

CORPORATE GOVERNANCE

The company's *corporate governance* system is based on the central role of the board of directors in providing strategic guidance, complete transparency of operational decisions, both internal and in relation to the market, efficient and effective internal controls, and rigorous rules governing conflicts of interest. As already described in the customary annual reports – in a specific section to which reference can be made – such system is based upon an aggregate of codes, principles and procedures which form the interconnecting weave of the system itself. The above codes, principles and procedures are periodically reviewed and updated, where necessary, to effectively respond, on the one hand, to changes in the law and international *best practices* and, on the other, to changes in the operating practices.

This section of the six-month report presents the updates and the additions to the *corporate governance* system of the company during the first half of the current year. In particular, during the board meeting held on March 22, 2005 all the directors tendered their resignations as from the date of the shareholders' meeting called for April 28, 2005, one year before the normal termination of their appointments. This was done in order to immediately render applicable the mechanism of the so-called slates for the appointment of the members of the board of directors, introduced in the bylaws last year, and encourage – in line with international *best practices* – an evermore increasing participation of all the shareholders in the life of the company and in the decisions capable of determining the success of the company.

The ordinary shareholders' meeting held on April 28, 2005 therefore:

- established the period of the term of office of the entire board of directors in three years (and thus up to the approval of the financial statements ending December 31, 2007), fixing the total annual compensation of the board of directors in a maximum amount of Euros 1,200,000 pursuant to art. 2389, paragraph 1, of the Italian Civil Code;

- determined the number of the members of the board in twenty and proceeded to appoint the directors Marco Tronchetti Provera, Alberto Pirelli, Carlo Alessandro Puri Negri, Carlo Buora, Carlo Acutis, Gilberto Benetton, Carlo De Benedetti, Gabriele Galateri di Genola, Dino Piero Giarda, Berardino Libonati, Giulia Maria Ligresti, Massimo Moratti, Giovanni Perissinotto, Giampiero Pesenti, Carlo Secchi, Paolo Vagnone, Carlo Angelici, Franco Bruni, Mario Garraffo and Aldo Roveri.

Leopoldo Pirelli was confirmed as Honorary Chairman of the company.

As a result of the adoption of the slate system, the minority shareholders elected four directors, equal to one fifth of the total (two lists, in fact, were presented: one by participants in the Pirelli & C. S.p.A. shareholders' agreement and another by certain Investment Management Companies (SGR).

Qualifying as independent directors are: Carlo Acutis, Carlo De Benedetti, Dino Piero Giarda, Berardino Libonati, Giampiero Pesenti, Carlo Secchi, Carlo Angelici, Franco Bruni, Mario Garraffo and Aldo Roveri, or half of the new board of directors.

At the end of the aforementioned shareholders' meeting, the board of directors met and confirmed Marco Tronchetti Provera as Chairman, Alberto Pirelli and Carlo Alessandro Puri Negri as Deputy Chairmen and Carlo Buora as Managing Director.

In the light of and consistent with the new corporate regulations pursuant to Legislative Decree No. 6/2003, the Chairman and Managing Director have been identically recognized as legal representative of the company, with the powers necessary to execute any act concerning the various aspects of the business. Moreover, the limits of power conferred – in line with those conferred in the previous mandate (see the annual report on Corporate Governance 2004) – have been qualified as internal limits for the relations between the delegating body and the delegated parties.

The Chairman has also been conferred the following functions of an organizational nature:

- relations with shareholders and disclosure to the same;
- coordination of the activities of the Managing Directors;
- the determination, in agreement with the Managing Directors, of the strategies regarding the general direction and the development policy of the company and the group, as well as extraordinary transactions, to be submitted to the board of directors;
- the proposals, in agreement with the Managing Directors, for the appointment of the members of the general management departments and, after discussing the matter with the Remuneration Committee, their compensation, to be submitted to the board of directors;
- the chairmanship of the management committees with strategic functions;
- communication to the market using every means, with right to delegate this to the Managing Directors.

The board of directors also appointed the new members of the Remuneration Committee, composed of Berardino Libonati (Chairman), Giampiero Pesenti and Aldo Roveri, and the Internal Control and Corporate Governance Committee, composed of Carlo Secchi (Chairman), Carlo Angelici and Franco Bruni.

The members of these committees are all independent directors.

The board of directors also appointed, under the Organizational Model 231 adopted by the company, the new Supervisory Panel – which will remain in office until the end of the term of office of the current board of directors – the members of which are Carlo Secchi, independent director and member of the Internal Control and Corporate Governance Committee, Paolo Francesco Lazzati, Chairman of the Board of Statutory Auditors, and Sergio Romiti, head of the Internal Audit Department of Pirelli & C. S.p.A. These members ensure that all the various professional areas that control corporate operations are represented on the Panel and at the same time fully ensure compliance with the character of autonomy required by the regulations.

The Supervisory Panel was attributed all the powers necessary to make certain that precise and efficient control is exercised over the functioning and observance of the organizational and management model adopted by the company.