

Pirelli & C. S.p.A. — Milan

Annual financial report 2008



Annual financial report 2008

Call to the Annual General Shareholders' Meeting

The ordinary shareholders of Pirelli & C. Società per Azioni are called to the ordinary and special sessions of the shareholders' meeting to be held in Milan, Viale Sarca 214

- at 10:30 A.M. on Monday April 20, 2009 in first call;
- at 10:30 A.M. on Tuesday April 21, 2009 in second call to discuss and pass resolutions on the following

AGENDA

Ordinary session

1. The financial statements at December 31, 2008. Inherent and consequent resolutions.
2. Appointment of the board of statutory auditors:
 - appointment of standing and alternate auditors;
 - appointment of the chairman of the board of statutory auditors;
 - determination of the compensation of the members of the board of statutory auditors.

Extraordinary session

- Reduction of the revaluation reserves Law 72/1983 and Law 413/1991 to the extent of the amount used to cover the loss in financial statements at December 31, 2008.

Contents

PRELIMINARY INFORMATION	3
Call to the Annual General Shareholders' Meeting	3
Pirelli & C. S.p.A. Board of Directors	7
Structure of Pirelli Group at December 31, 2008	8
Five-year summary of selected consolidated financial data	9
Chairman's letter	10
DIRECTORS' REPORT	13
Directors' report on operations	15
Significant events in 2008	17
The Group	23
Research and Development 31 / Information systems 37 / Significant events subsequent to the end of 2008 39 / Risks and uncertainties 41 / Outlook for the current year 45	
Pirelli Tyre	46
Business Consumer 50 / Business industrial 52 / Capital Expenditures 52 / Headcount 54	
Outlook for the current year 54	
Pirelli & C. Real Estate	55
Economic review 57 / Balance sheet and financial review 59 / Performance by division in 2008 60	
Outlook for the current year 61 / Proposed share capital increase 61	
Pirelli Broadband Access	62
Broadband Access 63 / Outlook for the current year 64	
Other Businesses	66
Pirelli & C. Eco Technology 66 / Pirelli & C. Ambiente 67 / PZero 68	
Pirelli & C. S.p.A. Summary of selected data	69
Balance sheet and financial position 69 / Income statement 72 / Compensation paid to Directors, Statutory Auditors and General Managers 74 / Equity investments held by Directors, Statutory Auditors, General Managers and Key Managers 75 / Stock option plans 76 /	
Information on ownership structures (ex art. 123 Bis tuf) 76 / Security planning document 76	
Compliance with Article 36 of Consob Regulation 16191/2007 concerning market regulations 77	
Shareholders' resolution 78	
Corporate Governance Report 2008 Financial Year	84
SUSTAINABILITY REPORT	163
A note on methodology	165
Pirelli and sustainable development	167
Identification of Stakeholders and approach adopted 167 / Sustainable Governance 168	
Economic dimension	185
Added value 185 / Shareholders 187 / Customers 188 / Suppliers 203	
Environmental dimension	211
The Pirelli approach to the management of environmental issues 211 / Pirelli Tyre S.p.A. 212	
Pirelli & C. Real Estate S.p.A. 230 / Pirelli Eco Technology S.p.A. / Technologies for Sustainable Development 234 / Pirelli & C. Ambiente S.p.A. 239 / Pirelli Labs S.p.A. 244 / Pirelli Broadband Solutions S.p.A. 248	
Social dimension	251
Internal Community 251 / External Community 292 / Summary tables 306 / Assurance Letter 308	

CONSOLIDATED FINANCIAL STATEMENT

311

Consolidated balance sheet **312** / Consolidated income statement **313** / Consolidated statement of recognized income and expenses **314** / Consolidated statement of cash flows **315**

