



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

**Registered Office in Milan at Via G. Negri 10  
Register of Companies of Milan No. 02473170153**

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**Annual Corporate Governance Report**  
**(from the annual report of Pirelli & C. Real Estate S.p.A. to 31 December 2006)**

## **CORPORATE GOVERNANCE REPORT - PIRELLI & C. REAL ESTATE S.P.A. -**

### **Introduction**

The Company announced on May 3<sup>rd</sup>, 2002 that it was adopting the "Corporate Governance Code" drawn up by the Corporate Governance Committee for Listed Companies promoted by Borsa Italiana S.p.A. (the Italian Stock Exchange). It later 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 fostering 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.

Following the publication of the new Corporate Governance Code – 1st edition March 2006 – (henceforth known as the "Code"), on November 6th, 2006 the Company adopted the same, having moreover established that its existing model of corporate governance was largely already compliant with the recommendations contained in the new Code. News of this adoption was announced to the market on the same day. It was nonetheless decided at the same Board meeting: (i) to carry out a detailed review of the extent to which Pirelli RE's existing corporate governance model complied with the Code; (ii) to approve the necessary changes for compliance possible to adopt immediately, as allowed by article 18 of the Articles of Association and (iii) to grant the appropriate authority for the additional measures and evaluations needed to achieve full compliance with the Code's new provisions (in terms of resolutions to adopt, steps to take and/or actions to carry out).

Bearing this in mind and the resolutions passed at the subsequent Board meeting on January 23rd, 2007 and the measures implemented up until March 9th, 2007, the date when the Board of Directors approved the draft financial statements for the year ended December 31st, 2006, we are able to confirm that the model of corporate governance currently adopted and implemented by Pirelli RE is largely compliant with the Code, with clarifications provided in the body of this report. In compliance with the recommendations of Borsa Italiana S.p.A. and Assonime (Association for Italian public limited companies) in their joint communication dated November 16th, 2006 entitled "Compliance with the new Corporate Governance Code - clarifications", which addressed the contents of the report that listed issuers must prepare in accordance with Section IA.2.6 of the Instructions accompanying Italy's Stockmarket Regulations, the Company's report has been prepared with reference to the new Code, with details provided of the related status of compliance of its corporate governance model and the actions already taken or nonetheless planned.

In compliance with the Instructions accompanying Italy's Stockmarket Regulations 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 (duly updated to reflect the provisions of the new Code), this report and the following sections describe the key features of the Company's own system of corporate governance. When preparing this information account has also been taken of the consultative document issued by Consob (Italy's stockmarket regulator) on February 2nd, 2007, relating to the implementation of articles 124-bis and 124-ter of Decree 58 dated February 24th, 1998 (henceforth known as "Decree 58/1998"), which has required the Issuer Regulations (Consob Resolution 11971 of May 14th, 1999) to include – amongst others - a new article 89-bis "Information on adoption of the corporate governance code" .

## **PART I**

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

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

The Company is managed by a Board of Directors consisting of a minimum of five to a maximum of 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. The Shareholders' Meeting is responsible for determining the number of directors (article 12 of the Articles of Association). The Shareholders' Meeting held on April 27th, 2005 set the number of the Company's directors at 15.

In compliance with article 6 of the Code, the Company's Articles of Association require that members of the Board of Directors shall be elected on the basis of lists, accompanied by detailed information about the candidates, 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 the Shareholders' Meeting in first call.

For the purposes of complying with the new deadline of 15 days now envisaged by article 6.C.1 of the Code, on March 9th, 2007 the Board of Directors voted – as part of the amendments to the Articles of Association required to comply with Law 262 of December 28th, 2005, (known as the "Investment Savings Act"), as subsequently amended by Decree 303 of December 29th, 2006, (known as the "Pinza Decree") – to propose to the Shareholders' Meeting, called to approve the financial statements for the year ended December 31st, 2006, that the filing deadline be increased from 10 to 15 days. Once again, account has been taken of the contents of Consob's consultative document dated February 23rd, 2007, regarding the implementation of article 147-ter, paragraph 1, and article 148, paragraph 2, of Decree 58/1998, which, amongst others, requires the Issuer Regulations to include a specific publicity requirement for proposed candidates to the office of director, by making candidate lists publicly available at the company's registered office, at the offices of the market management company and on the issuer's website, at least 15 days prior to the shareholders' meeting called to vote on this matter (the same publicity requirement also applies to lists of candidates for the office of statutory auditor).

As regards the method of voting, the Company's Articles of Association have dictated the use of the "list voting system" since 2004, a system that is now required by law in the new article 147-ter of Decree 58/1998, as introduced by the Investment Savings Act and subsequent amendments. The Company considers that the list voting system is one of the most effective ways of fostering additional involvement in its 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.

More details can be found in the rest of this Report. However, further changes will be made as part of the amendments to the Articles of Association approved by the Board of Directors of March 9th, 2007 – and to be submitted to the Shareholders' Meeting due to be called, in ordinary and extraordinary session, to approve the financial statements for the year ended December 31st, 2006 – and designed to make the Articles of Association compliant with the new provisions introduced by the Investment Savings Act, as amended by the Pinza Decree (henceforth known as the "Articles of Association Amendments"). These additional amendments specifically refer to (i) the information to be provided together with the presentation of candidate lists for the office of director and (ii) the

minimum percentage of share capital, entitled to vote in ordinary shareholders' meetings, required to file such lists (see Section 2.3, Part II of this Report).

In accordance with the Articles of Association (article 18), the Board sees to the Company's ordinary and extraordinary management and is consequently vested with the broadest powers of administration, excluding only those powers that the law and the Articles of Association, nonetheless in compliance with the law, reserve on a mandatory basis to the Shareholders' Meeting. The Board exercises its powers in accordance with article 1.C.1 of the Code - as better explained in Section 1.1 below.

Article 18 of the Articles of Association also gives the Board of Directors the power, within the limits of law, to decide on mergers of the companies in which the Company possesses at least 90% of the shares or quotas, reduction of the share capital in the event of withdrawal by a shareholder, amendment of the Articles of Association to comply with statutory and regulatory provisions, move of the Company's registered office within the borders of Italy, and the opening or closure of secondary offices. One of the proposed Articles of Association Amendments extends the power to approve mergers of companies in which the Company owns at least 90% of the shares or quotas to spin-offs in which Pirelli & C. Real Estate S.p.A. is the beneficiary.

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 in the role of executive directors, 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).

The Board of Directors has accordingly appointed an Executive Investment Committee from among its members to whom it has given specific powers (see Section 1.1, Part II of this Report); and an Audit and Corporate Governance Committee and a Compensation Committee, to act in a consultative and advisory capacity and which have been charged with the duties envisaged by the Code. It has been decided not to establish a Nominations Committee for the reasons set out in Section 1.4 , Part II of this Report.

## **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, the matters and sectors of activity strictly connected with those of the Company are taken as 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.

In compliance with article 10 of the Code, the Company's Articles of Association provide that members of the Board of Statutory Auditors shall be elected on the basis of lists, accompanied by detailed information about the candidates, 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 the Shareholders' Meeting in first call. Once again for the purposes of

complying with the new deadline of 15 days now envisaged by article 10.C.1 of the Code, on March 9th, 2007 the Board of Directors voted to propose to the Shareholders' Meeting, called to approve the financial statements for the year ended December 31st, 2006, that the Articles of Association be amended to increase the filing deadline from 10 to 15 days. As mentioned earlier, the Consob's consultative document dated February 23rd, 2007, regarding the implementation of article 147-ter, paragraph 1, and article 148, paragraph 2, of Decree 58/1998, also lays down a specific publicity requirement for proposed candidates to the office of statutory auditor, by making candidate lists publicly available at the company's registered office, at the offices of the market management company and on the issuer's website, at least 15 days prior to the shareholders' meeting called to vote on this matter.

Although more details can be found in the rest of this Report, additional changes are envisaged as part of the Articles of Association Amendments; in detail these refer to (i) the information to be provided together with the presentation of candidate lists for the office of statutory auditor; (ii) the minimum percentage of share capital, entitled to vote in ordinary shareholders' meetings, required to file such lists and (iii) the amendment required by law whereby the Board of Statutory Auditors must be chaired by a statutory auditor elected by the minority (see Section 2.3, Part II of this Report).

In accordance with article 149 of Decree 58/1998, 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.

Among the other duties of the Board of Statutory Auditors, it must monitor:

- the independence of the external auditing firm, verifying both the compliance with the associated provisions of law and regulation, and the nature and extent of services, other than the audit of the accounts, provided to the Company and its subsidiaries by the same auditing firm and the entities belonging to its network (article 10.C.5 of the Code);
- the correct application of the assessment criteria and procedures adopted by the Board of Directors for evaluating the independence of its members (article 3.C.5 of the Code).

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. These duties are fulfilled in practice through (i) the quarterly reviews carried out by the Board of Statutory Auditors, in meetings to which representatives of the Company are invited to report on specific issues under their responsibility; (ii) meetings of the Audit and Corporate Governance Committee and of the Compensation Committee, to which the entire Board of Statutory Auditors is always invited and usually attends; (iii) meetings with representatives of the appointed external auditing firm (at the very least at the time of them presenting their management letter and audit programme); (iv) periodic meetings organized by the Company, whenever it is appropriate to inform the Board of Statutory Auditors.

Accordingly, when carrying out its functions the Board of Statutory Auditors not only attends all the meetings of the Board of Directors and of shareholders, but it also always takes part in the discussions of the Executive Investment Committee, the Compensation Committee and the Audit and Corporate Governance Committee.

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

Although 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 Board of Directors therefore encourages and facilitates the widest possible participation of shareholders at meetings and pays attention to the choice of their date, time and place in order to make it easier for everybody to attend and exercise their shareholder rights.

As discussed in Section 2.3, Part II of this Report, with reference to the method of calling and conducting Shareholders' Meetings, the Company has adopted a set of Rules for Shareholders' Meetings since 2004, which, as recommended by the Code, govern the orderly and effective conduct of such meetings, while guaranteeing the right of each shareholder to speak on the matters on the agenda.

The same Shareholders' Meeting called – amongst others – to vote on the proposed Articles of Association Amendments, will be presented with a revised version of the Rules for Shareholders' Meetings, resulting from the introduction of the new provision of article 126-bis (Decree 58/1998) allowing shareholders to submit additions to the agenda; the proposed amendments also include minor changes of a formal nature and to wording, for the sake of better explaining and expressing some of the rules already contained therein. Lastly, for the purpose of further encouraging the exercise of rights by all shareholders involving requests for additions to the agenda of Shareholders' Meetings, one of the Articles of Association Amendments requires that the related requests be illustrated in a report to be filed at the Company's registered office in due time to be made available to shareholders at least 10 days before the date fixed for the meeting in first call.

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

At March 9th 2007 the Company's subscribed and paid-up share capital was €21,298,616.00 divided into 42,597,232 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 has been 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 (involving a 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) and by the Company's Board of Directors on May 9th, 2002 (involving the 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 up until December 31st, 2006, provided the plan's conditions were satisfied).

The Company has periodically filed, within the legally required deadline, the certification required by article 2444.1 of the Italian Civil Code, stating the new amount of share capital, at the Milan Company Register and has also notified the variation to the Italian Stock Exchange and Consob.

The Company is under the legal control of Pirelli & C. S.p.A. whose interest is equal to 50.302% of share capital. There are no shareholders' agreements, in any form whatsoever.

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 direction or co-ordination activities in the Company's regard.

## **PART II**

### **Information on the implementation of the Corporate Governance Code (article 124-bis Decree 58/1998)**

#### **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 carries out all the duties required of it by article 1.C.1 of the Code. In detail, the Board of Directors:

- examines and approves the strategic, operational and financial plans of the Company and the Pirelli RE Group; the Three-Year Plan for the period 2006-2008 was approved on October 18th, 2005;
- examines and approves the system of corporate governance of Pirelli RE, ensuring that all the necessary measures are adopted on a timely basis: as mentioned in the introduction, in its meeting of November 6th, 2006 the Board of Directors specifically reviewed the extent to which this model complied with the Code, voting to adopt the same and approving the related changes required for compliance. Additional changes and an update on the status of compliance were discussed at the Board meetings of January 23rd, 2007 and March 9th, 2007;
- evaluates the adequacy of the general organizational, administrative and accounting structure of the Company and its strategically important subsidiaries, particularly with regard to the internal control system and the management of conflicts of interest. The latest presentation and review was carried out in the meeting of March 9th, 2007. The same meeting identified the Group companies considered to be strategically important, on the basis not only of their size and economic significance, but also the importance of their core business sector and markets in which they operate. These are in detail: Pirelli RE SGR; Pirelli RE Facility Management; Pirelli RE Property Management; Pirelli RE Agency; Pirelli RE Franchising and Pirelli RE Credit Servicing, as well as the subsidiaries in Poland and Germany (Pirelli Pekao Real Estate and the Pirelli DGAG Group);
- delegates and revokes powers to the executive directors and to the Executive Investment Committee, specifying the limits and manner of their exercise, wording them in such a way that the Board does not remain divested of all its powers: this was done on April 27th, 2005 as soon as the Board of Directors currently in office was appointed, and subsequently updated, as discussed later in this Report;
- determines, after examining the proposals of the Compensation Committee and consulting the Board of Statutory Auditors, the remuneration of the directors and of those directors who have been appointed to hold particular office and, where the Shareholders' Meeting has not already done so, it allocates the Board's overall remuneration to its individual members. This process was carried out on April 27th, 2005 as soon as the Board of Directors currently in office was appointed, and subsequently updated to reflect changes in corporate office and, on January 23rd, 2007, to amend the remuneration of the Chairman of the Board of Directors;
- evaluates the Company's general performance, paying particular attention to the information received from the executive directors, and periodically comparing the results achieved with those planned, particularly on the occasion of approving the quarterly financial reports;
- examines and gives prior approval to transactions with a significant strategic impact or a significant impact on the Company's operating performance, capital structure and financial

position, with special reference to transactions involving related parties. The Board of Directors established the general criteria for identifying significant transactions in its meeting of March 9th, 2007. Such criteria referred to transactions exceeding the limits on authority vested in the Executive Investment Committee and the Deputy Chairman & Chief Executive Officer (limits for internal purposes), plus all those transactions that, regardless of criteria and upper limits to the authority granted, (i) have a particular strategic importance, for example because they involve entering new markets or sectors of business; (ii) are not substantially consistent with the traditional business model adopted by the Group; (iii) are significantly atypical or unusual relative to the ordinary course of business;

- evaluates, at least once a year, the size, composition and performance of the Board of Directors and its committees. Spencer Stuart has helped Pirelli RE to devise a Board Performance Evaluation model, which was approved in the Board meeting of January 23rd, 2007. The related activities were completed in February 2007, with the results presented to the Audit and Corporate Governance Committee and to the Board of Directors itself in its meeting of March 9th, 2007.

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

The Board of Directors appoints from among 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. The Articles of Association Amendments include a proposal that article 13 be amended to state that in the absence of the Chairman, Board meetings shall be chaired by the director holding the dual offices of Deputy Chairman and Chief Executive Officer, if appointed.

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 at any level of jurisdiction, including revocation and annulment proceedings, to file charges and complaints in criminal courts, 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.

