile the need for speed of “basic” information flows with the need for prompt prevention (through appropriate mechanisms and conduct) of the risk of information leakage;
- if the interpretation and evaluation process for the event or circumstance is not formalized ex ante (eg. notification of a penalty), as soon as the event or circumstances enters into the company’s sphere of reference, when the first-level manager decides if and when the specific information may evolve into price sensitive information.

7.5 - Before qualifying as market sensitive, the information is in a preliminary status, which is irrelevant as far as these Guidelines are concerned, but which obviously does not rule out its confidential nature and its related classification in accordance with the principles contained in the Group Policy, which applies even after classifying the information as market sensitive.

7.6 - The persons charged with classifying information as market sensitive can turn to the Market Sensitivity Support Group for technical assistance in this task. This Group may also prepare sample lists of events and circumstances that can usually be treated, because of their nature, characteristics and size, as relevant.

## **8 - List**

8.1 - The List consists of a computerized system capable of ensuring the traceability of access to individual market sensitive information environments so as to allow subsequent verification of the entries made to the List and any updates to the information contained therein.

The individual person entered on the list is responsible for ensure the traceability of the handling of the information within his sphere of activity and responsibility.

8.2 - While statutory and regulatory provisions still hold good, entries to the List shall be made:

- for relevant, recurring or ongoing activities/processes (eg. the reporting, budgeting or forecasting process);
- for specific projects/events (eg. extraordinary corporate actions, acquisitions/disposals, relevant external events).

8.3 - Individual names are entered on the List for individual recurring or ongoing activities/ processes or for individual projects/events (including the possibility of making multiple entries in different information environments), specifying the date on which the person first had access to the specific market sensitive information and the date when they no longer had access (entry/exit from the relevant information environment).

8.4 - Responsibility for opening a new information environment and its population (specifying the role covered by each person informed) lies with the same persons responsible for classifying information as market sensitive (i.e. the Board of Directors, the Chairman of the Board of Directors, possibly the Board Secretary under the Chairman's authority, the Deputy Chairman & Chief Executive Officer and the first-level managers). Anyone instituting an individual, specific information environment is the primary person in charge and as such is responsible for deciding whether to reclassify the related contents.

8.5 - When a new name is entered on the List or the List is subsequently updated (by the primary person in charge of the information environment to which the market sensitive information refers or by another person so authorized), the system will automatically generate a message notifying the person concerned, accompanied by the specific details informing them of the duties, prohibitions and responsibilities associated with accessing the market sensitive information, including the special policy for the individual tracing of the information flows (see the form in Appendix A).

8.6 - The roles and procedures involved in managing and updating the List, the methods of retrieving the data contained in it, and the rules adopted for maintaining it can be found in Appendix B to these Guidelines.

## **9 - Confidentiality measures applied to market sensitive information**

9.1 - The Pirelli RE Group adopts suitable measures to maintain the confidentiality of market sensitive information. More specifically, notwithstanding the security measures established in the Group Policy and other additional precautions suggested by experience and in general by the necessary prudence required to keep the risk of information leakage within reasonable limits, it is compulsory to comply with the measures for organizational, physical and logical security set out below.

9.2 - The same measures also apply:

- until disclosure has occurred in the case of price sensitive information that has already been finalized but for which delayed disclosure has been requested;
- even after disclosure, with regard to all the preparatory and investigative material, except for the possibility of being reclassified by the primary person in charge in the information environment to which the material refers.

### Organizational security

9.3 - The distribution of market sensitive information, under the guiding "need to know" principle, is the responsibility of the first-level managers shown in Pirelli RE's organization chart, who are in charge of informing the persons concerned of the relevance of the information notified and of ensuring that the List is properly and promptly populated.

9.4 - In the event of relevant recurring or continuing activities/processes, the identification of persons authorized to access market sensitive information is a key part of the operating procedures governing

these same activities/processes. The HQ Human Resources & Corporate Development Department is responsible for ensuring that the List is updated for any changes in internal organizational structure.

9.5 - Before being able to access market sensitive information, parties outside of the Group must sign a specific confidentiality agreement. The template for this agreement, whose contents may be changed only with explicit authorization by the Chairman of the Board of Directors, or the Board Secretary under the Chairman's authority, or the Deputy Chairman & Chief Executive Officer, can be found in Appendix C to these Guidelines.

#### Physical security

9.6 - The task of producing support materials (such as the printing and photocopying of documents) containing market sensitive information must be monitored by persons entered on the List. The subsequent storage, distribution and general management of this support material is the responsibility of persons so permitted within the limits permitted, in accordance with their role reported in the List. Each person must ensure the traceability of the operations involved in managing the support materials placed under their responsibility.

9.7 - The support materials must be labelled as market sensitive to make clear the nature of the information contained therein; for this purpose any files, regardless of filename extensions, must include in their title the codename of the information environment to which they belong.

9.8 - The support materials relating to market sensitive information must be kept in places to which physical access is controlled or placed in guarded or protected storage at the end of their use and must never be left unguarded, especially when taken outside of the workplace.

9.9 - Market sensitive information must be destroyed by the same persons so authorized, in the most suitable way for preventing any improper reconstruction of its contents.