Notes to the consolidated financial statements

316

1. General information **316** / 2. Basis of presentation **317** / 3. Accounting policies **325** /
4. Financial risk management policies **336** / 5. Capital management policies **341** /
6. Estimates and assumptions **341** / 7. Segment information **344** / 8. Property, plant and
equipment **348** / 9. Intangible assets **352** / 10. Investments in associates and joint ventures **355** /
11. Other financial assets **359** / 12. Deferred tax assets and liabilities **361** /
13. Trade receivables **363** / 14. Other receivables **364** / 15. Tax receivables **365** /
16. Inventories **366** / 17. Securities held for trading **366** / 18. Cash and cash equivalents **367** /
19. Equity **367** / 20. Stock option plans **370** / 21. Tax payables **377** / 22. Provisions for other
liabilities and charges **377** / 23. Employee benefit obligations **378** / 24. Borrowings from banks and
other financial institutions **384** / 25. Trade payables **388** / 26. Other payables **389** / 27. Derivative
financial instruments **389** / 28. Commitments and contingencies **391** / 29. Revenues from sales and
services **394** / 30. Other income **394** / 31. Personnel costs **394** / 32. Amortization, depreciation and
impairments **395** / 33. Other expenses **395** / 34. Financial income **396** / 35. Financial expenses
397 / 36. Impairment losses on investments **397** / 37. Dividends **397** / 38. Gains (losses) from
changes in fair value of financial assets **398** / 39. Share of earnings (losses) of associates and joint
ventures **398** / 40. Income taxes **399** / 41. Income (loss) from discontinued operations **400** /
42. Earnings per share **401** / 43. Dividends per share **402** / 44. Related party disclosures **402** /
45. Significant subsequent events **404** / 46. Other information **405** / Independent auditors' report **419**

EXTRAORDINARY SESSION

421

Report prepared by the directors **422**

Pirelli & C. S.p.A.

Board of Directors¹

Chairman²

Marco Tronchetti Provera

Deputy Chairman²

Alberto Pirelli

Deputy Chairman²

Carlo Alessandro Puri Negri

Directors:

Carlo Acutis*
 Carlo Angelici* °
 Cristiano Antonelli*
 Gilberto Benetton
 Alberto Bombassei* ^
 Franco Bruni* °
 Luigi Campiglio*
 Enrico Tommaso Cucchiani
 Berardino Libonati* ^
 Giulia Maria Ligresti
 Massimo Moratti
 Renato Pagliaro
 Umberto Paolucci*
 Giovanni Perissinotto
 Giampiero Pesenti* ^
 Luigi Roth*
 Carlo Secchi* °

* Independent director

° Member of the Internal Control and Corporate Governance Committee

^ Member of the Remuneration Committee

Secretary to the Board

Anna Chiara Svelto

BOARD OF STATUTORY AUDITORS³

Chairman

Luigi Guatri

Standing auditors

Enrico Laghi

Paolo Domenico Sfameni

Alternate auditors

Franco Ghiringhelli

Luigi Guerra

GENERAL MANAGER

Operations

Claudio De Conto

INDEPENDENT AUDITORS⁴

Reconta Ernst & Young S.p.A.

MANAGER RESPONSIBLE FOR THE PREPARATION OF THE FINANCIAL REPORTS OF THE COMPANY⁵

Claudio De Conto

¹ Appointment: April 29, 2008. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2010.