In keeping with best international practice, also reflected in the Code (article 2.P.4.), the current Chairman of the Board of Directors - Marco Tronchetti Provera - has not been granted operational authority and so qualifies as a "non-executive director" within the meaning of article 2 of the Code, but he is not "independent" (as defined by article 3 of the Code) 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

each of whom receives an annual fee of €15,000 for the duties performed. Following the resignations of Carlo Buora and Vincenzo Sozzani as directors, on January 23rd, 2007 the Board of Directors appointed Claudio De Conto (co-opted as a director on the same date) and Olivier De Poulpiquet de Brescanvel to replace them on the Executive Investment Committee.

### Composition of the Executive Investment Committee

OFFICE	NAME
▪ CHAIRMAN	MARCO TRONCHETTI PROVERA
▪ CHIEF EXECUTIVE OFFICER	CARLO ALESSANDRO PURI NEGRI
▪ DIRECTOR	CLAUDIO DE CONTO
▪ DIRECTOR	OLIVIER DE POULPIQUET DE BRESCANVEL
▪ INDEPENDENT DIRECTOR	CLAUDIO RECCHI

The Executive Investment Committee has been 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 associates and/or third parties; all these powers may be exercised within the limit of €150,000,000 per transaction.

Executive 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.

Executive Investment Committee resolutions are severally executed by the Chairman or the Deputy Chairman & Chief Executive Officer, who are also authorized to delegate such power to special attorneys; 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 executive bodies

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

- 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, it revoked the previous powers that had 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 Technical Department. At the same time, the Board confirmed the previous powers that had been granted to Emilio Biffi;
- the director Olivier De Poulpiquet, formerly General Manager Commercial Sector and Non Performing Loans, to the position of General Manager Investment & Asset Management, bringing together 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 previous powers that had been granted to Olivier De Poulpiquet.

The Board of Directors voted on May 9th, 2006:

- a) to grant Carlo Alessandro Puri Negri, the Deputy Chairman & Chief Executive Officer, with authority to sign on his own, all powers for the Company's ordinary and extraordinary management, except for (i) those matters that cannot be delegated under article 2381.4 of the Italian Civil Code and (ii) those specified in article 18.2 of the Articles of Association. All with the power to grant special and general mandates, vesting the proxyholder with individual or joint authority to sign on the Company's behalf and with those powers that he considers to be in the Company's best interests, including that of sub-delegation;
- b) to make Carlo Alessandro Puri Negri, the Deputy Chairman & Chief Executive Officer, exclusively responsible for:
  - co-ordination of the activities of the directors Carlo Bianco, Emilio Biffi and Olivier De Poulpiquet, appointed to the offices of Deputy Chairman, Chief Technical Officer and General Manager Investment & Asset Management respectively;
  - determination, in agreement with the above persons, of the general strategies and policies for the development of the Company and the Group, as well as extraordinary transactions falling under the responsibility of the Executive Investment Committee and the Board of Directors;
- c) to specify that the powers delegated above, and the co-ordination function reserved to the Deputy Chairman & Chief Executive Officer, as defined above, do not refer to the authority delegated in respect of:
  - occupational safety, accident prevention and occupational hygiene, internal and external environmental protection, and the supervision of urbanization and building activities;
  - handling of personal data (privacy protection),
 which are exercised by the director charged with specific individual authority, without limits on amounts and under his own exclusive responsibility.

At the same time the Board of Directors voted to set the following limits, for internal purposes only, on the exercise of the powers granted to Carlo Alessandro Puri Negri, the Deputy Chairman & Chief Executive Officer:

- to purchase and sell financial instruments, controlling and non-controlling investments in companies and consortia, shared ownership interests, businesses and business divisions, contracts, payables and/or receivables in general, including non performing loans, provided the value of own resources committed does not exceed €50,000,000 per transaction;
- to purchase and exchange real estate provided the value of own resources committed does not exceed €50,000,000 per transaction and sell real estate within the limit of €100,000,000 per transaction;
- to 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;
- to 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;

- to 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;
- to 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;
- to issue, or apply 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 structure of powers described above reflects the need to reconcile the due, required limitation on powers delegated by the Board of Directors - in order to prevent it being deprived of its prerogatives also in compliance with the Code - with the need to have a formal system of powers responding to the Company's business model and complexity of its market, in order to avoid the risk of "lack of authority" in specific situations when rapidity of action is required to seize the best business opportunities.

For due completeness, it is reported that on January 23rd, 2007 the Board of Directors concentrated all the investment and asset management activities (commercial, residential and NPL) under the responsibility of the director Olivier de Poulpiquet.

With regard to head office functions, the activities of Human Resources, Organization and Corporate Purchasing have been concentrated under the Group Finance & Human Resources Department managed by Gerardo Benuzzi (former Group Chief Financial Officer).

Gianluca Grea, the former Group Legal & Corporate Affairs Manager, has been appointed as General Counsel.

### Reporting 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 - regardless of whether transactions or activities are submitted for the prior approval of the directors - are regularly informed or at least once every three months, by the executive 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 effect 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 reporting, 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 of Decree 58/1998 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 (insofar as controlled by or nonetheless traceable to such related parties), in order to create (and keep constantly updated) a database allowing the Company to check such transactions directly.

Bearing in mind the specific authority granted to Dario Trevisan as Lead Independent Director (see Section 1.3), the Board of Directors nonetheless decided in its meeting of January 23rd, 2007 to revise these Guidelines in order to make further improvements, as discussed later in this Report.

#### Guidelines for conducting transactions with related parties

As already mentioned, 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 underwent minor amendment on July 28th, 2004.

These guidelines are designed to ensure effective, substantial 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 give its prior approval to 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 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 procedures to follow for notifying and obtaining prior approval for 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 of the Code. Transactions with related parties which are either typical or normal and concluded under standard terms do not require the Board of Directors' prior approval but must be disclosed ex-post in the Quarterly Report required under article 150 of Decree 58/1998, prepared in accordance with the Company's specific guidelines in this respect.

With reference to the recommendations of article 9 of the Code – regarding transactions with related parties and particularly those in which a director has an interest – it is reported that the Guidelines required by article 150 of Decree 58/1998 and the related Guidelines for conducting transactions with related parties adopted by the Company already represent an adequate and effective mechanism for managing such transactions, in order to ensure that these are conducted in a transparent fashion and in compliance with the principles of substantial, procedural fairness.

Furthermore, as mentioned earlier and bearing in mind the authority delegated in this area to Dario Trevisan as Lead Independent Director, the Company has nonetheless decided to undertake a revision not only of its Guidelines for compliance with the obligations under article 150.1 of Decree 58/1998 but also of the Guidelines for conducting transactions with related parties, with a view to adopting additional, more stringent identification criteria and procedures for managing these particular transactions. The process of revising these guidelines will identify the amendments and additions considered necessary, which will be finalized as soon as Consob issues its next pronouncements on related-party transactions, due shortly.

### 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 30th, the draft annual financial statements and the quarterly and half-yearly financial reports).

A total of eight Board meetings were held in 2006; the directors' overall attendance record at meetings was 83.33%, while that of the independent directors was around 89.58%.

As a rule, all necessary documentation and information was 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 twice in 2007, with plans to meet at least another four times.

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

The Shareholders' Meeting held on April 27th, 2005 appointed the following persons to the new Board of Directors, which met on the same date to nominate certain of its members to the specific offices envisaged by law and the Articles of Association:

- Marco Tronchetti Provera, Chairman
- Carlo Alessandro Puri Negri, Deputy Chairman & Chief Executive Officer
- Giovanni Nassi, Deputy Chairman
- Carlo Bianco, CEO Residential Asset Management and Trading
- 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 appointed Carlo Croce, in accordance with article 2386.1 of the Italian Civil Code and article 12 of the Articles of Association, to replace Sergio Lamacchia, who had died on December 29th, 2005. This appointment was approved during this same meeting by the Board of Statutory Auditors and was confirmed by the Shareholders' Meeting held on April 12th, 2006 called, amongst other things, to approve the financial statements for the year ending December 31st, 2005.

Following the resignations of Carlo Buora and Vincenzo Sozzani, on November 6th, 2006 and December 18th, 2006 respectively, on January 23rd, 2007 the Board of Directors appointed, in accordance with article 2386.1 of the Italian Civil Code, Claudio De Conto and Paolo Massimiliano Bottelli, both of whose nominations were approved at the same meeting by the Board of Statutory Auditors.

These appointments will be valid until the Shareholders' Meeting called to approve the financial statements for the year ending December 31st, 2006 and, if confirmed by the shareholders, they will have the same term as that of the current Board of Directors.

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 - now has the following members, also reflecting the changes described earlier:

OFFICE	NAME
<ul style="list-style-type: none"> <li>▪ CHAIRMAN</li> </ul>	MARCO TRONCHETTI PROVERA
<ul style="list-style-type: none"> <li>▪ COMPONENT OF THE EXECUTIVE INVESTMENT COMMITTEE</li> <li>▪ NON EXECUTIVE DIRECTOR</li> </ul>	
<ul style="list-style-type: none"> <li>▪ DEPUTY CHAIRMAN AND CHIEF EXECUTIVE OFFICER</li> <li>▪ COMPONENT OF THE EXECUTIVE INVESTMENT COMMITTEE</li> <li>▪ DIRECTOR</li> </ul>	CARLO ALESSANDRO PURI NEGRI
<ul style="list-style-type: none"> <li>▪ DEPUTY CHAIRMAN</li> <li>▪ DIRECTOR</li> </ul>	CARLO BIANCO
<ul style="list-style-type: none"> <li>▪ DEPUTY CHAIRMAN</li> <li>▪ DIRECTOR</li> </ul>	GIOVANNI NASSI
<ul style="list-style-type: none"> <li>▪ MANAGING DIRECTOR – CHIEF TECHNICAL OFFICER</li> <li>▪ DIRECTOR</li> </ul>	EMILIO BIFFI
<ul style="list-style-type: none"> <li>▪ COMPONENT OF THE COMPENSATION COMMITTEE</li> <li>▪ INDEPENDENT DIRECTOR</li> </ul>	REGINALD BARTHOLOMEW
<ul style="list-style-type: none"> <li>▪ DIRECTOR</li> </ul>	PAOLO MASSIMILIANO BOTTELLI
<ul style="list-style-type: none"> <li>▪ COMPONENT OF THE INTERNAL CONTROL COMMITTEE AND</li> <li>▪ CORPORATE GOVERNANCE</li> <li>▪ INDEPENDENT DIRECTOR</li> </ul>	WILLIAM DALE CRIST
<ul style="list-style-type: none"> <li>▪ NON-EXECUTIVE DIRECTOR</li> </ul>	CARLO EMILIO CROCE
<ul style="list-style-type: none"> <li>▪ COMPONENT OF THE EXECUTIVE INVESTMENT COMMITTEE</li> <li>▪ NON-EXECUTIVE DIRECTOR</li> </ul>	CLAUDIO DE CONTO
<ul style="list-style-type: none"> <li>▪ COMPONENT OF THE EXECUTIVE INVESTMENT COMMITTEE</li> <li>▪ DIRECTOR</li> </ul>	OLIVIER DE POULPIQUET
<ul style="list-style-type: none"> <li>▪ COMPONENT OF THE INTERNAL CONTROL COMMITTEE AND</li> <li>▪ CORPORATE GOVERNANCE</li> <li>▪ INDEPENDENT DIRECTOR</li> </ul>	ROBERTO HAGGIAG

<ul style="list-style-type: none"> <li>▪ COMPONENT OF THE COMPENSATION COMMITTEE INDEPENDENT DIRECTOR</li> </ul>	PAOLA LUCARELLI
<ul style="list-style-type: none"> <li>▪ COMPONENT OF THE EXECUTIVE INVESTMENT COMMITTEE COMPONENT OF THE COMPENSATION COMMITTEE INDEPENDENT DIRECTOR</li> </ul>	CLAUDIO RECCHI
<ul style="list-style-type: none"> <li>▪ COMPONENT OF THE INTERNAL CONTROL COMMITTEE AND CORPORATE GOVERNANCE INDEPENDENT DIRECTOR – LEAD INDEPENDENT DIRECTOR</li> </ul>	DARIO TREVISAN

As required by article 1.C.2 of the Code, a list of the offices of director or statutory auditor held by the directors in other companies listed on regulated markets in Italy or abroad, or in financial, banking, insurance or other large companies is presented below:

Marco Tronchetti Provera:

- Pirelli & C. S.p.A., Chairman
- Camfin S.p.A., Chairman
- G.P.I. – Gruppo Partecipazioni Industriali S.p.A., Chairman
- Olimpia S.p.A., Chairman
- Pirelli Tyre S.p.A., Chairman
- Marco Tronchetti Provera & C. S.a.p.A., General Partner

Carlo Alessandro Puri Negri:

- Pirelli & C. Real Estate Franchising Holding S.r.l., Chairman
- Pirelli & C. Real Estate Opportunities Società di Gestione del Risparmio S.p.A., Chairman
- Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., Chairman
- Pirelli & C. S.p.A., Deputy Chairman
- Camfin S.p.a., Deputy Chairman
- GPI – Gruppo Partecipazioni Industriali S.p.A., Chief Executive Officer
- AON Italia S.p.A., Director
- Olimpia S.p.A., Director
- Pirelli Tyre S.p.A., Director
- Telecom Italia S.p.A., Director
- Eurostazioni S.p.A., Director

Olivier De Poulpiquet:

- Pirelli RE Credit Servicing S.p.A., Chairman and Chief Executive Officer
- Spazio Investment N.V., Director
- Turismo e Immobiliare S.p.A., Director

Roberto Haggiag:

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

Claudio Recchi:

- Recchi Ingegneria e Partecipazioni S.p.A., Chairman and Chief Executive Officer
- AON Italia S.p.A., Director
- Banca Albertini SYZ & C. S.p.A., Director

- CIR S.p.A., Director

Dario Trevisan

- Intra Private Bank S.p.A., Chairman of Board of Directors
- Ginori Real Estate S.p.A., Director
- Parmalat Finanziaria S.p.A., Component of Supervisory Board

With regard to the provisions of article 1.C.3 of the Code relating to the general and differentiated guidelines to be issued by the Board of Directors on the maximum number of appointments that may be held by its members as a director or statutory auditor in other companies listed on regulated markets in Italy or abroad, or in financial, banking, insurance or other large companies (deemed to be compatible with an effective performance of their directorship in the Company), taking account of:

- the complexity involved in reaching a considered definition of the required guidelines;
  - the resulting need to adopt solutions consistent with the theory and best practice, which is still being gathered and assessed, including comparisons and considerations that must be made also in the light of imminent regulatory changes in associated areas;
  - the fact that the term in office of the current Board of Directors ends next year, with the approval of the financial statements for the year ended December 31st, 2007,
- the Company has decided to postpone any decision concerning the maximum number of appointments as a director or statutory auditor that its own directors may hold in other companies to a future Board meeting, indicatively to be held by July 2007, and in any case well before the appointment of the new Board of Directors.

As mentioned earlier, the Board of Directors approved in its meeting of January 23rd, 2007 a Board Performance Evaluation model (prepared for Pirelli RE with the help of Spencer Stuart). This evaluation was completed by the end of February 2007 and the findings were presented to the Audit and Corporate Governance Committee and to the Board of Directors itself in its meeting of March 9th, 2007. The evaluation was carried out by independent professionals from Spencer Stuart and – in keeping with international best practice – mostly through direct interviews with the various directors, on the basis of a specific questionnaire containing three sections: (i) Section A, relating to an evaluation of the Board of Directors and its Committees; (ii) Section B, relating to an evaluation of the directors, and (iii) Section C, relating to a self-evaluation by the directors themselves. The results of this evaluation will make it possible to refine the Board Performance Evaluation model still further and to implement those changes making the operation of the Board of Directors even more effective.