#### Logical security

9.10 - If processed/handled/transmitted/filed in an electronic format, market sensitive information shall be encrypted.

9.11 - The cryptographic system used by the Pirelli RE Group for market sensitive information is Sealer 4.0 (and subsequent releases) by SealedMedia Inc. The population of the List relative to a specific information environment automatically involves the corresponding population of the database of licences authorizing access to the corresponding files, with the user profiles corresponding to the roles and type of roles defined in the List itself.<sup>2</sup>

### **10 - Disclosure of price sensitive information to the market - general rules**

10.1 - In the case of price sensitive information of "intentional" origin (i.e. price sensitive information which is the subject of a recognition process), it is the responsibility of the person entitled to classify the information environment as market sensitive (i.e. of the first-level manager charged with the

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<sup>2</sup> Verified by the Security Department.

recognition process) to activate promptly the process of preparing the statement to be issued to the market once the price sensitive information has been finalized.

10.2 - This person therefore manages the relationship with the Press Office, seeing that those who are entered on the List for the specific information environment have the necessary information to be able to write a draft statement. The Market Sensitivity Support Group shall review this draft in terms of the consistency of the economic/financial figures presented, its ability to satisfy the needs of investors and the financial community, its consistency with information already provided by the Company to investors or with information contained in previous statements and its compliance with applicable statutory and regulatory provisions.

10.3 - Lastly, the Information Administrator shall decide whether to carry out specific prior checks with the regulatory authorities (i.e. Borsa Italiana and Consob), including – if appropriate – for the purposes of requesting a delay in disclosure.

10.4 - The Press Office shall submit the draft statement, resulting from the processes described above, for the approval of the company's top management (or the Board of Directors meeting as a group, if a board resolution is required to finalize the price sensitive information); it shall reflect any observations or amendments and receive the authorization to make the disclosure from the director so charged. Having checked that the General Manager and executive manager charged with preparing the Company's financial reports have made an appropriate declaration attesting the truthfulness of any financial information,

the Press Office shall then publish the statement, in accordance with applicable regulations, immediately notifying the Investor Relations office and the Information Administrator, so that they can carry out their respective duties, as well as the Company's first-level managers.

10.5 - After issuing the statement, the Press Office shall see to its immediate publication (in any case by the time the markets open on the day after its issue) on the Company's website, specifying the date and time of being published thereon.

10.6 - In the case of price sensitive information consisting of an instantaneous event which is merely acknowledged, the process just described – *mutatis mutandis* – is implemented by the person authorized to recognize price sensitive information.

## **11 - Disclosure of price sensitive information to the market - special cases**

### **Rumors and requests to the authorities**

11.1 – If:

- there is a material change in the price of listed financial instruments relative to the closing price on the day before due to the publication of information not in compliance with these Guidelines which relates to the balance sheet, income statement or financial position, any extraordinary financial transactions, significant acquisitions or disposals, or the business performance of the Company and its subsidiaries;
  - during the time markets are closed or as they are about to open, information enters the public domain that has not been published in compliance with these Guidelines and which is capable of significantly influencing the price of the financial instruments of the Company or its subsidiaries;

- Borsa Italiana or Consob reports the circulation of market rumours, then the Information Administrator, with the support of the Market Sensitivity Support Group and the heads of the company functions concerned, shall examine the situation to decide whether it is necessary and/or advisable to inform the public as to the truthfulness of the information in the public domain, supplementing and correcting its content, where necessary, in order to restore conditions of correct and fair information, possibly assessing the need to request a delay in disclosure if appropriate.

11.2 - Likewise, the Information Administrator, with the support of the Market Sensitivity Support Group and heads of the company functions concerned, shall examine the situation to decide whether it is necessary and/or advisable to make a public statement (also deciding, like above, whether to request delaying disclosure if appropriate), if Borsa Italiana or Consob requests that information or statements be given to the market, even in the absence of rumours.

11.3 - After deciding the need/advisability of issuing a public statement, the Information Administrator initiates the process of preparing the statement to be disclosed to the market, according to the procedures described above.

#### Profit warnings

11.4 - If previous statements have been issued about target results (including in the form of growth trends) and/or forecast results of the Company and/or its subsidiaries, it is up to the Investor Relations office, working in partnership with the HQ departments concerned, to monitor the consistency of the actual results against those already disclosed to the market, and to monitor market consensus for the purpose of issuing any profit warnings in the event of any large and lasting differences between market expectations and those of the Company.

11.5 - The preparation of the press release, if necessary, shall be handled by the HQ Administration, Finance and Control Department, according to the procedures described above.

## **12 - Relationships with third parties**

12.1 - Specific offices within the Company are in charge of relationships with the media and the national and international financial community.

#### Relationships with the financial community

12.2 - Relationships with the financial community are handled by the Investor Relations office.

12.3 - In the event of meetings with the financial community (such as road-shows, conference calls, meetings etc.), the Investor Relations office shall inform the Market Sensitivity Support Group beforehand of the place, time, procedure and purpose of the meeting in order to allow it to make due considerations, providing it with a draft of any material to be presented/distributed to participants. A copy of a final version of such material shall be sent to the Information Administrator for fulfilling any requirements vis-à-vis the market before its presentation/distribution to the meeting's participants.