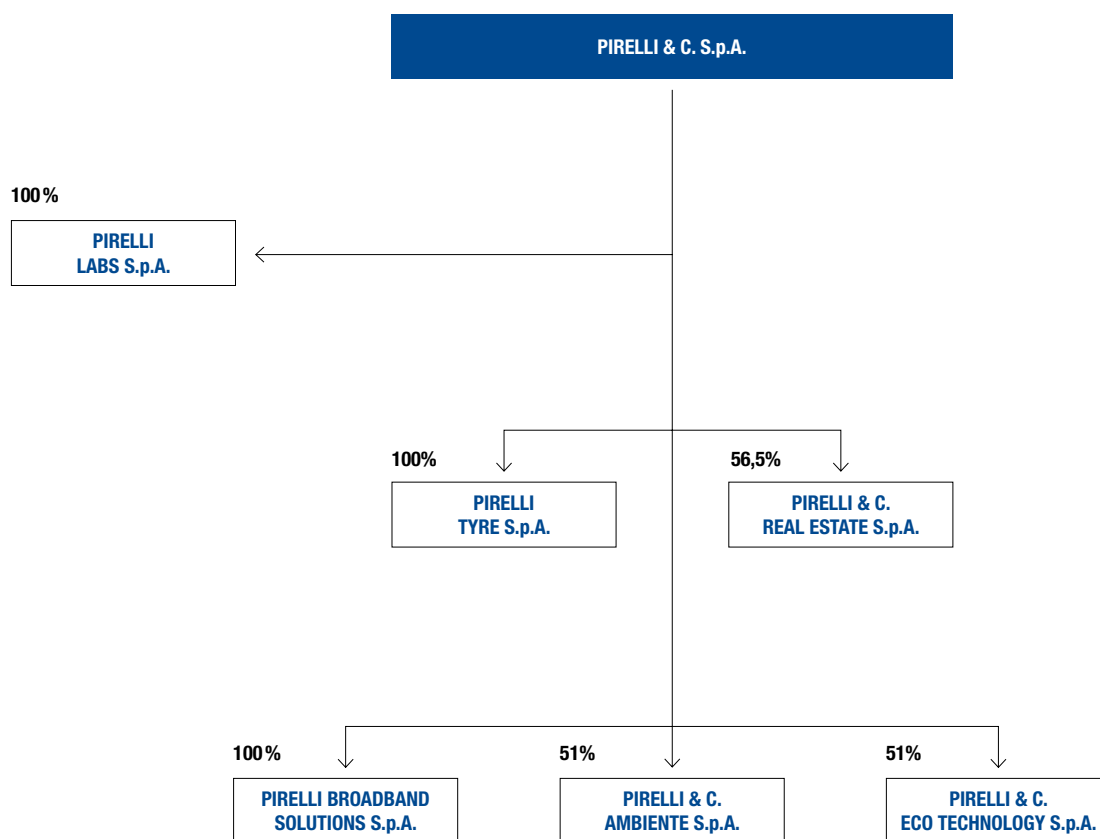
² Post conferred by the board of directors' meeting held on April 29, 2008.

³ Appointment: April 21, 2006. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2008. Paolo Domenico Sfameni was appointed by the shareholders' meeting held on April 29, 2008 to replace Paolo Francesco Lazzati who resigned.

⁴ Post conferred by the shareholders' meeting held on April 29, 2008.

⁵ Appointment: conferred by the board of directors' meeting held on April 29, 2008. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2010.

Structure of Pirelli Group at December 31, 2008



MARKET TRADING ON THE MILAN STOCK EXCHANGE

	Shares traded volume	Amount (in Euros)
Pirelli & C. S.p.A. - ordinary shares	7.869.785.649	3.754.089.026
Pirelli & C. S.p.A. - saving shares	79.065.631	39.708.121

NUMBER OF SHARES OUTSTANDING

	at December 31, 2008	at March 9, 2009
Pirelli & C. S.p.A. - ordinary shares	5.233.142.003	5.233.142.003
Pirelli & C. S.p.A. - saving shares	134.764.429	134.764.429

Five-year summary of selected consolidated financial data

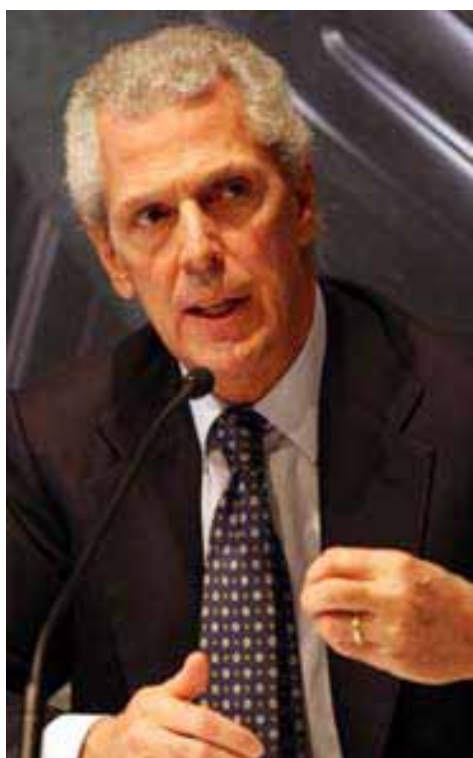
IAS/IFRS (in millions of Euro)