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

#### Executive directors

Article 2.C.1 of the Code defines the circumstances under which a director must be classified as "executive".

In view of this definition, the Board of Directors considers that 6 out of its 15 members are executive, namely the Deputy Chairman & Chief Executive Officer Carlo Alessandro Puri Negri, the Deputy Chairman Carlo Bianco (who carries out executive functions in the residential and tourism sectors, in the sale of public-sector assets and management of relationships in general with public entities and public pension funds, always in relation to real estate transactions and strategic

real estate projects), the Deputy Chairman Giovanni Nassi (who carries out executive functions in the health care and public utility sector) and, the directors Emilio Biffi (Chief Technical Officer), Olivier De Poulpique (General Manager Investment & Asset Management) and Paolo Massimilano Bottelli (who holds executive roles in Pirelli RE and its strategically important service sector subsidiaries).

### Independent directors

Article 3.C.1 of the Code defines the circumstances under which a director may qualify as "independent".

In view of this definition, the Board of Directors is of the opinion, not only on the basis of formal considerations but also substantial ones as dictated by the Code, that 6 of the remaining 9 non-executive directors (Reginald Bartholomew, William Dale Crist, Roberto Haggiag, Paola Lucarelli, Claudio Recchi and Dario Trevisan) qualify as independent directors.

Furthermore, on March 9th, 2007, the Company's Board of Directors carried out the periodic review of the independence qualifications of its 6 independent directors in accordance with the Code's criteria, also contained in its previous version of July 2002, and also with reference to the extra independence requirements laid down in paragraph 4, article 147-ter of Decree 58/1998, introduced by the Investment Savings Act.

It should be pointed out that (i) this review was carried out on the basis of information known to the Board of Directors and the specific declarations made by the persons concerned and (ii) the Board of Statutory Auditors – duly aware of its related duty now contained in article 3.C.5 of the Code – checked the correct application of the assessment criteria and procedures adopted by the Board of Directors for evaluating the independence of its members, providing a specific report in the same Board meeting.

The number and authority of the independent directors are viewed as being adequate in relation to the size of the Board of Directors and the Company's business and such as to allow the establishment of committees within the Board, in accordance with the Code's guidelines. In fact, both the Audit and Corporate Governance Committee and Compensation Committee are entirely made up of solely independent directors. 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 - and anticipating the recommendation now contained in article 2.C.3 of the Code - the Board of Directors decided on March 9th, 2006 to introduce the role 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; the first such session was held on January 23rd, 2007.

### Non-executive directors

Bearing in mind the executive positions held within the Pirelli & C. Group and other relationships, the other 3 non-executive directors - Marco Tronchetti Provera, Claudio De Conto and Carlo Croce - do not qualify as independent directors and so are classified as simply non-executive directors. As far as Marco Tronchetti Provera and Claudio De Conto are concerned and their membership of the Executive Investment Committee, they do not qualify as "executive" in spite of the provisions of article 2.C.1. of the Code. This is because the Company has appointed a Deputy Chairman & Chief Executive Officer and a Chief Executive Officer for each sector and also because, taking account of the frequency of committee meetings and the actual activity performed, the participation of Marco Tronchetti Provera and Claudio De Conto in the committee does not imply a systematic involvement in the Company's ordinary management.

With regard to the experience and authority of the non-executive directors, this is considered to be such as to ensure that their opinions carry a significant weight in influencing the Board's decisions.

### Integrity requirements

During the meeting held 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 by the Investments Savings Act and reviewed whether the Company's directors and general managers satisfied the related integrity requirements, already applicable to the Board of Statutory Auditors. 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. The Board of Directors also reviewed the integrity requirements of the new directors Paolo Massimiliano Bottelli and Claudio De Conto at the time of co-opting them.

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

## **1.4 Board committees**

In accordance with the Code (articles 7 and 8), 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,

whose operations comply with those envisaged by the Code.

The Board of Directors has decided, however, not to form a nominations committee, since - based on the current ownership structure - there is no particular trouble in coming up with candidates for the office of director. Furthermore as far as the Code is concerned, the formation of such a committee is optional (article 6.P.2).

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.

Furthermore, the adoption of the so-called list voting system since 2004 gives the required transparency to the candidate selection and presentation process.

It should also be pointed out that – in compliance with the Code's provisions concerning the possibility of giving a particular committee more functions, even if normally attributable to another committee (as allowed by article 5.C.1., letter c), of the Code) – the Audit and Corporate Governance Committee has been charged with the task of proposing to the Board of Directors the names of candidates for co-option when it is necessary to replace an independent director or in the general case of having to co-opt an independent director.

### Compensation Committee

In full compliance with and actually going beyond the recommendation contained in article 7.P.3 of the Code, the Compensation Committee consists of three directors, all of whom independent:

OFFICE	NAME
▪ INDEPENDENT DIRECTOR	CLAUDIO RECCHI (CHAIRMAN)
▪ INDEPENDENT DIRECTOR	REGINALD BARTHOLOMEW
▪ INDEPENDENT DIRECTOR	PAOLA LUCARELLI

each component of the Compensation Committee receives an annual fee of €15,000 for the work performed.

The Board of Directors decided on November 6th, 2006 to revise the functions previously attributed to the Compensation Committee, as well as its operation, in order to make them fully compliant with the new Code.

- The Compensation Committee acts in a consultative capacity and makes proposals regarding the following matters:
  - (a) it presents proposals to the Board of Directors regarding the remuneration of executive directors and directors holding particular office, in order to ensure that it is line with the goal of medium/long-term creation of value for the shareholders;
  - (b) it periodically evaluates the criteria adopted for the remuneration of the Company's top management and, at the request of the Deputy Chairman & Chief Executive Officer, presents proposals and recommendations accordingly, with particular reference to the adoption of stock option or stock granting plans;
  - (c) it monitors the application of decisions taken by the competent bodies and of company policies relating to top management remuneration;
- as far as the operation of the Compensation Committee is concerned:
  - it is allowed to have access to the information and company functions needed for it to perform its duties;
  - it is allowed to request the Board of Directors to engage the services of outside consultants in order to carry out its activities;
  - it meets every time its Chairman decides or at the request of any of its members or an executive director, giving notice of such at least one day in advance of such meeting;
- the Committee usually reports to the Board of Directors at the next Board meeting on the conclusions it has reached and on the results of its monitoring activities. Meetings of the Compensation Committee are always attended by Board of Statutory Auditors and – if considered appropriate – other representatives of the Company, whose input is necessary in relation to the matters being discussed.

The Committee met 3 times in 2006, during which it examined and evaluated the following topics, making associated proposals to the Board of Directors:

- remuneration structure of the director Carlo Bianco, after his appointment as Deputy Chairman as part of the new organizational structure of the Pirelli RE Group's top management, and

execution of a consulting agreement between the Company and the legal firm of Carlo Bianco and Partners (Studio Legale Carlo Bianco e Associati);

- calculation and revision of the variable component of top management remuneration linked to the achievement of financial targets contained in the annual budget ("MBO") and long-term incentive schemes ("LTI") for executive directors and general managers linked to the achievement of targets contained in the three-year plan;
- revision of the remuneration structure of Emilio Biffi as Chief Technical Officer, after his resignation as General Manager and a company employee, including his waiver of part of the stock options granted under the 2004-2006 stock option plan and the consequent proposal to reallocate the released options to employees who had recently joined the Pirelli RE Group.

Lastly, the Company made available sufficient financial resources to the Compensation Committee for the performance of its duties.

#### Audit and Corporate Governance Committee

In full compliance with and actually going beyond the recommendation contained in article 8.P.4 of the Code, the Audit and Corporate Governance Committee consists of three directors, all of whom independent:

OFFICE	NAME
▪ INDEPENDENT DIRECTOR	DARIO TREVISAN (CHAIRMAN)
▪ INDEPENDENT DIRECTOR	WILLIAM DALE CRIST
▪ INDEPENDENT DIRECTOR	ROBERTO HAGGIAG

each component of the Audit and Corporate Governance Committee receives an annual fee of €15,000 for the work performed.

As for the Committee's composition and the provisions contained in article 8.P.4 of the Code (which requires that at least one member of this committee has experience in accounting and finance), although the Company considers that the current members nonetheless boast a certain experience in this area - gained in the exercise of their respective professions –, it has been decided to nominate one member with the required qualifications at the time of renewing the Board of Directors in order to apply the specific requirement more rigorously and also in view of the fact that the mandate of the current Board of Directors is due to end at the Shareholders' Meeting called to approve the financial statements for the year ended December 31st, 2007.

The Board of Directors decided on November 6th, 2006 to revise the functions previously attributed to the Internal Audit and Corporate Governance Committee, as well as its operation, in order to make them fully compliant with the new Code.

- the Audit and Corporate Governance Committee provides advice and makes proposals concerning the following matters and specifically:
  - (a) it assists the Board of Directors and, upon request, the Deputy Chairman & Chief Executive Officer (limited to the first of the points below):
    - in laying down the guidelines for the internal control system, so that the main risks facing the Company and its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, determining, moreover, the criteria for determining whether such risks are compatible with sound, correct business management;
    - in identifying an executive director (usually, one of the chief executives) for supervising the functionality of the internal control system;

- in evaluating, at least on an annual basis, the adequacy, effectiveness and actual functioning of the internal control system;
- in describing, in the report on corporate governance, the key features of the internal control system, expressing its opinion on the overall adequacy of the same;
- (b) it expresses an opinion on the proposed candidates, revocation and functions of the person in charge of internal control and the senior manager in charge of the company's financial reporting;
- (c) it evaluates, together with the senior manager responsible for the company's financial reporting (a position due to be created following the Articles of Association Amendments pursuant to the Investment Savings Act and subsequent amendments) and the independent auditors, the correct utilization of the accounting principles and their consistent application within the Group for the purposes of preparing the consolidated financial statements;
- (d) at the request of the executive director so charged, it expresses opinions on specific aspects relating to the identification of the principal business risks as well as on the design, implementation and management of the internal control system;
- (e) it examines the work programme prepared by the persons in charge of internal control as well as the periodic reports prepared by them;
- (f) it evaluates the proposals submitted by the auditing firm for obtaining the related appointment, as well as the work programme prepared for the audit and the results described in the report and any letter of recommendations;
- (g) it supervises the effectiveness of the audit of the accounts;
- (h) it monitors the observance of the Company's guidelines for conducting transactions with related parties;
- (i) it reports to the Board of Directors on the activities carried out usually at the earliest next meeting and on the adequacy of the internal control system on the occasion of the approval of the annual and half-yearly financial reports;
- (j) it performs any additional duties that are assigned to it by the Board of Directors, including in relation to monitoring the procedural and substantial fairness of transactions;
- (k) it monitors the observance and periodic updating of the corporate governance rules and compliance with the codes of conduct that may have been adopted by the Company and its subsidiaries. The Committee is also in charge of proposing how and when to carry out the annual self-evaluation of the Board of Directors;
- (l) it proposes the names of candidates for co-option when it is necessary to replace an independent director or in the general case of having to co-opt an independent director;
- as for the operation of the Audit and Corporate Governance Committee:
  - it is allowed to access to the information and company functions needed for it to perform its duties;
  - it is allowed to use of outside consultants for the purposes of carrying out its work;
  - it usually meets before meetings of the Board of Directors called to approve the annual, half-yearly and quarterly financial reports, or whenever its chairman decides or at the request of any of its members or an executive director, giving notice of such at least one day in advance of such meeting;
- the Committee's meetings are always attended by the Board of Statutory Auditors, and – if considered appropriate – other representatives of the Company whose input is necessary in relation to the matters being discussed, including the person in charge of internal control and senior manager in charge of the Company's financial reporting (as soon as appointed).

The Committee met 4 times in 2006, during which it examined and evaluated the following topics, making associated proposals to the Board of Directors:

- adoption of the "Guidelines for handling and publishing price sensitive information"; report for 2005 by the person in charge of the Company's internal control; report on the work of the Audit

and Corporate Governance Committee in the second half of 2005; appointment of the independent director Dario Trevisan as Lead Independent Director,

- report for 2006 by the person in charge of the Company's internal control, updated to May; new legal provisions on internal dealing (under article 114.7 of Decree 58/1998 and articles 152-sexies – 152-octies of the Issuer Regulations);
- audit programme for the Pirelli RE Group prepared by the auditing firm of PricewaterhouseCoopers for financial year 2006; report for 2006 by the person in charge of the Company's internal control, updated to September; report on the principal changes introduced by the new Corporate Governance Code (1st edition March 2006) drawn up by the Italian Stock Exchange's Corporate Governance Committee, and implications for the Company; appointment of a new person to be in charge of the Company's internal control, in the guise of the new Head of Internal Audit at Pirelli & C. S.p.A.; report on the work of the Audit and Corporate Governance Committee in the second half of 2006;
- proposal by the auditing firm of PricewaterhouseCoopers S.p.A. for additional professional services on top of the audit and certification of the 2006 financial statements; report for 2006 by the person in charge of the Company's internal control, updated to November; adoption of the new Corporate Governance Code.

Lastly, it is reported that the Company made available sufficient financial resources to the Audit and Corporate Governance Committee for the performance of its duties.

## **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, having consulted the Board of Statutory Auditors, 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 holding particular office, amongst whom the Deputy Chairman & Chief Executive Officer, the Deputy Chairman and members of any Committees that the Board decides to set up. In compliance with the Code's recommendations, the Company has checked that the remuneration of its directors is appropriate - and in line with market rates applied in similar circumstances - and sufficient for attracting, retaining and motivating directors with the professional skills required to manage the Company successfully.

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, with a large annual and long-term variable component (MBO and LTI, as well as participation in stock option plans), thereby fostering an alignment of their objectives with the priority goal of creating value for the shareholders over the medium/long-term.

Bearing in mind the different and greater responsibility of the role of Chairman, and the Company's legal representative, as a result of (i) the Company's rapid growth in size and national importance in the real estate sector in recent years and so the different nature of contact with institutional authorities and (ii) the start of expansion abroad and the European dimension being assumed by the Pirelli RE Group, the Board of Directors decided in its meeting of January 23rd, 2007 to grant the Chairman of the Board of Directors an annual fee for this office of €385,000. Such a decision was made on the basis of a benchmark survey of top management remuneration by the Hay Group, a

company specialized in this sector, and after obtaining the consent of the Compensation Committee and the Board of Statutory Auditors.

For more details on the compensation awarded to directors holding particular office, please refer to the specific table contained in the notes to the 2006 financial statements. Lastly, for more details on the participation of executive directors and general managers in equity-based incentive schemes, please refer to the specific table contained in the notes accompanying the 2006 financial statements.

## **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 must, 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 executive directors 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 30th, 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 Board meetings 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 deemed 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 drawn up 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, resolutions and related minutes) and the participation of third parties. In addition, these committees must 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 Department 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 always 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. (as amended for the changes in the related statutory and regulatory provisions, with particular reference to the Consob recommendations contained in its Circular 6027054 dated March 28th, 2006). Press releases are prepared in accordance with the Italian Stock Exchange's recommendations setting out guidelines on the structure and minimum content of such press releases.