12.4 - If the prior review of the event's contents reveals the presence of price sensitive information, the Information Administrator shall ensure that a specific statement to the market is prepared and issued. Similar steps will be taken, if price sensitive information is involuntarily disclosed during the course of the meeting.

## Relationships with the media

12.5 - Relationships with the press are handled by the Press Office.

12.6 - The following persons are authorized to give interviews and make statements regarding the Company and to take part in meetings with journalists: the Chairman, the Deputy Chairman & Chief Executive Officer in agreement with the Chairman, and all other persons authorized by the Chairman and/or the Deputy Chairman & Chief Executive Officer, including those proposed by the Press Office. This office shall agree beforehand with the person concerned the contents of the interview or press conference, keeping the Market Sensitivity Support Group constantly informed in order to allow it to make its due considerations.

12.7 - If the prior review of the event's contents reveals the presence of price sensitive information, the Information Administrator shall ensure that a specific statement to the market is prepared and issued. Similar steps will be taken if price sensitive information is involuntarily disclosed during the course of interviews or press conferences.

## Conferences, meetings, courses and conventions

12.8 - If management takes parts in conferences, meetings, courses and conventions, the company function concerned shall inform the Press Office beforehand – in the case of public meetings presumed to be attended by journalists – and the HQ Human Resources & Corporate Development Department of the date, place, procedure and purpose of the meeting and the name of the Company's representative due to be attending, and provides it with a draft of any material to be presented/distributed to participants.

12.9 - After prior review, the Press Office (and/or the HQ Human Resources & Corporate Development Department) shall review the contents of the event with the Market Sensitivity Support Group. If the prior review reveals the presence of price sensitive information, the Information Administrator shall ensure that a specific statement is prepared and issued to the market.

## **13 - Publications**

13.1 - The contents of any publication by the Company (eg. in the form of advertising notices, advertising brochures, information booklets, company magazines) shall be reviewed beforehand by the Press Office, with the assistance of the Market Sensitivity Support Group, in order to ensure that the data and information reported is correct and consistent with that already published and that it does not contain any price sensitive information.

13.2 - If the prior review reveals the presence of price sensitive information, the Information Administrator shall ensure that a specific statement is prepared and issued to the market.

13.3 - Economic and financial information, company documents, presentations to the financial community, information documents etc. are all published on the Company's website. Such publication (authorized by the heads of the functions responsible for the specific subject matter) cannot take place unless the Company has fulfilled its disclosure obligations under existing statutory and regulatory rules; accordingly, the function responsible for the specific subject matter shall send the documentation to the Information Administrator in order that he can fulfil the requirements dictated by the applicable rules and regulations.

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**Notification to be sent to persons placed on the List**

In compliance with the provisions of article 115-bis of Decree 58/1998, Pirelli & C. Real Estate S.p.A. has established a List of persons who have access to information that might become price sensitive as defined by article 114 of Decree 58/1998 (henceforth known as the “List” and the “Information” respectively).

Pursuant to article 152-quinquies of Consob’s Issuer’s Regulation (Resolution 11971/1999 and subsequent amendments), you are informed that we have

***[N.B.: depending on the reason for which the notice is being sent, one of the following alternative sets of wording must be used]***

- entered your name [or: your company/professional association] on the List as a person who has regular access to the Information as part of the Recurring activity .....; ***[N.B.: notification relating to inclusion in the List due to a Recurring activity]***
- entered your name [or: your company/professional association] on the List as a person who has regular access to the Information as part of the Project/Event .....; ***[N.B.: notification relating to inclusion in the List due to participation in a Project/Event]***
- updated the List to record that you no longer have access to the Information relating to the Project/Event .....; ***[N.B.: notification to be sent at the end of a Project/Event]***
- updated the List to record that you [or: your company/professional association] no longer have access to the Information as part of the Recurring activity ..... ***[N.B.: notification to be sent when a person with access “on a regular basis” as part of a recurring activity is removed from the List]***

For this purpose you are informed that, in accordance with the definition contained in article 181 of Decree 58/1998, price sensitive information means any information of a precise nature which has not been made public – relating directly or indirectly to Pirelli & C. Real Estate S.p.A. (henceforth known as the “Company”) or its financial instruments or one of its subsidiaries – that if published could have a significant effect on the price of the Company’s financial instruments.

In accordance with article 114 of Decree 58/1998, the Company is required to disclose without delay any price sensitive information regarding itself or its subsidiaries. The Company may, under its own responsibility, delay the public disclosure of price sensitive information only in specific cases and under the conditions established by Consob, provided the Company is able to ensure the confidentiality of such information.

If the Information is disclosed to a third party who is not bound by an obligation of confidentiality, the Company shall make complete public disclosure thereof, simultaneously in the case of an intentional disclosure and without delay in the case of inadvertent disclosure.

It is therefore essential that persons entered on the List maintain the confidentiality of the Information to which they have access.

You are informed that each individual person included in the List has a duty to ensure the traceability of his handling of the Information and its related confidentiality within his sphere of activity and responsibility, starting from the time when, in whatever manner (eg. via correspondence, during

meetings, encounters and/or other), he has first come into possession of Information relating to the Recurring activity or Project/Event for which his name has been placed on the List.