	2008	2007	2006	2005	2004
Net sales	4,660	6,076	4,841	4,546	3,967
Net sales (excluding DGAG)*	4,660	4,780	4,841	4,546	3,967
Gross operating profit	252	573	614	568	470
Operating profit	43	364	401	355	269
Operating profit (loss) including earning (losses) from investments	(323)	513	1,192	622	425
Total income (loss)	(413)	324	(1,049)	399	304
Income (loss) attributable to the equity holders of Pirelli & C. S.p.A.	(348)	165	(1,167)	327	251
Earnings per share (in Euros)	(0.06)	0.03	(0.22)	0.07	0.07
Fixed assets	3,665	3,815	6,924	7,624	6,097
Net working capital	418	298	463	(48)	464
Net invested capital	4,083	4,113	7,387	7,576	6,561
Equity	2,374	3,804	4,687	5,614	3,841
Provisions	681	611	720	785	1,119
Net financial (liquidity)/debt position	1,028	(302)	1,980	1,177	1,601
Equity attributable to the equity holders of Pirelli & C. S.p.A.	2,172	2,980	3,880	5,205	3,502
Equity per share (in Euros)	0.40	0.56	0.72	0.98	1.01
Net cash flows provided by (used for) operating activities	76	554	473	467	349
R&D expenditures	156	173	171	174	171
Depreciation	199	214	201	197	182
Capital expenditures	311	287	255	234	211
Gross operating profit/Net sales*	5.41%	11.99%	12.68%	12.49%	11.85%
Operating profit/Net sales* - ROS	0.93%	7.62%	8.28%	7.81%	6.78%
Income / equity** - ROE	(13.35%)	7.63%	(20.37%)	7.38%	5.77%
Operating profit / Net invested capital** - ROI	1.05%	6.33%	5.36%	5.02%	4.13%
Operating profit (post-investments) / Net invested capital**	(7.89%)	8.92%	15.93%	8.80%	6.52%
Net financial position / Equity - gearing	0.43	n.s.	0.42	0.21	0.42
Capital expenditures / Depreciation	1.56	1.34	1.27	1.19	1.16
R & D expenditures / Net sales*	3.35%	3.62%	3.53%	3.83%	4.31%
Net sales* per employee (in thousands of Euros)	148	155	172	173	162
Pirelli & C. S.p.A. Ordinary shares (no. in millions)	5,233.1	5,233.1	5,233.1	5,180.7	3,327.5
Pirelli & C. S.p.A. Savings shares (no. in millions)	134.8	134.8	134.8	134.8	134.8
Total Pirelli & C. S.p.A. shares (no. in millions)	5,367.9	5,367.9	5,367.9	5,315.5	3,462.3
Treasury ordinary shares (no. in millions)	3.9	2.6	2.6	2.6	2.6
Treasury savings shares (no. in millions)	4.5	-	-	-	-
Factories	23	24	24	24	74
of which discontinued operations	-	-	-	-	52
Employees (at 12/31)	31,056	30,823	28,617	26,827	24,790
of which temporary employees	2,913	3,642	3,479	3,102	2,721

* On net sales excluding DGAG

** Average amount

Chairman's letter



Shareholders,

These financial statements fall in the heart of one of the gravest international economic crisis of the last half century, with effects, in terms of both revenues and operating profit, also on Pirelli & C. and its subsidiaries. But, at the same time, they record the effects of the timely measures that were decided to tackle this crisis and create the conditions for a turnaround.