Bearing in mind the 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-bis of Decree 58/1998, the guidelines provide for the creation of a special "List of persons with access to price sensitive information", establishing how it should be maintained, managed and searched on the basis of computerized systems.

### Internal Dealing

The Company has adopted the necessary steps in the wake of the implementation - with effect from April 1st, 2006 - of the new provisions on 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.

In detail, in view of the fact that the new rules on internal dealing now have force in law (article 114.7 of Decree 58/1998 and articles 152-sexies – 152-octies of the Issuer Regulations) and envisage a largely similar set of regulations to those previously contained in the Internal Dealing Code already adopted by Pirelli RE, the Company has:

- withdrawn its previous Internal Dealing Code;
- sent a specific notice to all those persons no longer bound by the associated reporting obligations;
- identified the relevant persons bound by the new reporting obligations (in addition to directors, statutory auditors and general managers) as members of the Company's Management Board;
- sent a specific notice to the aforementioned directors, statutory auditors, general managers and members of the Management Board for the purposes of providing them with all the information required to comply with the new legal requirements;
- organized the Legal and Corporate Affairs Department as the point of reference for relevant persons for every need in this area and as the recipient of the related dealing notices for subsequent disclosure to the market.

In addition to keeping relevant persons duly and promptly informed of the obligations in their regard, the Company is in the process of evaluating whether to adopt additional rules that go beyond those currently required in law.

## **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 on the basis of a transparent procedure - in compliance with article 6.P.1 of the Code - and using the list voting system, described in detail in article 12 of the Articles of Association. 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 the owners of shares representing at least 2% of share capital with voting rights at the ordinary shareholders' meeting and must be deposited at the Company's registered office at least 10 days before the date fixed for the shareholders' meeting in first call. The Articles of Association Amendments required for compliance with the Investment Savings Act include a provision to increase this filing deadline from 10 to 15 days, as recommended in article 6.C.1 of the Code.

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. Once again, the Articles of Association Amendments also affect the rules governing the appointment of directors, with particular reference to: (i) the information to be provided at the time of presenting candidate lists for the office of director (specifically, as regards appointments as a director or statutory auditor in other companies and the clarification that the independence criteria refer to those found in law and those adopted by the Company); (ii) the minimum percentage of share capital entitled to voted at ordinary shareholders' meetings which is required for the filing of such lists and (iii) other changes of a formal nature.

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 10.P.1 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 Shareholders' Meeting elects the Board of Statutory Auditors and determines its compensation. The minority is entitled 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% 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.

The current version of the Articles of Association requires that components of the Board of Statutory Auditors are elected using the list voting system, whereby two standing auditors and one alternate auditor are appointed from the list that obtained the highest number of votes ("the majority list") and the remaining standing component and other alternate auditor are appointed 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. It is also envisaged that 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 Articles of Association Amendments include appropriate changes required for compliance, with particular reference to: (i) the information to be provided at the time of presenting candidate lists for the office of statutory auditor (specifically, as regards appointments as a director or statutory auditor in other companies); (ii) the minimum percentage of share capital entitled to voted at ordinary shareholders' meetings which is required for the filing of such lists; (iii) the fact that the chairmanship of the Board of Statutory Auditors falls to the standing component listed as the first candidate on the list that obtained the second highest number of votes and (iv) the rules governing the replacement of an outgoing statutory auditor or the presentation of just one list.

Furthermore, since the term in office of the current Board of Statutory Auditors will end at the Shareholders' Meeting called to approve the financial statements for the year ended December 31st, 2006 and taking account of the compulsory rules contained in article 148.2-bis of Decree 58/1998, the existing provision of the Articles of Association, whereby the Chairman of the Board of Statutory Auditors is the first candidate on the list obtaining the highest number of votes (the "majority list"), will not apply.

## 2.4 Internal control system

### Internal control

In addition to the earlier observations concerning the workings of the Audit and Corporate Governance Committee, 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, in order that the principal risks facing the Company and its subsidiaries are correctly identified, adequately measured, managed and monitored. For this purpose the Board makes use of the Audit and Corporate Governance Committee as well as the Internal Audit 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.

In compliance with the new recommendations contained in article 8.C.1, letter b), of the Code, the Board of Directors has identified the Deputy Chairman & Chief Executive Officer Carlo Alessandro Puri Negri as the person to hold the new position of "executive director for supervising the functionality of the internal control system", who has been charged with the duties described in detail in article 8.C.5 of the Code and been given the necessary powers, including to implement those changes and measures needed for full compliance with the new Code. Accordingly, this person liaises regularly with the person in charge of internal control.

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 was nominated as "person in charge". Sergio Romiti was Head of Internal Audit at Pirelli & C. S.p.A. and so did not report to any heads of the Company's operational areas. With effect from September 1st, 2006 he was replaced by Maurizio Bonzi who took over as Head of Internal Audit at Pirelli & C. S.p.A.

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

During 2006, 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.

#### Decree 231/2001 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 sets out 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:
  - separation of duties in the performance of activities involved in each process;
  - 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;
  - 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 tailored to the size and organizational circumstances of each company, while respecting the mandate and the powers reserved to this body by law.

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

The operation of the organizational model has also been facilitated by the introduction of specific reporting procedures to Supervisory Boards, in implementation of article 6.2d) of Decree 231/2001, which establishes precise reporting duties vis-à-vis the Board charged with monitoring the functioning of and compliance with the models.

Furthermore, bearing in mind that an effective implementation of the organizational model requires it to be periodically reviewed, and updated or made compliant with any organizational and/or legislative changes, the Pirelli RE Group undertook the "231 Project - 1st Revision", in collaboration with the supervisory boards of the various companies concerned, with a view to preparing proposed amendments and improvements to the various organizational models adopted. After completing the project, the meeting of the Board of Directors held on March 9th, 2007 approved the revised version of the 231 organizational model adopted in 2003.

#### 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 Group Finance & Human Resources 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 of both a financial nature (for example, the annual report and the half-yearly and quarterly financial reports), and a corporate nature (minutes of shareholders' meetings, information circulars, extraordinary transactions etc) and concerning its corporate governance system (for example, the Guidelines for compliance with the obligations under article 150.1 of Decree 58/1998,

the Guidelines for conducting transactions with related parties, the Guidelines for handling and publishing price sensitive information and related list of persons with access to price sensitive information).

This same 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 (as amended for the changes in the related statutory and regulatory provisions, with particular reference to the Consob recommendations contained in its Circular 6027054 dated March 28th, 2006).

### **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 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. As anticipated in Part I, following the introduction of the new provision allowing shareholders to request additions to the agenda (article 126-bis of Decree 58/1998), the Articles of Association Amendments include a provision whereby such requests, presented by shareholders in accordance with law, must be accompanied by a report to be filed at the Company's registered office in time to be made available to shareholders at least 10 days before the date of the meeting in first call.

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 Articles of Association Amendments include an amendment to article 10 whereby – after the Chairman – the meeting shall be chaired by the Deputy Chairman & Chief Executive Officer, if appointed.

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 has been 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 meeting's Chairman. 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 Shareholders' Meeting must be called within 120 days or, if necessary under 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.

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 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. As noted in Part I, the Shareholders' Meeting called to approve the financial statements for 2006 will be presented with certain proposed amendments for the purposes of complying with the new option allowing shareholders to request additions to the agenda as well as some other minor changes.

#### **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 of Statutory Auditors - 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. Details of the method of appointing the new Board of Statutory Auditors can be found in Section 2.3 of this Report.

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

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

- ABB S.p.A. Standing Auditor
- Actelios S.p.A., Chairman of the Board of Statutory Auditors
- AlSCO Italia S.r.l., Chairman of the Board of Statutory Auditors
- Alstom Power Italia S.p.A., Standing Auditor

- Biochimici PSN S.p.A., Chairman of the Board of Statutory Auditors
- Cantoni ITC 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
- Durkopp Adler Italia S.r.l., Chairman of the Board of Statutory Auditors
- Elba S.p.A., Chairman of the Board of Statutory Auditors
- Energia S.p.A., Standing Auditor
- Energia Holding S.p.A., Standing Auditor
- FAG Italia S.p.A., Chairman of the Board of Statutory Auditors
- Isringhausen S.p.A., Standing Auditor
- Mediolanum Farmaceutici S.p.A., Chairman of the Board of Statutory Auditors
- Olimpia S.p.A., Chairman of the Board of Statutory Auditors
- Pirelli Ambiente 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
- Pirelli & C. Real Estate SGR S.p.A., Chairman of the Board of Statutory Auditors
- Prima S.r.l., Chairman of the Board of Statutory Auditors
- Ratti S.p.A., Chairman of the Board of Statutory Auditors
- Rinascente/Upim S.p.A., Standing Auditor
- Rottapharm S.p.A., Chairman of the Board of Statutory Auditors
- Velluti Redaelli S.p.A., Standing Auditor
- Verbund Italia S.p.A., Chairman of the Board of Statutory Auditors

Paolo Carrara (Standing auditor):

- Peg Perego S.p.A., Chairman of the Board of Statutory Auditors
- Zürich Investments Life S.p.A., Standing auditor
- Zürich SIM S.p.A., Chairman of the Board of Statutory Auditors
- Züritel S.p.A., Standing auditor

Gianfranco Polerani:

- M.P. Facility S.p.A., Standing Auditor
- Pirelli & C. Real Estate Franchising Holding S.r.l., Standing Auditor
- Pirelli & C. Real Estate Franchising S.p.A., Standing Auditor

Franco Ghiringhelli (Alternate auditor):

- Camfin S.p.A., Standing auditor
- CFT Finanziaria S.p.A., Chairman of the Board of Statutory Auditors
- Grifogest SGR S.p.A., Standing auditor
- I Grandi Viaggi S.p.A., Standing auditor
- Mondadori Pubblicità S.p.A., Chairman of the Board of Statutory Auditors
- Mondadori Retail S.p.A., Standing auditor
- Società Europea Edizioni S.p.A., Standing auditor

All the standing auditors had on the whole a 95.83% attendance record at meetings of the Board of Statutory Auditors held in 2006, while their attendance at meetings of the Board of Directors was as follows:

100% for the Chairman Roberto Bracchetti;

100% for the standing auditor Paolo Carrara;  
100% for the standing auditor Gianfranco Polerani,  
with an overall average attendance record of 100%.

\* \* \*

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**

<b>Board of Directors</b>							<b>Audit Committee •</b>		<b>Compensation Committee ♦</b>		<b>Nominations Committee, if any ◇</b>		<b>Executive Investment Committee</b>		
<b>Office held</b>	<b>Members</b>	<b>Executive</b>	<b>Non-executive</b>	<b>Independent</b>	<b>****</b>	<b>Number of other appointments **</b>	<b>***</b>	<b>****</b>	<b>***</b>	<b>****</b>	<b>***</b>	<b>****</b>	<b>***</b>	<b>****</b>	
<b>Chairman</b>	Marco Tronchetti Provera		X		87.5%	6							X	/	
<b>Deputy Chairman &amp; Chief Executive Officer</b>	Carlo Alessandro Puri Negri	X			100%	11							X	/	
<b>Deputy Chairman</b>	Giovanni Nassi	X			100%	/									
<b>Deputy Chairman &amp; Sector Chief Executive Officer</b>	Carlo Bianco	X			100%	/									
<b>Sector Chief Executive Officer</b>	Emilio Biffi	X			87.5%	/									
<b>Director</b>	Reginald Bartholomew			X	100%	/			X	100%					
<b>Director (co-opted on 1/23/2007)</b>	Paolo Massimiliano Bottelli	X				/									
<b>Director (resigned 11/6/2006)</b>	Carlo Buora		X		62.5%	/							X	/	
<b>Director</b>	William Dale Crist			X	75%	/	X	100%							
<b>Director</b>	Carlo Emilio Croce		X		62.5%	/									
<b>Director <sup>(1)</sup></b>	Claudio De Conto		X			/							X	/	
<b>Director <sup>(2)</sup></b>	Olivier de Poulpique	X			87.5%	3							X	/	
<b>Director</b>	Roberto Haggiag			X	100%	2	X	100%							
<b>Director <sup>(3)</sup></b>	Paola Lucarelli			X	87.5%	/			X	66.66%					
<b>Director</b>	Claudio Recchi			X	87.5%	4			X	100%					
<b>Director (resigned 12/18/2006)</b>	Vincenzo Sozzani		X		25%	/							X	/	
<b>Director</b>	Dario Trevisan			X	87.5%	3	X	100%							
• Summary of reasons for lack of committee or different composition relative to that recommended by the Code:															
♦ Summary of reasons for lack of 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:															
<b>Number of meetings held during the year</b>			Board of Directors: 8		Audit Committee: 4		Compensation Committee: 3		Nominations Committee: /		Investment Committee: /				

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 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) Component of Executive Investment Committee since January 23rd, 2007

(2) Component of Executive Investment Committee since January 23rd, 2007

(3) Component of Compensation Committee since January 25th, 2006

**TABLE 2: BOARD OF STATUTORY AUDITORS**

Office held	Members	Attendance record at board meetings	Number of other appointments**
Chairman	Roberto Bracchetti	87.50%	2
Standing auditor	Paolo Carrara	100%	/
Standing auditor	Gianfranco Polerani	100%	/
Alternate auditor	Franco Ghiringhelli	/	2
Alternate auditor	Paola Giudici	/	/
<b>Number of meetings held during the year: 8</b>			
<b>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%</b>			

**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 or 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**

	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> - address: Via Negri, 10 - Milan; - tel. 02/85354057; - fax 02/85354387 ; - e.mail: <a href="mailto:dario.fumagalli@pirellire.com">dario.fumagalli@pirellire.com</a>		

# PIRELLI & C. REAL ESTATE S.p.A.

## PROCEDURE FOR COMPLIANCE WITH PROVISIONS CONTAINED IN ART. 150, PAR FIRST, LEG. DECD.LGS. no. 58 OF 1998

### Foreword

In compliance with art. 150, par. 1, of Legislative Decree no. 58 of 1998 (hereinafter “Unique Finance Text” (‘testo unico della finanza’, or TUF )) “the directors shall report to the Board of Auditors in a timely fashion, according to the modalities established in the articles and with quarterly frequency at least, on the activity performed and on relevant economical, financial and assets operations carried out by the Company or its controlled companies; in particular, they shall report on the operations in which they have an interest either on their own account or a third party’s, or that are influenced by the person carrying out the managing or coordinating activity<sup>1</sup>.

In compliance with the above-mentioned norm and also in light of the Consob communication on the matter of company controls<sup>2</sup>, this procedure defines persons and operations involved in the information flow addressed to the auditors of Pirelli & C. Real Estate S.p.A. (hereinafter “Pirelli RE” or “the Company”), as well as the phases and timing of the flow itself. In particular, the procedure defines:

1. modalities, frequency and contents of information;
2. assembling of information.

The purpose of this procedure is therefore, firstly, to supply the Board of Auditors with information functional to the unfolding of the vigilance activity they are charged with by the TUF (art. 149).

Secondly, the procedure implements instruments of corporate governance with which to effectively action the recommendations contained in the self-discipline code prepared by the Committee for corporate governance of the listed companies adhered to by Pirelli RE. In particular, this procedure, incrementing transparency in company management, allows each director to share in the management itself in a more aware and informed manner; further, the procedure activates information flows between managing directors and Board of Directors provided for in the self-discipline code and apt, on the one hand, to sanction the “centrality” of the company management body as a whole, and on the other to strengthen the internal control functions.