If a person on the List should disclose, even involuntarily, the Information to persons not in possession of the same (even those whose names are already on the List for other reasons), they must immediately report this fact to the List Administrator.

You are reminded that Title I-Bis of Decree 58/1998 calls for specific sanctions against the abuse of price sensitive information and market manipulation; more specifically, the law provides for penal sanctions (article 184) and administrative ones (article 187-bis) for anyone who, being in possession of price sensitive information by virtue of his membership of an issuer's administrative, management or supervisory bodies, his holding in the capital of an issuer or the exercise of his employment, profession, duties, including public ones, or position,

- a) buys, sells or carries out other transactions, directly or indirectly, on his own account or on account of a third party, in financial instruments using such information;
- b) discloses such information to others outside the normal exercise of his employment, profession, duties or position;
- c) recommends or induces others, on the basis of such information, to carry out any of the transactions specified in a) above.

The penal sanctions, imposed by the courts, consist of imprisonment for between 2 and 12 years and a fine of between €20,000 and €3,000,000; the administrative sanctions, applicable by Consob in a justified order, range from €100,000 to €15,000,000.

The amount of the fines and administrative penalties above may be increased by up to three times or up to the higher amount of ten times the proceeds or profit from the crime when, in view of the guilty party's personal situation, the magnitude of the proceeds or profit from the crime or its effects on the market, these fines and sanctions appear to be inadequate even if the maximum is applied.

This does not affect the Company's entitlement to claim for any damages and/or liability that it may have incurred as a result of the breach of the obligations described in this note, whose violation involves: (i) in the case of employees, the imposition of the disciplinary measures envisaged in current law and the applicable collective employment contract; (ii) in the case of other collaborators, the termination of their contract, including without notice; (iii) in the case of the Company's directors and statutory auditors, the Board of Directors may propose at the next shareholders' meeting that delinquent directors and statutory auditors be removed from office for legitimate cause.

The personal data needed for recording the entry on the List and updating it will be handled in compliance with the provisions of Decree 196/2003 (the "Privacy Code").

You are invited to examine the extract from the legislation to which this notification refers and the information provided in accordance with article 13 of the Privacy Code found on .....<sup>1</sup>

For any information or explanations relating to this notification and its application, you are requested

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<sup>1</sup> This is a link to a web page on which the related documentation will be made available.

to contact .....<sup>2</sup>(2)  
(List Administrator)

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<sup>2</sup> The intention is to include an e-mail address to which the addressee of this notification can submit requests for assistance or send information.

## APPENDIX B

### PIRELLI & C. REAL ESTATE GROUP

#### LIST OF PERSONS WITH ACCESS TO PRICE SENSITIVE INFORMATION

**pursuant to article 115-bis of Decree 58/1998 and subsequent amendments (henceforth known as the “List”)**

#### **Procedures for maintaining, managing and retrieving the data Structure of the List**

Taking account of:

- article 115-bis of Decree 58/1998 and subsequent amendments, which calls for the establishment of a List of persons who – either on a regular or occasional basis – have access to price sensitive information “in the exercise of their employment, profession or duties”;
- article 152-bis of Consob’s Issuers’ Regulations, as last amended by resolution 15232 dated November 29th, 2005 (henceforth known as the “Regulations”), which specifies the information to be included in the List with reference to the persons included in the same;

the List of Pirelli & C. Real Estate S.p.A (henceforth known as “Pirelli RE” or also the “Company”) is structured on a subjective basis. Every person (i.e. individual, legal entity, entity or professional association) shall therefore be classified on the basis of the specific relationship linking them to the issuer and by virtue of which they come into possession of the information that could become price sensitive pursuant to article 114 of Decree 58/1998 (henceforth known as “market sensitive information”). This relationship is defined in the List as the “Role”. This category can be populated with an indefinite number of contents; it includes the people listed below:

- a) members of the administrative, management and supervisory bodies of the Company or its group companies;
- b) employees of the Company or its group companies, by virtue of the specific position held;
- c) consultants, auditors;
- d) shareholders who exercise executive management and co-ordination activities, if applicable.

When defining the profile of the individual Roles, the cryptographic program used by the Company shall also define the levels of access to files relating to individual information environments.

Without prejudice to the above, persons may be entered on the List:

- on a regular basis, for recurring or ongoing activities/processes, like financial reporting, budgeting and forecasting and activities in preparation for meetings of the Board of Directors and its committees (henceforth known as “Recurring activities”);
- on an occasional basis, for specific transactions/projects/events such as extraordinary financial transactions, acquisitions/disposals of assets or equity investments, notification of a penalty (henceforth known as the “Projects/Events”).

Some people will be entered on the List only for individual Projects/Events for which they come into possession of market sensitive information, specifying the date on which the person was placed on the List and the date on which the person no longer had access to such information. These dates will respectively coincide with the time the person becomes involved in the Project/Event and the end of the period during which the Project/Event gives rise to market sensitive information (for example, with the publication of the price sensitive statement relating to a decision to go ahead with a transaction, or with

the decision not to go ahead with the same) or any such earlier date if, for any reason, the person on the List no longer has access to such information. Others may be placed on the list, not only in relation to specific Projects/Events, but also for Recurring activities, such as persons authorized to access market sensitive information in relation to the specific function performed within the Company or its subsidiaries. For the sake of clarity, these functions will be described in the List, with particular regard to the normal timing of information flows in their respect, in order that “habitual” access by persons regularly involved with such information flows is kept within the proper bounds. Such persons shall be first placed on the List when they start the job and their position will be updated, according to the procedures described below, when their job is changed or terminated. As specified above, these persons may also be placed on the list for specific Project/Events.

## **Procedures for maintaining the List**

### *A) Projects/Events*

When starting a Project/Event at the Company’s own initiative (i.e. one of intentional origin), the person authorized to classify the related information as market sensitive, and to place persons in possession of such information on the List (the “Information Administrator”) is also entitled to submit the contents to the competent body for a decision on the Project/Event itself and hence

- if the decision-making body is the Pirelli RE Board of Directors (for example, for extraordinary financial transactions) it will be the Chairman of the Board of Directors; this person may delegate responsibility to the Board Secretary who may co-ordinate for this purpose with the General Managers and/or the competent HQ Managers;
- if the decision falls to a delegated body of Pirelli RE (for example, for a business-related agreement), it will be the direct organizational report of the delegated body (known as first-level managers); employees or members of the corporate bodies of companies controlled by Pirelli RE, which usually do not keep their own list, may also be placed on the List. An exception to this rule are subsidiaries which issue financial instruments listed on regulated markets in Italy (including those which set up and manage listed real estate investment funds) which shall keep their own list under article 115-bis of Decree 58/1998 and which will therefore be entered on the List described in this document as a legal entity, in compliance with paragraph 2, letter a) of article 152-bis, of the Regulations.

If the Project/Event is the consequence of recognizing objective facts or circumstances (i.e. one of external origin), the Information Administrator shall be the first-level report of the delegated body of Pirelli RE to whose sphere of activity the Project/Event is referable and who acknowledges it, in the case of the unformalized recognition of Projects/Events, or the person in charge of the process of recognizing any information formalized ex ante, if such a process exists.

The same persons specified above shall be responsible for the subsequent decisions to reclassify market sensitive information and hence the inclusion of the Project/Event in the List or its elimination or suspension thereof.

### *B) Recurring activities*

As things stand, the following activities are defined as Recurring activities giving rise to inclusion as such on the List:

- preparation of periodic financial statements;
- preparation of forecasts and definition of quantitative targets;
- preparation and holding of board of directors/board committee meetings of the Company or its subsidiaries;
- preparation of statements under paragraph 1, article 114 of Decree 58/1998;
- relationships with investors, analysts and the media.

For the purposes of identifying the period from when to start entries to the List, the first-level manager responsible for the Recurring activity shall instruct the HQ Human Resources & Corporate Development Department to carry out an analysis of the individual Recurring activity. The consequent population and updating of the List, also in relation to organizational changes, is the responsibility of the HQ Human Resources & Corporate Development Department.

Other Recurring activities relevant for the purposes of the List may be identified by the List Administrator (as defined below), including at the proposal of the same HQ Human Resources & Corporate Development Department.

### **List Administrator**

The List Administrator is the Board Secretary of Pirelli RE, who, in addition to the functions listed in other parts of this document, is in charge of:

- general supervision of the List's maintenance and access to all the information contained therein, with the power to retrieve the same in any way permitted by the system;
- relationships with the legal or supervisory authorities for any requests concerning the information contained in the List;
- co-ordination of the Information Administrators and the resolution of any concerns that might arise from the List's operational management.

### **Procedures for managing and retrieving the data**

The List is kept using computerized systems and may be accessed via the Internet/Intranet protected by appropriate levels of security. The List Administrator and Information Administrators are permitted to access this system. More specifically, the List Administrator has unlimited access to all the List's contents and may carry out every kind of entry and data search allowed by the system. The Information Administrators are limited to viewing the information relating to Recurring activities as well as the information that each has entered.

Individuals shall be entered on the List by specifying their full name, date and place of birth, residence and elected domicile and any e-mail address. If the person is a legal entity, an entity or professional association, the identifying data must be accompanied by the name and details specified above of an individual that represents it.

The system reports for each entry on the List (and so either for each Project/Event or each Recurring activity) that person's Role, the date of being entered on the List and the date from when that person no longer has access to the related market sensitive information, as well as the date of making any

amendments. In compliance with existing statutory provisions, all the above information shall be kept for at least five years from the end of the events giving rise to the entry or update.

In the case of a Project/Event, the List Administrator shall receive – always in an electronic format and with the frequency established by the same – a notice specifying the open positions for which no end or suspension date of the Project/Event has been entered in order to verify the actual status of each.

The retrieval of information contained on the List may be carried out:

- on a personal basis (i.e. surname or company name of the listed person);
- by individual Project/Event or Recurring activity;
- by category of information (i.e. all Projects/Events or Recurring activities);
- on the basis of the status (open, closed) of the Project/Event or Recurring activity.

The output can be viewed on screen, printed or exported in a file format.