### Modalities, frequency and contents of the information

The Board of Directors, autonomously or via delegated bodies, reports in writing on a quarterly basis to the Board of Auditors relatively to:

- a) the activity performed;
- b) the relevant economical, financial and assets operations;
- c) the operations in potential conflict of interests, i.e.:
  - c1) infragroup operations;
  - c2) operations with correlated parties different from infragroup operations;
- d) atypical or unusual operations and any other activity or operation they deem it opportune to communicate to the Board of Auditors.

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<sup>1</sup> This provision has been received into the Articles of PIRELLI RE; art. 18, pars.3 and 4, states that “The Board of Directors and the Board of Auditors are informed, also on the initiative of the managing bodies, on the activity performed, the general situation of the management, its predictable evolution and the relevant economical, financial or assets operations carried out by the Company and its controlled companies; in particular, the managing bodies report on any operations in which they may have an interest, either on their own account or a third party’s, or that may be influenced by the person carrying out the managing or coordinating activity, where existing. Communication shall be timely and in any case with quarterly frequency at least, on occasion of meeting of the Board of Directors and Executive Committee – where one is nominated – or via a written note”.

<sup>2</sup> Cfr., Consob Communication no. 97001574 of 20 February 1997; Consob Communication no. 1025564 of 6 April 2001, as well as Communication no. 2064231 of 30 September 2002, pinpointing the notion of correlated parties.

The information supplied refers to the activity performed and to the operations carried out in the period subsequent to the one forming the subject of the previous report.

The report is contextually conveyed to all directors and acting auditors.

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

The information regards activities performed and developments of operations previously agreed upon by the Board of Directors, as well as the activities of the Committees (Committee for internal control and corporate governance; Remuneration Committee and other internal committees); in particular, reports are given on activities performed by the executive directors – possibly via the structures of the Company and of controlled companies – whilst exercising the delegations granted to them, including initiatives taken and projects instated.

### ***2. Relevant economical, financial and assets operations***

The information regards relevant economical, financial and assets operations, highlighting their strategic purposes, consistency with the management plan and with the three-year plan, modalities of execution (including economical terms and conditions of their execution) and the relative developments as well as conditions and implications involved for the activity of Gruppo Pirelli RE. On the basis of the civil code (art. 2381) and of the Articles, this procedure considers the following operations carried out by Pirelli RE or its controlled companies as relevant economical, financial and assets operations:

- 1) issuing of financial instruments for a total exchange value exceeding euro 100m;
- 2) granting of real and personal guarantees or financings in the interest of participated companies (and in the interest of RE as regards real guarantees), against bonds for an amount exceeding euro 25m;
- 3) granting of financings or guarantees in favour or in the interest of third parties for amounts exceeding euro 10m;
- 4) operations of investment and disinvestment, including real estate operations, acquisitions and transfers of participations, businesses or sections of businesses, sources of income and other activities for amounts exceeding euro 50m;
- 5) merging or separation operations involving controlled companies, where at least one of the parameters listed below, where applicable, is quantifiable as equal or exceeding 15%:
  - a. total assets of the incorporated (merged) company, or of the activities subjected to separation/total assets of the Company (from the consolidated balance sheet);
  - b. result, before tax and extraordinary components, of the incorporated (merged) company or of the activities to be separated/ result, before tax and extraordinary components, for the Company (from the consolidated balance sheet);
  - c. total net assets of the incorporated (merged) company or of the sector of business subjected to separation/ total net assets of the Company (from the consolidated balance sheet).

Operations of fusion (whether by merger or union) between listed companies, as well as fusion by union between a listed and an unlisted company or of merger of a listed company with an unlisted one are in any case considered as relevant economical, financial and assets operations for the purposes of this procedure.

The information also concerns operations which, though singly below the threshold values mentioned above or those defining the exclusive competence of the Board of Directors, result connected within the same strategic or executive structure, and therefore, considered as a whole, exceed the relevance thresholds.

### 3. *Operations in potential conflict of interests:*

#### 3a) *Infragroup operations*

Information relative to infragroup operations illustrate the underlying interest and logic in the context of the group, as well as the executive modalities of the operations (including economic terms and conditions of their execution) with particular regard for the evaluation procedures followed.

Specific attention is given to operations exceeding the value of euro 50m, and to those which, albeit lower in value, have been closed under non-standard conditions<sup>3</sup>. Attention should also be given to operations which, albeit singly below the threshold value indicated, result connected within the same strategic or executive strategy and therefore, when considered jointly, exceed it.

The present procedure considers as infragroup operations<sup>4</sup> those carried out by Pirelli RE or by companies controlled by Pirelli RE with:

- a) Companies which, directly or indirectly, or also via trust companies or third party mediation, control Pirelli RE in accordance with art. 2359, pars. 1 and 2, of the civil code and with art. 93 of the Unique Finance Text;
- b) Companies which, directly or indirectly, or also via trust companies or third party mediation, are controlled by Pirelli RE in accordance with art.2359, pars. 1 and 2, of the civil code and with art. 93 of the Unique Finance Text;
- c) Companies which, directly or indirectly, or also via trust companies or third party mediation, are controlled by the same companies controlling Pirelli RE in accordance with art. 2359, pars. 1 and 2, of the civil code and with art. 93 of the Unique Finance Text;
- d) Companies connected with Pirelli RE according to art. 2359, par. 3, of the civil code and companies exercising a remarkable influence over Pirelli RE; there is no connection with the companies connected to the connected company.

#### 3b) *Operations with correlated parties different from infragroup operations*

Information relative to operations with correlated parties different from infragroup operations highlight the underlying interest and illustrate the executive modalities of the operations (including economical terms and conditions of their execution) with particular regard for the evaluation procedures followed.

This procedure considers as operations with correlated parties<sup>5</sup> those carried out by Pirelli RE or by companies controlled by Pirelli RE with the parties directly or indirectly correlated with Pirelli RE.

Parties directly correlated with Pirelli RE are:

- a) Natural persons who, directly or indirectly, or also via trust companies or third party mediation, hold a participation equal to or exceeding 10% of the capital represented by ordinary Pirelli RE shares;
- b) Natural persons who, although holding directly or indirectly, or also via trust companies or third party mediation, a participation lower than indicated at a), have the faculty, in virtue of ex-Company agreements, to nominate, singly or jointly with other persons underwriting the agreements, the majority of the members of the Board of Directors of Pirelli RE;
- c) Natural persons who, although holding directly or indirectly, or also via trust companies or third party mediation, a participation lower than indicated at a), hold, in virtue of ex-Company agreements, singly or jointly with the other persons underwriting the agreements, the majority of votes exercisable in the ordinary meeting of the Company itself;
- d) The Members of the Board and Acting Auditors of Pirelli RE;

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<sup>3</sup> This procedure considers as operations closed at standard conditions those closed at the same conditions applied by the Company to any person.

<sup>4</sup> This procedure considers as relevant any agreement transferring, even without any monies changing hands, goods and real estate as well as rights available with economic contents, operations regarding performance of actions and services, transfer or obtaining of financings and guarantees, agreements of collaboration in the exercising or development of company activity.

<sup>5</sup> Cf. Previous note.

- e) The General Managers and the Secretary of the Board of Directors and the persons in charge of Business Units/Central Functions/Operational Activities of Pirelli RE reporting directly to the Vice President and Managing Director or to the General Managers (so-called first report persons).

Parties indirectly correlated with Pirelli RE are:

- f) The consort, unless legally separated, of the persons indicated at letters a) to e);
- g) Relatives and relative-in-laws within the second degree of the persons indicated at letters a) to e);
- h) Companies in which the persons indicated at letters a) to g) hold directly or indirectly, or also via trust companies or third party mediation, a participation equal to or exceeding 10% (if listed) or 20% (if unlisted) of the capital represented by shares with right to vote in the ordinary meeting;
- i) Companies in which the persons indicated at letters a) to g), although holding participations lower than indicated at letter h), can, in virtue of ex-Company agreements, nominate singly or jointly with the other persons underwriting the agreements, the majority of members of the Board of Directors of the same Company;
- j) Companies in which the persons indicated at letters a) to g), although holding participations lower than indicated at letter h), hold, in virtue of ex-Company agreements, singly or jointly with the other persons underwriting the agreements, the majority of votes exercisable in the ordinary meeting of the same company;
- k) Companies in which the persons indicated at letters a) to g) have a strategic leadership role and their controlled companies;
- l) Companies sharing with Pirelli RE the majority of their directors.

Correlated parties also include direct or indirect underwriters of ex-Company pacts provided for in art. 122, par. 1, of Leg. Dec. no. 58/98, regarding the exercising of the right to vote, if such pacts are given an overall control participation.

Operations for a value exceeding euro 500,000 are the subject of information, and so, even if their value is lower, are those closed under non-standard conditions, carried out (also via third-party mediation) with parties directly or indirectly correlated with Pirelli RE. Attention should also be given to operations which, although singly below the threshold value indicated, result connected within the same strategic or executive structure and therefore, when considered jointly, exceed it.

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

Information on atypical or unusual operations, also carried out by controlled companies, and on any other activity or operation on which it is deemed opportune to give information highlight the underlying interest and illustrate the operational modalities of operations (including economical terms and conditions of their execution) with particular regard to the evaluating procedures followed.

This procedure considers as atypical and unusual those operations the subject and nature of which lies outside the normal course of business of the Company and those presenting particular critical elements due to their characteristics and inherent risks, to the nature of the opposite party, or the timescale of their completion<sup>6</sup>.

#### **Procedure for collection of information**

The Board of Directors report to the Board of Auditors via the delegated bodies. In order to allow drafting of the report, information must reach the Vice President and Managing Director according to the procedure below.

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<sup>6</sup> Operations completed in the imminence of closing or opening of the annual period.

**1. Information on the activity performed, on relevant economic, financial and assets operations, on infragroup operations and atypical or unusual operations.**

The General Managers and the persons in charge of Business Units/Central Functions/Operational Activities of Pirelli RE report directly to the Vice President and Managing Director or to the General Managers (so-called first reports), via a written note, on the activities performed during the period by the competent structure, with particular attention to relevant economic, financial and assets operations, infragroup operations exceeding euro 50m or in any way closed in non-standard fashion, atypical or unusual operations, executive activities and developments of operations already agreed by the Board of Directors, as well as to the main activities performed within the framework of delegations conferred upon the managing directors, including the most important projects instated and the most significative initiatives taken.

Operations which, although singly below the threshold values indicated above or those determining the exclusive competence of the Board of Directors, result connected within the same strategic or executive structure and therefore, when considered jointly, exceed the relevance thresholds<sup>7</sup>.

Information on the activities of the Committee for internal control and corporate governance, of the Remuneration Committee and of the different internal Committees are supplied by the respective Presidents.

**2. Information on operations with correlated parties different from infragroup operations**

The Central Office for Administration and Control collects and conveys to the Vice President and to the Managing Director, with the same frequency as previously stated at point 1, the declarations with which the parties directly correlated with Pirelli RE communicate operations that:

- Have been carried out, directly or via one of the persons indicated in the previous paragraph 3.b, from letter h) to letter l), also via third-party mediation, with Pirelli RE or with companies controlled by the latter, by themselves, by the consort unless legally separated, by relatives and relatives-in-law within the second degree;
- Have a value exceeding euro 500,000 or, if lower in value, have been closed at non-standard conditions.

In supplying the said information evidence must be given also of those operations that, although singly below the threshold value indicated, result connected within the same strategic or executive relationship and therefore, when considered jointly, exceed it.<sup>8</sup>

The Central Office for Administration and Control also collects the declarations with which directly correlated parties (i) list companies which by their own means integrate the typology outlined in the previous paragraph 3.b, letters h) to k), as well as the companies in which they hold the position of director; (ii) update that list.

The Central Office for Administration and Control conveys the list of correlated parties to Pirelli RE as outlined above to the General Managers and the persons in charge of Business Unit/Central Functions/Operational Activities of Pirelli reporting directly to the Vice President and the Managing Director (so-called first reports).

The first report persons communicate on a quarterly basis to the Vice President and Managing Director the operations carried out with Pirelli RE, or with companies controlled by Pirelli RE, and also via third party mediation, by the correlated parties itemized in the list supplied by the Central Administration and Control Office, of a value exceeding Euro 500,000 and of those of a lower value but closed under non-standard conditions.

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<sup>7</sup> In which case the operations are relevant even when carried out within a time span longer than the quarter examined in the communication.

<sup>8</sup> Cf. Previous note.

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

### **BEHAVIOUR PRINCIPLES FOR THE CARRYING OUT OF OPERATIONS WITH CORRELATED PARTIES**

1. The Board of Directors gives preliminary approbation to operations with correlated parties, including infragroup operations, except the typical or usual operations to be closed under standard conditions.
2. Operations are defined typical or usual when, by their object or nature, they are not extraneous to the normal course of Company business or do not present particular critical elements due to their characteristics or risks inherent to the nature of the opposite party, or to the timescale of their completion. Operations are defined as standard when closed under the same conditions applied by the Company to any subject.
3. The Board of Directors receive adequate information on the nature of the correlation, the modalities of execution of the operation, the conditions, economical or not, for its completion, on the evaluation procedure followed, on the underlying interest and motivations and on the possible risks for the Company. Where the correlation is with a Director or with a party correlated via a Director, the Director in question will simply supply any clarifications and then leave the meeting in view of the deliberation.
4. As regards the nature, value or other characteristics of the operation, the Board of Directors, in order to prevent the operation itself from being carried out under incongruous conditions, is assisted by one or more experts expressing an opinion, as the case may be, on economic conditions and/or on legitimacy and/or on the technical aspects of the operation.
5. As regards operations with correlated parties, including infragroup operations, not subordinate to the Board of Directors because typical or usual or to be closed under standard conditions, the Directors endowed with delegations or the executives in charge of the operation, granted the respect of the special procedure as per art. 150 par. 1, T.U.F., collect and file, possibly by typology or group of operations, adequate information on the nature of the correlation, the executive modalities of the operation, the conditions, economic or others, of its completion, the evaluation procedure followed, the underlying interest and motivations and possible risk for the Company. One or more experts may be appointed to these operations, according to the above.
6. Experts shall be chosen among persons of recognized professionalism and competence on the matters concerned, whose independence and absence of conflict of interests shall be carefully evaluated.

## **PROCEDURE FOR THE MANAGEMENT OF PRIVILEGED INFORMATION**

### **AND ITS COMMUNICATION TO THE PUBLIC**

#### **Contents**

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## **1. Foreword**

1.1 - Information – i.e. news concerning an event, a circumstance, a datum or an initiative with specific relevance and function for company activities – is a strategic component of company assets, fundamental to business success. It is at the basis of the most important company processes, and its correct and timely sharing is the condition necessary to the effective pursuing of business objectives.

1.2 – The legal discipline regarding protection and diffusion of qualified categories of information remaining the same (specifically personal and sensitive data provided for by Leg. Dec. no. 196/2003, so-called Privacy code), the use of information complies with general principles of effectiveness in the employment and safeguard of business resources expressed in the specific case by the “*need to know*” rule. The use of information for purposes other than the pursuing of company objectives is to be deemed an infringement, and in general every person providing work to Gruppo Pirelli RE (the group) is bound by the obligation of confidentiality on the information acquired or elaborated during the unfolding of their activities.