Bearing in mind the obligation to inform every person that they have been placed on the List and that their details have been later updated, and similarly the obligations arising from the possession of price sensitive information and the sanctions envisaged if they are breached, the program automatically e-mails employees the notices required by current statutory and regulatory provisions. With reference to the other kinds of person entered on the List, the system advises the List Administrator and/or the Information Administrators who made the entry to send the required notices on a timely basis.

\* \* \*

[letterhead of the consultant or other party]

.....

STRICTLY PRIVATE AND CONFIDENTIAL

Pirelli & C. Real Estate S.p.A.

Via G. Negri, 10

Milan 20123

For the attention of .....

Subject: Confidentiality agreement relating to:

.....  
.....  
.....

..... (the "Transaction")

Dear Sirs,

We refer to the discussions concerning the Transaction and your request that we give a precise undertaking of confidentiality, including on behalf of the Relevant Persons (as defined below).

We declare that we are aware and informed of the fact that, as a result of our involvement in the Transaction, data and information, in a written, electronic or oral format may be furnished and/or communicated to us regarding:

- a) the Transaction, including its existence,
- b) Pirelli & C. Real Estate S.p.A. (the "Company") and/or its subsidiary or associated companies (meaning those companies over which the Company directly or indirectly exercises a significant influence), and
- c) persons with a direct or indirect interest in the Company's capital (collectively known as the "Confidential Information") .<sup>1</sup>

We hereby undertake to treat the Confidential Information as strictly private and confidential and not to disclose and/or divulge the Confidential Information, without the Company's prior written consent, to persons other than:

- i) our directors, managers or employees [or those of affiliated companies (meaning parent companies and companies under the direct or indirect control of ourselves and/or the parent company, collectively known as the "Affiliates")]<sup>2</sup>,

<sup>1</sup> Eliminate the paragraphs that are not applicable or add others if appropriate.

<sup>2</sup> Include the reference to Affiliated Companies if applicable.

- ii) lawyers or other consultants or collaborators of our company or its Affiliates engaged with your written consent,
- iii) partners, associates, consultants, employees, assistants or collaborators working at or for this firm and/or professional association,<sup>3</sup>

who are directly involved in the Transaction and need to know the Confidential Information. We also undertake to use the Confidential Information only for the purposes of the Transaction and not to use such information in any way that might cause harm to the Company, its subsidiary or associated companies and the persons with a direct or indirect interest in the Company's capital.

We declare that our internal control system is fully equipped to safeguard the Confidential Information in accordance with the terms of this agreement.

We also undertake to see that each of the persons specified in paragraphs (i) to (iii) above<sup>4</sup> (collectively known as the “**Relevant Persons**”) is duly informed beforehand of the obligations of confidentiality and the duties arising under the application of Decree 58 of February 24th, 1998 and subsequent amendments and the related regulations for its implementation (collectively known as the “**Decree**”) and to ensure that each of the aforesaid persons complies with the terms of this agreement, accepting liability, pursuant to article 1381 of the Italian Civil Code, for any breach of this agreement by the aforesaid Relevant Persons.

The information shall not be regarded as Confidential Information if: (x) it is or becomes public, except if this is the consequence of an unauthorized disclosure and/or statement by ourselves or one of the Relevant Persons; or (y) it is or has been furnished to us [or the Affiliates] by parties other than the Company and the group that it heads, provided such parties have not to our knowledge breached any obligation of confidentiality given to the Company or other members of its group; (z) it was independently developed by ourselves [or our Affiliates] without making use of or reference to the Confidential Information in any way or form whatsoever.

As an exception to the above provision, the persons bound under this agreement shall not be required to observe the undertakings given hereunder if the Confidential Information must be reported or disclosed by law, regulations or order by the authorities which cannot be refused. It is also understood that, in such circumstances, we shall undertake to inform you promptly in writing of such orders or obligations and to consult with you in advance as to whether to resist such demands or seek to limit their scope. If the publication and/or disclosure is effectively due, we undertake to co-operate with you, even in the event of needing to delay disclosure in accordance with paragraph 3, article 114 of the Decree, in order to obtain any order or other measure necessary or useful for ensuring that specific parts of the Confidential Information are treated in strictest confidence.

We undertake to treat the Confidential Information in compliance with applicable regulations on privacy protection.

Bearing in mind that some of the Confidential Information might become price sensitive under the Decree's definition, we undertake to comply accordingly with the Decree's provisions and we specifically declare that:

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<sup>3</sup> Eliminate the paragraphs that are not applicable or, add others as appropriate, such as: “(•) other parties to the Transaction” “(•) lawyers or other consultants or collaborators of the Company”.

<sup>4</sup> Eliminate the reference to paragraphs (i) to (iii) if not applicable and, if appropriate, include reference to additional paragraphs that might have been added.

- i) we acknowledge the duties arising under the Decree; and
- ii) we are aware of the possible sanctions envisaged by this Decree in the event of abusing price sensitive information or manipulating the market.

We also declare that we are aware that you might decide to place us on the list of persons with access to price sensitive information that you have established and keep in accordance with the Decree and we accordingly undertake to inform you in writing of the names of the Relevant Persons who have access to the Confidential Information. We shall also inform you of all the names of those who will have access to your offices.

We are also aware and acknowledge that the breach or failure to observe the confidentiality undertakings given in this agreement could cause serious, irreparable harm to the Company, its subsidiary and associated companies and persons with direct or indirect interests in its capital, As a result, we agree and accept, without prejudice to additional remedies including those of a precautionary nature allowed in law, that the Company:

- a) can request the termination of any other existing agreements or contracts with us<sup>5</sup>, and
- b) will not enter into new agreement and contracts with us<sup>6</sup> for a period of at least 3 years, in the event of a recognized breach of the obligations contained in the agreement by any of the persons bound under it and, nonetheless, in the event of the criminal or administrative sanctions envisaged under the Decree being applied to any of the aforesaid persons. The period in letter b) above will run from the date of confirming the breach or the date the Company learns that one of the aforesaid sanctions has been applied.

[We declare that we are aware that the Confidential Information is and will remain the property of the Company and/or its Affiliates. At the Company's request we shall immediately return it all the documents containing the Confidential Information and all the related copies or extracts and destroy all copies of the Confidential Information in an electronic format; we shall provide you with written confirmation of such destruction as soon as it has been carried out. If explicitly required by the law and without prejudice to complying with the obligations under this agreement, we can store in our files a copy of the Confidential Information provided we give you prior written notice of such storage.]<sup>7</sup>

The undertakings given under this agreement will be effective from today's date and will remain in force for 3 years from completing or definitively suspending the Transaction.

This agreement shall be governed and interpreted in accordance with Italian law. The parties hereby agree that the Courts of Milan shall have sole jurisdiction for any disputes that might arise in relation to the agreement's interpretation or performance.

Yours faithfully,

*[consultant or other party]*

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<sup>5</sup> Add "and or our Affiliates" if applicable.

<sup>6</sup> Add "and or our Affiliates" if applicable.

<sup>7</sup> Include this paragraph if applicable.

## ***PIRELLI & C. REAL ESTATE INSIDER DEALING CODE***

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

### **1. Introduction**

While the provisions of articles 180 et seq. of Decree 58/1998 concerning the abuse of price sensitive information still hold good, this Insider Dealing Code for Pirelli & C. Real Estate (henceforth the “Code”) is designed to introduce compulsory procedures for the reporting obligations and conduct concerning Dealings by Relevant Persons on their own account and the related disclosure of such dealings to the market.

### **2. Definitions**

For the purposes of the Code, the following definitions have been used:

- A. *Relevant Persons*: members of the board of directors (both executive and non-executive directors), general managers, the secretary to the board of directors, heads of divisions and Standing Statutory Auditors. Relevant Persons are also considered to be the heads of the organizational units forming part of the Finance Department, the HQ Administration & Control Department, the HQ Legal & Corporate Affairs Department, the HQ Advisory & Corporate Development Department and the Press Office.

Other Relevant Persons include the heads of the following departments in Pirelli & C. S.p.A.: Administration & Control Department, Finance Department, Legal & Corporate Affairs Department, External Communications Department and Audit Department. Each Relevant Person, as defined above, may specify, even for limited periods of time, other Relevant Persons based on the job performed or the office assigned. Such identification – and the related time limits, if envisaged – must be immediately notified to the person concerned and the Code Administrator.

- B. *Financial Instruments*: (i) financial instruments issued by Pirelli & C. Real Estate and by its parent and subsidiary companies, traded on Italian and foreign regulated markets, except for non-convertible bonds; (ii) financial instruments, including those not listed, that give the right to subscribe, purchase or sell the instruments specified in point (i), as well as the certificates representing the instruments in point (i); (iii) financial derivatives, plus covered warrants, whose underlying assets are the financial instruments listed in point (i), even when exercise takes place via payment of a cash differential. The definition of Financial Instruments in point (i) above also includes units in real estate investment funds set up and managed by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. in its role as an asset management company.
- C. *Dealing(s)*: any type of act that creates, modifies or extinguishes rights over the Financial Instruments, even if performed as part of an individual investment portfolio management arrangement. This category also includes the exercise of any stock options or options rights relating to the Financial Instruments.

- D. *Major Dealing*: any Dealing whose amount exceeds €80,000, including on a cumulative basis with other Dealings carried out in the previous three months and not yet notified to the company. In the case of derivatives or covered warrants, the notional total value is calculated as the product of shares controlled by the instrument and the official price of the underlying asset recorded on the day that the dealings are concluded.
- E. *Code Administrator*: the secretary of the board of directors of Pirelli & C. Real Estate, who is the recipient of notifications and responsible for managing information concerning Dealings by Relevant Persons and who also handles the subsequent disclosure of such information to the market, in accordance with the procedures set out in this Code.

### **3. Reporting Obligations of Relevant Persons**

Within the seventh calendar day of the end of each calendar quarter, the Relevant Persons must send the Code Administrator a list of Dealings in the Financial Instruments during the quarter, whose total amount is equal to or more than €35,000.

In the event of a Major Dealing, the Relevant Person must notify the Code Administrator immediately, together with a list of Dealings in the previous three months and not yet reported to the company.

Dealings by the Relevant Person's spouse, unless legally separated, or under-age children must also be reported, plus those carried out through third parties, trustees or companies under their control.