1.3 – The regulations do in fact provide for the communication to the market of every piece of non-public information, of a precise character, concerning the Company or its controlled companies and which, if made public, may markedly influence the price of financial instruments (so-called privileged information). The regulations also impose the obligation to re-establish information equality in case of premature disclosure of privileged information to third parties not subjected to confidentiality of a legal, regulatory, statutory or contractual nature.

1.4 – This implies the particularly delicate nature of the phase prior to the “perfecting” of privileged information, in which the privileged information that may conventionally be defined as *in itinere* must be subjected to a regime of classified confidentiality in order not to incur the obligation of immediate divulgation; but above all, its early publication may be deceptive for the market and/or damaging to business activities.

1.5 – This procedure governs the management – including communication to the public – of privileged information or information that may become privileged, balancing fluidity of internal information processes with protection of information data, with specific reference to the dialectics between the disclosure of privileged information and its confidentiality in the course of its progressive formation. This procedure therefore coordinates with generally applicable internal provisions on the matter of classification and management of information under the profile of confidentiality.

## **2 – Purpose and field of application**

2.1 – This procedure (the Procedure) defines:

- Requirements and responsibilities for the classification of privileged information;
- Modalities of tracing access to privileged information *in itinere*, with particular reference to the institution of the register mentioned in art. 115-*bis* of leg. dec. no. 58/1998 and to art. 152-*bis* of the Consob regulations adopted with resolution no. 11971 of 14 May 1999 and subsequent amendments;
- Instruments and rules for the safeguarding of confidentiality of privileged information *in itinere*;
- Operational norms on communication of privileged information to the market, and in general on moments of communications to the public and /or to analysts/investors.

2.2 – The Procedure is an essential component of the internal control system of Gruppo Pirelli RE. It directly regulates privileged information concerning Pirelli RE, its unlisted controlled companies and the listed financial instruments of the group, and represents the template for analogous measures that each company in the group issuing financial instruments listed on regulated Italian

markets (including companies promoting and managing quotas of listed common funds for real estate investment) is autonomously obliged to instate.

2.3 – The seriousness of the consequences of an incorrect application of the Procedure requires rigorous and continual verification of its strict respect; where the verifications should uncover any non-compliances, these must immediately be flagged to the Committee for Internal Control and Corporate Governance by the relative person in charge.

### **3 – Addressees**

3.1 – The Procedure binds all components of company bodies and all employees of group companies that may have access to information likely to evolve into privileged information. In particular, the first report persons must state in writing, at the moment of their nomination, that they are aware of the Procedure and of the deriving responsibilities this places on them.

3.2 – Conduct of “external” persons who, in any capacity, have analogous access is regulated by the confidentiality agreement outlined *infra*.

3.3 - The Procedure also functions as instruction to the companies controlled by Pirelli RE, so that they may immediately supply all the information necessary for timely and correct compliance with the obligations relative to communication to the public provided for by extant norms and – limited to listed controlled companies, or with financial instruments listed on regulated Italian markets, or promoting and managing quotas of listed common funds for real estate investment – adopt equivalent measures.

### **4 - References**

- UE directives relative to market abuse (Directive 2003/6/CE of the European Parliament and of the Council dated 28 January 2003; Directive 2003/124/CE of the Commission dated 22 December 2003; Directive 2004/72/CE of the Commission dated April 2004).
- Arts.14 and following of the Leg.Dec. no. 58/1998 (Unique Text of Financial Mediations).
- Law no. 262/2005.
- Consob regulations adopted with deliberation no.11971 of 14 May 1999 and subsequent amendments.
- Ethical code of Gruppo Pirelli RE.
- General principles of internal control.
- Operational Norm "OP.SEG" “TREATMENT OF BUSINESS INFORMATION” (Group policy).<sup>9</sup>

### **5 - Definitions**

- Privileged information – In accordance with the law and as regards Pirelli RE, privileged information is any non public information, of a precise character, concerning the Company or the companies it controls and which, if made public, may significantly influence the price of financial instruments issued by the former or the latter. Once perfected, privileged information is subjected to the general obligation of immediate communication to the public, according to the modalities regulated by this Procedure.

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<sup>9</sup> In progress; replacing operational norm “OP.SEG.01” of 6 April 1994 “NORMS ON CLASSIFICATION, CONTROL AND PROTECTION OF INFORMATION”.

- Market-sensitive information – For the purposes of this Procedure, market-sensitive information is defined as information that may become privileged information, or privileged information *in itinere*. In this acceptation, market-sensitive information may include, amongst others, a final report or a management projection or forecast, a commercial tender, a contract, a fact, even an organizational fact, a company operation, a business decision. Market-sensitive information is subjected to the specific confidentiality regime regulated by this Procedure; this does not exclude the same information from also being classified according to the standard methodology, as per internal provisions, in the same way as the risk of damage that would threaten the group following their improper disclosure.
- Information context – Given a certain event/operation/project, the information context regarding that event/operation/project is the complex of information concerning it, including information that is accessory and in any way connected as well as all the relative elaborations. Analogously, some activities/processes recurring or continuing within the framework of company activity also are defined as information contexts.
- Register – The Register is the computerized data pool, instated in accordance with the law, indicating the persons who, by way of their working or professional activity or the functions they carry out, have access to market-sensitive information.
- Market Sensitivity Support Group – Technical support in the matter of qualifying information in terms of market sensitivity is ensured by a pool of technicians identified by the persons in charge of the following functions: Central Office for Human Resources & Corporate Development, Central Legal and Corporate Office, Central Office for Administration of Finance and Control, Press Office and Investor Relations, co-ordinated by the Company's Information Officer<sup>10</sup>.

## **6 – Requirements of privileged information**

6.1 – The first requirement of privileged information is its precise character. Thus, in order to be considered privileged, information must concern:

- ✓ An event that has occurred or that may reasonably be predicted to occur, or
  - ✓ A complex of circumstances that exists or may be reasonably predicted to exist,
- and allow conclusions to be drawn on the possible effect of that event or complex of circumstances on the prices of financial instruments of the Company or of its controlled companies.

6.2 - Privileged information concerns facts and circumstances that have occurred or are likely to occur. The relevance field hereby examined excludes studies, research and evaluation elaborated on the basis of public domain data.

6.3 - Privileged information must also be reportable to the Company or its controlled companies. In this respect, privileged information may:

- ✓ Have “voluntary” genesis (such as unilateral business decisions, operations of extraordinary finance and agreements), or
- ✓ Derive from the ascertaining of objective facts, events and circumstances reflecting on business activities and /or on the course of the financial instruments issued (such as annual reports or resignation of a top manager).

Reportability of information to the Company must be valued in terms of legal liability relative to the decision (for privileged information with “voluntary” genesis) or of the ascertaining act (privileged information with “external” genesis).

6.4 –In case of “voluntary” genesis of the privileged information, the perfecting takes place at the moment when the fact (operation, unilateral decision or agreement) represented by the information is defined according to the procedures provided for by the principles of corporate governance that

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<sup>10</sup> Addressee of information requests provided for by art. 2.6.1 of the Regulations for the markets organized and managed by Borsa Italiana.

are applicable, i.e. resulting from the law, the articles and the internal acts. In brief, disclosure of privileged information follows the decision taken by the body competent for the matters represented by the information itself (Board of Directors or delegated body).

6.5 – As regards the agreements, significance is given to the moment of the actual definition, in terms of contents and legal obligation status, rather than the moment of formalization (stipulation): privileged information is perfected as soon as the will of the two parties meets over the essential elements of the contract, without reservation for further negotiations. The necessity remains for the “will” of the Company (or its controlled companies) to be expressed by an agent capable of engaging the Company (or its controlled companies) for the purpose of ensuring reportability of the “will” – and with it, reportability of information – to the Company itself (or to its controlled companies).

6.6 – In the case of “external” genesis of privileged information, i.e. information consisting of ascertaining of objective facts, events or circumstances, where the fact is instant (e.g. notification of a disciplinary provision or resignation of a top manager) and not liable of discretionary interpretation, the moment of its receipt on the part of company organization coincides with the reportability of the information to the Company (or to its controlled companies), and therefore to the perfecting of privileged information, with consequent obligation of disclosure.

6.7 – More frequently, the ascertaining of privileged information with external genesis is configured as a process unfolding over time and articulated in subsequent phases, apt now to the construction of a datum (such as final reports for a given period), now to the interpretation of a complex of circumstances (such as any profit warning relative to business management). Specifically, the moment of perfecting of privileged information is governed by the legal, statutory and internal organizational rules of corporate governance, in terms of competence for the closing of the ascertaining process.

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

7.1 – In the case of “voluntary” genesis of the privileged information, authority to qualify the information as market sensitive rests with the persons legitimately in charge of submitting the event/operation/process to the body competent to decide over it. Therefore,

- With respect to strategic initiatives and in any case to a decision competing to the board (i.e. an operation of extraordinary finance), the information is qualified as market-sensitive by the President of Board of Directors, who can delegate such responsibility to the Secretary of the Board of Directors, who in turn can communicate with the Vice President and Managing Director and/or the General Managers;
- With respect to a decision competing to an executive body (i.e. a commercial agreement, or operations of real estate investment or disinvestment and in the non-performing loans sector), the decision regarding the market-sensitive nature of the information rests with the person directly in charge of organization within the executive body.

7.2 – The qualification can also be conferred directly by the body competent for the decision (i.e. by the Board of Directors, or by the executive bodies).

7.3 – Once the information is qualified as market-sensitive, the person legitimately in charge will activate the protocols of segregation of the corresponding information context in order to prevent improper circulation inside and above all outside the company organization.

7.4 – In the case of “external” genesis of the privileged information, granted the hypothesis of instant event not liable of interpretation, in which mere receipt on the part of the organization originates the obligation of disclosure, the information is qualified as market sensitive (and is therefore subjected to the specific confidentiality regime connected to this status),

- Where the information contents are the subject of a formalized procedure of ascertaining/construction (i.e. treatment of data to be reported in accounts), beginning from the phase of the procedure identified by the organizational first report person in charge of the procedure itself. In carrying out this determination, the organizational need for speed of “elementary” information flows shall be balanced with the need for timely prevention (by means of adequate instruments and conduct) of the risk of information leakage;
- Where the process of interpretation and evaluation of the event and circumstance is not formalized *ex ante* (e.g. notification of a disciplinary provision), beginning from the moment in which the event or circumstance enters the field of company reportability, at the moment of appraisal on the part of the competent organizational first report person, if and when the latter deems the specified information likely to evolve into privileged information.

7.5 – Before being qualified as market-sensitive, the information remains in a preliminary stage, irrelevant for the purposes of this Procedure – which obviously does not alter its reserved nature and relative classification in accordance with the principles contained in the group policy, which is also applicable after the information is qualified as market-sensitive.

7.6 – The persons in charge of qualifying the information as market-sensitive can avail themselves of technical support from the Market Sensitivity Support Group, who can also draft examples of special lists of facts and circumstances which, owing to their nature, characteristics and dimensions, would normally be configured as relevant.

## **8 - Register**

8.1 - The Register consists of a computerized system apt to ensure traceability of access to the single market-sensitive information contexts, thus allowing subsequent verifications against registrations carried out and any updates of Register data. Each single person entered in the register remains responsible for ensuring traceability of information management within his/her sphere of action and responsibility.

8.2 – Granted the respect of requirements provided by legal and regulating norms, items are entered into the Register:

- for relevant recurring or continuing activities/processes (i.e. accounting, budget, forecast);
- for specific projects/events (i.e. extraordinary company operations, acquisitions/transfers, relevant external facts).

8.3 – Single names shall be entered into the Register by single recurring or continuing activity/process or by single project/event (with possibility of multiple entries, within different information contexts), indicating the initial moment of availability of specific market-sensitive information and, if applicable, the moment of termination of the said availability (entering/exiting the relevant information context).

8.4 – Responsibility for opening a new information context and for populating it (indicating the role covered by each person informed) coincides with responsibility for qualifying information as market-sensitive, and is therefore entrusted to the same persons in charge of that qualification (the Board of Directors, the President of the Board of Directors, possibly the Secretary of the Board of Directors upon delegation from the President, the Vice President and Managing Director and the organizational first report persons). The person activating the single and specific information context is primarily responsible for it, and therefore also governs any reclassification choices and relative contents.

8.5 – At the moment of entering a new name and any subsequent relative updates into the Register (whether this is done by the person primarily responsible for the information context containing the market-sensitive information or by another person in charge), the system will automatically produce

a message notifying the person in charge, complete with an special informative note relative to obligations, prohibitions and responsibilities connected with access to the market-sensitive information, including an special policy for individual tracing of information flows (cf. model enclosed at A).

8.6 – Roles and modalities for management and update of the Register, modalities for the searching of the data it contains and criteria adopted for keeping of the data pool are listed in the document enclosed to this Procedure at B.

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

9.1 - Gruppo Pirelli RE adopts measures apt to maintain confidentiality of market-sensitive information. In particular, granted the security measures provided for in the group Policy, as well as any further caution suggested by experience and in general by the prudence required to contain the risk of information leakage within reasonable limits, the respect of the measures of organizational, physical and logic security listed below is compulsory.

9.2 – It is understood that the same measures are also applicable:

- to perfected privileged information for which delayed disclosure has already been requested in due form, up to the time of actual disclosure ;
- after disclosure, with respect to all preparatory and preliminary material, except for the possibility of reclassification by the person primarily responsible for the information context containing the material.

### Organizational security

9.3 – Distribution of market-sensitive information, on the basis of the *need to know* criterion, is entrusted to the responsibility of the organizational first report persons within the Pirelli Re organization chart, who are charged to notify addressees of the relevance of the information communicated and to ensure the timely and consistent population of the Register.

9.4 – As regards relevant recurring or continuing activities/processes, the identification of persons authorized to access market-sensitive information is an essential element of the operational procedures governing the same activities/processes. The Central Human Resources & Corporate Development Office is responsible for supervising Register updates relatively to internal organizational evolutions.

9.5 – In order to access market-sensitive information, persons external to the group shall previously underwrite an special confidentiality agreement. The template for this agreement, derogation from which is only possible upon express authorization from the President of the Board of Directors, possibly from the Secretary of the Board upon delegation from the President, or from the Vice President and Managing Director, is enclosed to this Procedure at C.

### Physical security

9.6 – The activity of production of supports (e.g. printing and and photocopying of documents) containing market-sensitive information must be supervised by personnel entered in the Register. Subsequent operations of storing, distribution and generally of management of such supports are the responsibility of whomsoever can treat them, and within the limits resulting from inscription into the Register. Each is charged with ensuring traceability of operations of management of the supports entrusted to him.

9.7 – The supports must be labelled “market-sensitive” in order to render the nature of the information contained in it recognizable; for this purpose, any files, no matter their extension, must bear the code name of the information context to which they belong.

9.8 – At the end of their usefulness, supports bearing market-sensitive information must be stored in rooms with controlled physical access or in guarded or protected archives, and must never be left unguarded, particularly when taken outside company premises.

9.9 – Destruction of supports bearing market-sensitive information must be carried out by the persons who can treat them, with the modalities most apt to avoid any improper recovering of their contents.

#### Logical security

9.10 – When prepared/treated/conveyed/stored in electronic format, Market sensitive information must be encrypted.

9.11 – Population of the Register with respect to a specific information context automatically entails corresponding population of the database of licences authorizing access to the corresponding files, with user profiles corresponding to the roles defined in the Register itself, also by category.