Relevant Persons must report Dealings to the Code Administrator using a form like the one included in Borsa Italiana SpA's Instructions accompanying the Regulations for Markets Organized and Managed by itself.

### **4. Exemption from the obligation to report Dealings**

Dealings - including through third parties or trustees - between the Relevant Person and his/her spouse, unless legally separated, or under-age children - do not have to be notified to the Code Administrator.

Also excluded from the reporting obligation are Dealings involving the lending of securities if the Relevant Person, directly or indirectly, his/her spouse, unless legally separated, or under-age children are the lenders, as are Dealings involving the creation of pledges or usufructs.

### **5. Restrictions on Dealing**

Relevant Persons, other than non-executive members of the board of directors or statutory auditors, are permitted to deal - directly or via third parties - only from the day after the final or provisional results for each quarter<sup>1</sup> are first published until the end of the subsequent quarter after this publication. Non-executive members of the board of directors and statutory auditors must refrain from dealing from the day the board of directors meets to review the abovementioned results or from the time they first learn of these results, if earlier, until the date of their publication.

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<sup>1</sup> Or the half year or full year, if the company is exonerated from publishing quarterly reports for the second and fourth quarters respectively.

Relevant Persons may deal outside the permitted period only in exceptional circumstances of personal need, which are adequately justified by the person concerned. The chairman of the board of directors is responsible for assessing the existence of such circumstances of personal need.

The exercise of any stock options or options over the Financial Instruments and consequent Dealings are not subject to the restrictions set out in this article, as long as the Dealings take place at the same time as exercising the related options.

The board of directors retains the right to identify additional periods or circumstances when Dealings are subject to constraints and conditions, providing immediate notification of such periods or circumstances to the Code Administrator and the Relevant Persons.

## **6. Notification of Dealings to the market**

The Code Administrator discloses the information received from Relevant Persons within the tenth stockmarket trading day following the end of each calendar quarter. This involves sending a specific notice to Borsa Italiana SpA (operator of the Italian stockmarket), in accordance with the procedures laid down in the Regulations for Markets Organized and Managed by Borsa Italiana SpA and their related Instructions.

Major Dealings are reported to the market immediately, in accordance with the procedures set out in the previous paragraph.

## **7. Penalties**

Whilst Pirelli & C. Real Estate retains the right to claim for all damages and/or liabilities caused to it by conduct in breach of the Code, failure to comply with the reporting obligations or with the restrictions on Dealings leads: (i) in the case of employees, to the application of the disciplinary measures envisaged by current laws and the applicable collective labor contract, (ii) in the case of outside staff, to termination of their contracts, even without notice; (iii) in the case of members of the board of directors and the statutory auditors, to the proposal by the board of directors at the next shareholders' meeting to remove for legally recognized reasons the board member or statutory auditor in breach.

## **8. Acceptance**

Each Relevant Person accepts this Code by signing the form found in the appendix hereto.

## **9. Updating of the Code and use of personal data**

The Code Administrator is responsible for monitoring the Code's application and effectiveness relative to its objectives, with a view to submitting possible recommendations for amendments or additions to the board of directors.

The Code Administrator preserves the written statements in which the Relevant Persons acknowledge their full awareness and acceptance of the Code and provide their consent to use the personal information requested, in accordance with Decree 196/2003.

**APPENDIX**

**Declaration of full awareness and acceptance of the Code and authorization to use personal data in accordance with Decree 196/2003.**

The undersigned..... born in.....resident in at the address of .....in his/her position..... having taken note of his/her inclusion in the list of Relevant Persons as defined in the Pirelli & C. Real Estate Insider Dealing Code (the “Code”), hereby declares that he/she has received a copy of this Code and understands and accepts its contents.

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(Signature)

In accordance with Decree 196/2003, the undersigned person specifically gives his/her consent to use (also by third parties) the personal data required under the Code, for the sole purpose of complying with the regulations issued by Borsa Italiana S.p.A..

\_\_\_\_\_

(Signature)

## **RULES FOR SHAREHOLDERS' MEETINGS**

### **Pirelli & C. Real Estate S.p.A.**

#### 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 shareholders' meetings, adopting – as provided for by law and in the company's articles of association – the measures and practices deemed most appropriate.

#### Article 3

- Persons so entitled under the applicable regulations (hereafter "the Participants") may attend shareholders' meetings with a right to take part in the debate and to vote is reserved.
- Unless otherwise specified in the meeting's notice, the checking of identity and rights to participate at the shareholders' meeting begins, at the meeting's location, at least one hour before the scheduled start. Under the Chairman's supervision, the support staff provided 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 given the possibility to follow and take part in the debate, as well as to cast their vote, in accordance with the procedures determined on each occasion by the Chairman.
- After being admitted 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 managers and employees of the company or group companies and by other persons whose presence is considered useful in relation to the business to be discussed.
- With the Chairman's consent, 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 sit.
- 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 company's 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 not to 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 meeting's notice.
- The Chairman may decide to combine 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 article 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 meeting's agenda.

#### Article 12

- Members of the Board of Directors and the statutory auditors may intervene in the discussions; observers pursuant to article 4.1 above may also take the floor, at the Chairman's invitation, 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 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.