### **10 – Communication of privileged information to the market – general rules**

10.1 – In the case of “voluntary” genesis of privileged information (or privileged information subjected to ascertaining process), the person in charge of qualifying the information context as market-sensitive (or the organizational first report person in charge of the ascertaining process) is responsible for the timely preparation of the communication to be disclosed on the market at the moment of the perfecting of the privileged information.

10.2 – For that purpose, this person shall manage relationships with the media (Press Office), ensuring that persons entered into the Register for that specific information context have at their disposal the necessary cognitive elements for the Media function to elaborate a communication scheme. The Market Sensitivity Support Group shall verify the scheme from the point of view of congruity of the economical/financial data presented, adequacy to investor and financial community requirements, consistency with what has already been communicated by the Company in their institutional reports or in previous reports, compliance with extant norms.

10.3 – Lastly, the Information Referent shall evaluate whether to activate any specific preventive verifications with the Vigilance Authority (*i.e.* Borsa Italiana, Consob), also, if applicable, for the purpose of requesting delayed disclosure in due form.

10.4 - The Media function shall finally submit the communication draft, as resulting from interventions and evaluations described above, to approbation from the company top ranks (or the Board of Directors in its entirety, where collective determination originates the perfecting of privileged information), consider any remarks and modifications and receive authorization for disclosure from the Managing Director of such function. Having ascertained the presence of the declaration from the Managing Director and the executive in charge of drafting Company accounting documents, who certifies as to its truthfulness where it carries any information on the economical, financial or assets situation of the group, the Media Function shall then disclose the communication according to extant norms, immediately notifying Investor Relations and the Information Referent, as well as the first report persons in the Company top ranks, in order for them to carry out the necessary activities.

10.5 - After disclosure to the public, without further ado (and in any case by the opening of the market on the day following disclosure), the Media function shall publish the press release on the Company web site, indicating day and time of posting.

10.6 - In case of privileged information consisting of an instant fact subjected to mere receipt, the process described above - *mutatis mutandis* – is activated by the person internal to the organization who has authority for the ascertaining.

## **11 - Communication of privileged information to the market – special cases**

### Rumours and requests to the Authority

#### 11.1 - Where:

- a relevant variation in the price of listed financial instruments against the last price for the previous day occurs, in the presence of news circulated among the public, not conforming to this Procedure and concerning the assets, economical and financial situation, any operations of extraordinary finance, significant acquisitions or transfers, or the trend of business for the Company or its controlled companies;
- after market closing or in the pre-opening phase, public domain news is present that was not disclosed following this Procedure and is likely to significantly influence the price of financial instruments of the Company or its controlled companies;
- Borsa Italiana or Consob flag up the disclosure of so-called market rumours, the Information Referent, aided by the Market Sensitivity Support Group and by the persons responsible for the functions involved, shall examine the situation in order to verify the necessity and/or advisability of informing the public about the truthfulness of public domain news, integrating and correcting their contents where necessary, in order to re-establish equality and information correctness, possibly evaluating the need to request delayed disclosure in due form.

11.2 - Analogously, the Information Referent, aided by the Market Sensitivity Support Group and by the persons responsible for the functions involved, shall examine the situation in order to verify the necessity and/or advisability of informing the public (evaluating, as above, the need to request delayed disclosure in due form), in case Borsa Italiana or Consob formulate requests for information or market communications, even in the absence of rumours.

11.3 - In case of recognized ascertainment of the necessity/advisability of communication to the public, the Information Referent activates the process of definition of the communication to be disclosed on the market, in the terms illustrated above.

### Profit warning

11.4 – In case of previous target communication (including variation trends) and/or forecast data for the Company and/or its controlled companies, Investor Relations, in agreement with the Central Offices involved, shall monitor both the consistency of the actual management trend with information already disclosed and the market consensus, in order to divulge any profit warnings in case of relevant and enduring variance between market and Company expectations.

11.5 – The process of preparation of the press release, if necessary, is carried out by the Central Administration of Finance and Control Office, following the modalities described above.

## **12 – Relationships with third parties**

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

### 12.2 - Relationships with the financial community

Relationships with the financial community are handled by Investor Relations.

12.3 - On occasion of encounter with the financial community (such as road-shows, conference calls, congresses, etc.), Investor Relations shall notify the Market Sensitivity Support Group as regards evaluations of competence, place, time, modality and subject of the encounter, supplying a draft of any material destined for presentation/distribution to participants. A copy of this material, in

its final version, shall be sent to the Information Referent for the discharging of any duties towards the market before its presentation/distribution to the participants.

12.4 – Where the preliminary verification of the event contents should reveal any privileged information, the Information Referent shall instate preparation and diffusion of an special communication to the market. The same procedure is followed where, during the encounter, privileged information should be involuntarily disclosed.

#### The Media function

12.5 – Relationships with the press are handled by the Media function (Press Office).

12.6 – Interviews and declarations regarding the Company, as well as meetings with journalists, are the responsibility of the President, the Vice President and the Managing Director in agreement with the President, and of the other persons authorized by the President and/or the Vice President and Managing Director, possibly following a proposal from the Media function. This function will preliminarily agree with the person involved the contents of the interview or of the press conference, constantly informing the Market Sensitivity Support Group for the evaluations within its competence.

12.7 - Where the preliminary verification of the event contents should reveal any privileged information, the Information Referent shall instate preparation and diffusion of an special communication to the market, as described above. The same procedure is followed where, during the encounter, privileged information should be involuntarily disclosed

#### Conferences, congresses, courses and conventions

12.8 - On occasion of management participation in conferences, congresses, courses and conventions, the function involved shall preliminarily inform the Media function – in case of public encounters presumably attended by journalists – and the Central Human Resources & Corporate Development Office of the place, time, modalities and subject of the encounter, supplying the name of the Company representative involved, as well as a a draft of any material destined for presentation/distribution to participants.

12.9 – Following a preliminary, summary deliberation, the Media function (and/or the Central Human Resources and Corporate Development Office) instates a verification of the event contents with the Market Sensitivity Support Group. If this verification should reveal any privileged information, the Information Referent shall instate preparation and diffusion of an special communication to the market, as described above.

### **13 - Publications**

13.1 – The contents of any Company publications (e.g. advertisements, publicity brochures, informative booklets, company magazines) shall be preliminarily verified by the Press Office, aided by the Market Sensitivity Support Group, in order to ensure correctness and homogeneity of facts and news with those already divulged, and to verify no privileged information is present.

13.2 - Where preliminary verification of publication contents should reveal any privileged information, the Information Referent shall instate preparation and diffusion of an special communication to the market.

13.3 – The Company web site lists economical-financial information, company documents, presentations to the financial community, informative documents etc. Internet publication (authorised by the persons in charge of competent functions) cannot be instated before the Company complies with the communication duties provided for by extant norms; for that purpose, the competent function shall forward documentation to the Information Referent so that he may ensure compliance with the extant norms.

### Model of information to be conveyed to persons entered in the Register

According to provisions listed in art. 115-*bis* of the Unique text of norms relative to financial mediation (Leg. Dec. no. 58/1998 and subsequent amendments, hereinafter “TUF”), Pirelli & C. Real Estate S.p.A. have provided for the institution of the Register of persons with access to information that may become privileged information according to art. 114 of the TUF (hereinafter “information” and “Register”).

Accordingly, this is to inform whomsoever may be concerned, according to art. 152-*quinquies* of the Consob Regulation for Issuers (Deliberation no. 11971/1999 and subsequent amendments), that provisions have been put in place to:

***[N.B.: insert one of the following texts according to the reason for the communication]***

- Enter your name [*or*: your Company/professional association] into the Register as a person regularly accessing information relative to the recurring activity .....; ***[N.B.: communication relative to Register inclusion for a recurring activity]***
- Enter your name [*or*: your Company/professional association] into the Register as a person occasionally accessing information relative to the Project/Event .....; ***[N.B.: communication relative to Register inclusion for participation in a Project/Event]***
- To note in the Register that you no longer have access to information relative to the Project/Event .....; ***[N.B.: communication to be given at the end of a Project/Event]***
- To note in the Register that you [*or*: your Company/professional association] no longer have access to information relative to recurring activity ..... ***[N.B.: communication relative to the termination of a person’s participation into a recurring activity “on a regular basis”]***

It should be noted that privileged information, according to art. 181 of the TUF, is defined as any information of a precise character, directly or indirectly concerning Pirelli & C. Real Estate S.p.A. (hereinafter “the Company”) or its financial instruments or one of its controlled companies, that has not yet been made public and that may, if made public, significantly influence the price of financial instruments relative to the Company.

According to art. 114 of the TUF, the Company is bound to immediate communication of privileged information regarding itself or its controlled companies to the public, and any delay is allowed, under the Company’s liability, only in determinate cases and at the conditions established by Consob, granted that the Company is in a position to guarantee the confidentiality of the information itself.

Where the information is disclosed to a third party who is under no obligation of confidentiality, the Company shall communicate it to the public in full, simultaneously in the case of intentional disclosure and immediately in the case of non-intentional disclosure.

Respect of the confidentiality obligation on the part of persons named in the Register, relative to the information they can access, is therefore essential.

On this matter, it should be borne in mind that each person in the Register is under the obligation to ensure traceability of information management and relative confidentiality within his/her field of activity and responsibility, beginning from the moment of receipt by any means (i.e. by post, on occasion of meetings, encounter and/or other), of information inherent to the recurring activity or the Project/Event for which his/her name is entered in the Register.

Any person in the Register who may have disclosed information, even involuntarily, to persons who are not in possession of it (even if already in the Register for other reasons) shall immediately inform the person in charge of the Register of this disclosure.

It should also be pointed out that item I-Bis of the said TUF provides for specific sanctions for cases of misuse of privileged information and market rigging; in particular, penal (art. 184) and administrative (art. 187-*bis*) sanctions are listed against any person who, being in possession of privileged information owing to membership of administrative, directive or controlling bodies of the issuer, to participation in the issuer's capital, to the carrying out of any work, profession or function, whether public or not, or of an official appointment,

- a) Purchases, sells or carries out any other operations, directly or indirectly, singly or on behalf of a third party, involving financial instruments on the basis of the said information;
- b) Discloses the information to others, outside the normal carrying out of the work, profession, function or appointment;
- c) Advises or induces others, on the basis of the information, to carry out any of the operations indicated at a).

The penal sanctions, issued by the judge, consist of imprisonment for two to twelve years and of a fine of euro twenty thousand to euro three million; administrative sanctions, applied by Consob with justified provision, amount to euro one hundred thousand to euro fifty million.

The amounts of fines and financial penalties described above can be increased up to threefold, or up to the larger amount between ten times the value of the product or the profit derived from the crime when, owing to the culprit's personal qualities, the entity of the product or profit derived from the crime or to the effects produced on the market, they appear inadequate even when applied at their strictest.

Granted the possibility for the Company to recover any damage and /or responsibility they may incur owing to conduct infringing the norms herein described, non-compliance will result in: (i) for employees, disciplinary measures provided for by the extant laws and by the applicable collective contract, (ii) for any other collaborators, the termination – even without notice – of the relationship; (iii) for directors and auditors of the Company, the Board of Directors may table revocation of the appointment for a just cause at the next Meeting.

Personal data necessary for entering into the Register and for the relative updates shall be treated in conformity with the provisions of Leg. Dec. no. 196/2003 (the "Privacy code").

Excerpts from the norms referred to in this document, and of the information supplied according to art. 13 of the Privacy code, are available at [www.pirellire.com](http://www.pirellire.com).

For any information or clarification relative to this communication and its application please contact [inforegistro@pirellire.com](mailto:inforegistro@pirellire.com).

(The Supervisor)

## GRUPPO PIRELLI &amp; C. REAL ESTATE S.p.A.

**REGISTER OF PERSONS HAVING ACCESS TO PRIVILEGED INFORMATION**  
**As per art. 115-bis of Leg. Dec. no. 58/1998 and subsequent amendments**  
**(hereinafter “the Register”)**

**Criteria for data holding and modalities for data managing and searching**

**Register Setup**

Bearing in mind:

- art. 115-bis of Leg. Dec. no. 58/1998 and subsequent amendments (hereinafter “TUF”), providing for the institution of a Register of persons having access, on an occasional or regular basis, to privileged information “*owing to the work or professional activity carried out or functions covered*”;
- art. 152-bis of the Consob Issuers’ Regulations, last amended with deliberation no. 15232 of 29 November 2005 (hereinafter “the Regulations”), governing the information to be entered into the Register, referring them in any case to persons entered in the same;

the Register of Pirelli & C. Real Estate S.p.A (hereinafter “Pirelli RE” or “the Company”) is set up on a subjective basis. Each person (i.e. natural or juridical person, body or professional association) shall therefore be qualified on the basis of their specific relationship with the issuer and in virtue of which the same gains information that may become privileged according to art. 114 of the TUF (hereinafter market-sensitive information”). This relationship is defined in the Register as “role”. The category may be populated with an indefinite number of contents, and certainly includes the typologies listed below:

- a) components of administrative, directive and controlling bodies for the Company or other group companies;
- b) employees of the Company or other group companies, relatively to the specific position held;
- c) consultants, auditors;
- d) shareholders exercising directive and coordination activities, if present.

In defining the profile of single roles, on the basis of the encryption program adopted by the Company, access will be granted to those files relative to the single information contexts motivating entry into the Register.

Granting the above, Register entries may be carried out:

- on a regular basis, for recurring or continuing activities/processes such as for example accounts, budgets, forecasts and activities of preparation of meetings of the company bodies (hereinafter “Recurrent activities”);
- on an occasional basis, for operations/projects/specific events such as, for example extraordinary finance operations, acquisitions/transfers of assets or participations, notification of a disciplinary provision (hereinafter “Projects/Events”).

Certain persons will be entered into the register only in relation to the single Projects/Events for which they may gain market-sensitive information, with an indication of the date of entry into the Register and of the date on which the person shall cease having access to the said information, which will coincide, respectively, with the moment when the person is first involved in the Project/Event and with the end of the period during which the Project/Event may generate market-sensitive information (e.g. with publication of the price sensitive communication relative to the positive closing of an operation, or with the decision not to complete it), or the previous moment in which, for any reason, the person entered no longer has access to the said information. Others may be entered, as well as relatively to specific Projects/Events, for recurring activities, such as persons

enabled, relatively to the specific function carried out within the Company or its controlled companies, to access market-sensitive information. For the sake of clarity, such functions shall be described within the Register, with particular attention to the normal timing of information flows regarding them, so as to correctly circumscribe “habitual” access of persons involved with the information flow as the case may be. Such persons shall be entered for the first time at the moment of entering the function, and their position shall be updated, following the modalities outlined below, on occasion of modification or termination of the position occupied. As indicated above, such persons may contextually be entered into the Register also with respect to specific Projects/Events.

### **Criteria for Register keeping**

#### *A) Projects/Events*

In case of initiation of a Project/Event expressing Company will (i.e. voluntary genesis), the person in charge with qualification of relative information as market-sensitive and of entering the persons holding the information in the Register (the “Referent”) is the one authorized to submit its contents to the competent body and to decide on the Project/Event itself; namely,

- Where the decision rests with the directive body of Pirelli RE (e.g. for operations of extraordinary finance), the President of Board of Directors; the latter may delegate responsibility to the Secretary of the Board of Directors who may confer with the competent General Managers and /or Central Managers;
- Where the decision rests with one of the managing bodies of Pirelli RE (e.g. for a commercial agreement), the direct organizational person of the managing body (so-called first report person); the Register may also include employees or components of the company bodies of companies controlled by Pirelli RE, which shall normally keep no register of their own. An exception to this rule is made for controlled companies issuing financial instruments listed on regulated Italian markets (including those promoting and managing quotas of listed common funds of real estate investment), which shall keep a register of their own as per art. 115-*bis* TUF and which shall therefore be entered into the Register described in this document as juridical persons, according to art. 152-*bis*, par. 2, letter a) of the Regulations.

Where, however, the Project/Event is a consequence of the ascertaining of objective circumstances or facts (i.e. external genesis), the Referent shall be the organizational first report person of the managing body of Pirelli RE to whose field of activity the Project/Event is referable and who will receive it, if it is a Project/Event with non-formalized ascertaining, or the person in charge of data ascertaining that may be formalized *ex ante*, if such a procedure exist.

The persons indicated above shall be responsible for subsequent reclassification of market-sensitive information, and consequently of entry into the Register of termination or suspension of the Project/Event.

#### *B) Recurring activities*

Currently, the following activities are defined as recurring activity generating Register entry:

- Preparation of periodical accounts;
- Preparation of forecasting situations and definition of quantitative objectives;
- Preparation and holding of meeting of bodies/committees of the Company or its controlled companies;
- Preparation of communications as per art. 114, par. 1, of the TUF;
- Relationships with investors, analysts and media.

Analysis of the single recurring activity is carried out by the Central Human Resources and Corporate Development Office, availing themselves of the indications given by the organizational first report person in charge of the recurring activity in order to determine the phase at which entry into the Register is required. Consequent population and updating of the Register, also relatively to

organizational evolutions, rests with the Central Human Resources and Corporate Development Office.

Further recurring activities for the purposes of the Register may be identified by the Register Supervisor (as defined below), whether or not following proposal from the Central Human Resources and Corporate Development Office.

### **Supervisor**

The Register Supervisor is the Secretary of the Board of Pirelli RE, holding, as well as the functions already described in this document:

- General supervision on the keeping of the Register and authority to access all information contained therein, with the faculty to extract the same by any modality rendered possible by the system;
- Relationships with the legal and vigilance authorities regarding any requests inherent to the data contained in the Register;
- Coordination of Referents and resolution of any doubts that might arise from operational managing of the Register.

### **Modalities for data management and data search**

The Register is computerized and consists of a system accessible via Internet/Intranet and protected by suitable security criteria. Access to the application is given to the Supervisor and to the Referents. In particular, the Supervisor, as explained, has complete vision of all Register contents and can carry out all entry and search operations allowed by the system. The Referents, on the other hand, have more limited access, only being able to visualize data relative to recurring activities as well as information entered by each Referent.

Natural persons shall be entered into the Register with an indication of their name and surname, date and place of birth, residence or domicile and possibly email address. In case of juridical persons, bodies or professional associations, identification details shall always be accompanied by the details of a natural person.

For each Register entry (and therefore, both for each Project/Event and for each recurring activity), the system shall bear an indication of the Role of the person entered, the date of entry and the date of termination of access to market-sensitive information, as well as the date of each update carried out. In compliance with extant norms, all the above-mentioned data are kept available for at least five years from the termination of circumstances determining the entry or update.

In the specific case of a Project/Event, the Register Supervisor shall receive – electronically and at the frequency he himself has established – a communication indicating the open position for which there is no date of termination or suspension of the Project/Event, in order to verify the actual situation of each.

Search of Register data may be carried out:

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

The output generated may be visualized on screen, printed or exported to file.

Considering the permanence of the obligation to communicate to each person entered in the Register the entry itself and its subsequent updates, as well as the obligations deriving from the holding of privileged information and the sanctions provided for in case of violation, the application automatically emails the communications required by the extant law to employees. With reference to the other typologies of persons entered, the system flags the necessity for timely forwarding of the due communications to the Supervisor and /or Referents carrying out the first entry.

[consultant's or opposite party's headed paper]

.....

**STRICTLY PRIVATE AND CONFIDENTIAL**

Messrs.  
Pirelli & C. Real Estate S.p.A.  
Via G. Negri, 10  
Milano 20123

FAO .....

**Subject: Confidentiality agreement relative to the hypothesis of:**

.....  
.....  
..... (“Operation”)

Dear Sirs,

**with reference to our conversations regarding the Operation and to your request for the undertaking, on our part, and also on behalf of Relevant Persons (as specified below) a precise commitment to confidentiality.**

**We declare ourselves to be aware and informed of the fact that, following our involvement with the Operation, we may be supplied with and/or informed of data regarding the following, whether in written, electronic or oral form:**

- (a) the Operation, including its existence,**
- (b) Pirelli & C. Real Estate S.p.A. (“the Company”) and/or its controlled or connected companies (meaning those over which the Company exercises significant direct or indirect influence), and**
- (c) persons sharing, directly or indirectly, into the Company capital (jointly defined as “Confidential Information”)<sup>11</sup>.**

This is to state our commitment to considering the Confidential Information as strictly private and reserved, and not to communicate and /or disclose the Confidential Information, unless with the Company’s prior written consent, to any persons other than:

- (i) Directors, managers or employees of our own [or of associated companies (defining as such the companies controlling and controlled, directly or indirectly, by ourselves and/or the controlling company, jointly defined as “the associated companies”)]<sup>12</sup>,**
- (ii) Legal counsel or other consultants and collaborators of our company or of the associated companies, nominated with your written consent,**
- (iii) partners, associated, consultants, dependents, assistants or collaborators operating with or for the underwritten, study and/or professional association,<sup>13</sup>**

who may be directly involved in the Operation and need to gain access to the Confidential Information. We further state our commitment to only using the Confidential Information for the

<sup>11</sup> Erase the non applicable paragraphs or insert new ones if necessary.

<sup>12</sup> Insert reference to the associated companies if necessary.

<sup>13</sup> Erase the non-applicable paragraph and add any further ones reflecting the single typology e.g: “(?)opposite party in the Operation”; “(?) legal counsel or other consultants or collaborators of the Company.

purposes of the Operation and not in any way that may prejudice the Company, its controlled or connected companies and the persons sharing directly or indirectly into the Company capital.

We declare possession of an internal control system fully apt to allow protection of the Confidential Information in conformity with the provisions of this agreement.

We state our commitment to ensuring that each person indicated at paragraphs (i) to (iii) above<sup>14</sup> (jointly defined as the “Relevant Persons”) is preventively and duly informed of the obligation to confidentiality and the duties deriving from application of Legislative Decree 24 February 1998, no. 58 and subsequent amendments, as well as of the relative regulating norms (jointly defined as “Legislative Decree”), and to further ensuring that each of the above-mentioned persons complies with the provisions of this agreement, taking responsibility, as per art. 1381 of the Civil Code, for any breach of this agreement perpetrated by the above-mentioned Relevant Persons.

The information supplied shall not be considered as Confidential Information if: (x) it is or becomes public domain information, except when that is the consequence of unauthorized disclosure and/or communication on our part or on the part of one of the Relevant Persons; or (y) when we [or our associated companies] have or gain access to it through third parties with respect to the Company and the group subordinated to the Company, on condition that such third parties have not defaulted on a confidentiality obligation known to ourselves and entered upon with respect to the Company or other entities belonging to the group; (z) it has been autonomously elaborated by ourselves [or by our associated companies] without in any way or form referring to Confidential Information.

In derogation of the above, the persons bound by this agreement shall not be held to respecting the obligations outlined herein if the Confidential Information must be revealed or communicated by law, by regulation or by inderogable order of an authority. It is however understood that, in such situations, we state our commitment to informing you, in writing and in a timely fashion, of such orders and obligations, and to preventively consulting with yourselves relative to the advisability of adopting initiatives apt to oppose or limit the scope of such requests. If the disclosure and/or communication is actually due, we state our commitment to cooperating with yourselves, even should the need arise to delay disclosure according to art. 114, par. 3, of the Legislative Decree, in order to obtain any provision or other measure necessary or useful to ensure confidential and reserved treatment for specific parts of the Confidential Information.

We state our commitment to treating the Confidential Information in the respect of the discipline applicable within privacy protection.

Further, bearing in mind that some Confidential Information is susceptible to assuming privileged information status according to the Legislative Decree, we state our commitment to punctually respecting the provisions of the Legislative Decree, and in particular declare that we:

- (i) recognize the duties deriving from the application of the Legislative Decree;
- (ii) are aware of the possible sanctions provided for by the above-mentioned Legislative Decree in case of misuse of privileged information or market rigging.

We also declare ourselves aware of the fact that you may deem it necessary to enter ourselves into the register of persons with access to privileged information instated and kept by yourselves in accordance with the Legislative Decree, and consequently state our commitment to informing you in writing of the names of the Relevant Persons having access to the Confidential Information; we

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<sup>14</sup> Erase reference to paragraphs (i) to (iii) as necessary or add reference to the last paragraphs inserted.

shall also inform you of the names of the persons among them who shall have access to your premises.

We also state our full awareness of the fact that any violation or negligence relative to the confidentiality obligations entered upon with this agreement may cause grave and irreparable damage to the Company, to its controlled or connected companies and to the persons sharing directly or indirectly in its capital, as well as to the respective directors. Consequently, we convene and accept that, without prejudice over further remedies, whether or not of a cautionary nature, provided by the law, the Company may:

- (a) request rescission of any further agreements or contracts stipulated with ourselves<sup>15</sup>, and
- (b) stipulate no further contract or agreement with ourselves for a period of at least 3 years<sup>16</sup>,

in case of ascertained violation of the obligations provided for in the present agreement on the part of any of the persons nominated in accordance with it, and in any case in the presence of administrative or penal sanctions according to the Legislative Decree against any of the above-mentioned persons. The period mentioned at (b) shall begin, respectively, either from the date of ascertainment of the violation or from the date of knowledge on the part of the Company of the application of one of the above-mentioned sanctions.

[We declare that we are aware of the fact that the Confidential Information is and shall remain the property of the Company and/or its associated companies. Upon request from the Company we shall be held responsible for immediately returning to the Company all documents containing Confidential Information and all relative copies or excerpts, and for destroying all electronic copies of the Confidential Information; we shall give you written confirmation of the completed destruction as soon as it has been carried out. Where this is expressly requested by the law, and granting respect of the obligations listed in this agreement, we may store in our archives one copy of the Confidential Information on condition that we give you preventive written communication of this fact.]<sup>17</sup>

The obligations listed in this agreement shall obtain as from today and remain in force for 3 years from completion of the Operation or its definitive interruption.

This agreement shall be regulated and interpreted according to Italian law. The parties hereby agree that any controversy arising relative to its interpretation or execution shall be of exclusive competence of the Tribunal of Milan.

Yours faithfully,

[*Consultant or opposite party*]

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<sup>15</sup> Add “and/ or our associated companies” if applicable.

<sup>16</sup> Add “and/ or our associated companies” if applicable.

<sup>17</sup> Paragraph to be inserted if applicable.

**MEETING REGULATIONS**  
**Pirelli & C. Real Estate S.p.A.**

Item 1

- This Regulation is applicable to ordinary or extraordinary Company Meetings.

Item 2

- The President shall be responsible for the adoption – in accordance with the law and the Articles – of the measures and solutions deemed suitable for the purpose of the regular unfolding of the Meeting.

Item 3

- The Meeting is open and right to speak and vote is granted to the persons authorized according to the applicable norms (hereinafter “the Participants”).
- In the absence of any indication to the contrary in the convocation, personal identification and verification of legitimate participation to the Meeting begin in the place of meeting itself at least one hour before the time fixed for the meeting. Once the Participants have been identified and their legitimacy verified under the President’s supervision, the auxiliary personnel at the disposal of the Company issues a special identification tag valid for the purpose of recognition and right to vote.
- The Participants are granted the possibility to follow the debate, intervene in it and exercise their right to vote with the technical modalities determined by the President as the case may be.
- The Participants who, after admission, leave the premises of the Meeting, shall inform the auxiliary personnel of their decision.

Item 4

- The meeting may be attended by the Directors and by managers, employees of the Company or group companies and other persons whose presence is deemed useful in relation with the subjects under discussion.
- With the President’s consent, the discussion may be followed by professionals, consultants, experts, financial analysts and qualified journalists, accredited for the single Meeting and granted specific spaces.
- Persons accredited to follow the discussion shall identify themselves with Company personnel at the entrance of the Meeting premises, and collect the special control tag to be shown upon request.

Item 5

- According to the law and Articles, the President shall direct the proceedings, ensuring the best conditions for their orderly and effective unfolding.
- The President may allow the use of recording equipment.

Item 6

- The President is assisted in leading the proceedings and drawing up the minutes by a Secretary, unless the intervention of a notary is required. The Secretary or Notary can in turn avail themselves of the assistance of persons of their choice.
- For the purposes of managing the voting procedures, the President is aided by tellers and may utilize auxiliary personnel in order to ensure the necessary technical support and security service.

#### Item 7

- Where the number of presences necessary for the constitution of the Meeting is not reached, after a suitable the Participants are informed and treatment of the subjects in the order of the day is agreed to be adjourned to the next convocation, if applicable.
- During the Meeting, the President may suspend proceedings for a period not exceeding three hours should he consider that advisable and should there be no opposition on the part of the majority of shareholders.

#### Item 8

- The President establishes the order of discussion of the subjects to be treated, possibly in a succession different from that appearing on the convocation.
- It is his prerogative to provide for a unitary discussion on more items in the order of the day, or to articulate the debate separately by single items in the order of the day.
- The President and, upon his invitation, those attending the Meeting according to art. 4, par. 1, illustrate the subjects in the order of the day.

#### Item 9

- The President shall direct and discipline the discussion, ensuring the correctness of the debate and preventing any disruption to the regular order of the Meeting.
- Having considered the subject and importance of the single items in the order of the day, the President may, upon opening the meeting, determine the length of time, in no case lower than 15 minutes, granted each speaker.
- The President reminds the Participants to respect the pre-established time limits of each intervention, and to keep to the subjects listed in the order of the day. The President revokes the right to speak from any person responsible for excessive or abusive behaviour.

#### Item 10

- Whoever may wish to speak shall ask permission of the President or Secretary, indicating the subject to which they wish to refer. The request may be presented as long as the President has not closed the discussion on the subject relative to the request.
- The Participants may ask permission to speak a second time in the course of the same discussion, for a length of time not exceeding five minutes, solely to give a reply or to formulate voting declarations.

#### Item 11

- The Board of Directors and the Participants may present motivated proposals for alternative deliberations, modifying or integrating those originally formulated by the Board of Directors. The President evaluates the compatibility of these proposals relative to the order of the day for the meeting.

#### Item 12

- Members of the Board of Directors and Auditors may take part in the discussion; upon invitation from the President, those attending the meeting according to art. 4, par. 1 may also speak, possibly to supply answers to any requests for clarification.

#### Item 13

- The President adopts the opportune measures for the purposes of the orderly unfolding of the voting, ruling that vote on one subject shall take place immediately after closing of the relative discussion, or at the end of the debate on all the items in the order of the day.
- The President establishes the modalities for each vote, as well as for the collecting and counting of the votes, and is responsible for ascertaining the results.

Item 14

- Upon completion of the voting operations and of the necessary counting with the aid of the tellers and the Secretary, the result of the vote are announced.