These are difficult financial statements that speak of downsizing, cutbacks, sacrifices and reconversions. Note is taken of the recession, with realism and a sense of responsibility. But, foremost, the gaze is to the future.

Values, production models and consumption, in fact, change. Relationships between finance and company are reshaped. Yes, the reflection is on the need to have open markets, but also markets kept well under control, based on principles of transparency and accountability. Above all, both economically and socially, industry is again taking a prominent role, relaunching a characteristic in which Italian companies boast positions of excellence: the quality of a manufactured product with high value-added. An innovative industry, with a global reach, strong in its growing commitment to research and closely connected with technologically advanced services.

In this process, Pirelli continues to hold leading positions and prospects. The Pirelli Group, in actual fact, reorganizes the productive processes of all its businesses, at all times, oriented toward competitiveness. It invests in new products, adapted to conquering growing spaces on markets that are ever-more discerning and selective. And it has an ambitious objective, in terms of environmental and social sustainability, to push the green proportion of our products from the current 20 percent to 40 percent within a space of three years.

The Pirelli Group is therefore concentrating on tyres and particulate filters, for a mobility that joins safety to environmental sustainability. Now and for the next three years it will invest in technological development and innovation. It is reorganizing the activities of Pirelli Real Estate to better manage the real estate portfolio of prestige properties and margins. It looks to the renewable energy segment with commitment.

In the course mapped out in the three-year plan 2009-2011, investments will also be oriented, both abroad and in Italy, where a decisive impulse will be given by the new Settimo Torinese Hub: the most modern tyre factory in the world, with a much reduced environmental impact and with processing and products of excellence. An example that will serve to inspire the other productive operations of the group.

Our commitment lies right here: confront the crisis with consciousness, competence and in keeping with strategies aimed at development.





Directors' report

Directors' report on operations

Shareholders,

In 2008, the **Pirelli & C. Group** suffered as a result of the international financial crisis which signaled a sharp downturn of the global economy that had serious repercussions on the automotive and real estate sectors. In order to confront this scenario, during the year the group launched a far-reaching restructuring process which was accelerated in the fourth quarter in the light of the prospects for 2009 which again made it necessary to implement measures that could ensure efficiency and competitiveness.

The negative performance of the financial markets caused the value of financial assets to decline. This resulted in an impairment on the stakes held in listed companies, in reference to the investments held in Telecom Italia S.p.A., RCS Mediagroup S.p.A. and Avanex Corporation of Euros 263 million.

On the whole, the Group ended the year with a slight fall in revenues, on a like-for-like basis, (taking into account the assets classified to discontinued operations and the sales made in 2007 for the deconsolidation of DGAG and the foreign exchange effect). The Group also reported an operating profit, even after restructuring expenses of Euro 144.2 million, although it was considerably lower than in 2007. The bottom line is a loss of Euros 412.5 million which includes the impairment loss on real estate assets for Euros 136 million and the impairment loss on financial assets for Euros 263 million.

The net financial position at December 31, 2008 is a net debt position of Euros 1,028 million with equity of Euros 2,374 million. It should be noted that financial investments were made during the year for the purchase of the 38.9 percent stake in Pirelli Tyre (Euros 835 million) and minority stakes in the companies in Turkey (Euros 43 million). These investments are part of the strategy to boost the tyre business.

With regard to its core businesses, **Pirelli Tyre** closed 2008 with slightly higher revenues on a like-for-like basis, despite the very negative economic situation. Margins were affected by raw material price increases which, in 2008, brought higher costs of about Euros 200 million, and also by the crisis in the car market which hit the Original Equipment channel.

To combat this scenario, the company launched restructuring measures which were accelerated in the last quarter in the presence of a further deterioration of the market. The aim of these measures is to strengthen the competitiveness of the industrial operations in Europe and reduce the costs of central structures and thus produce an impact on the income statement of Euros 100 million.

The operating profit before restructuring expenses is Euros 250.7 million, with a reduction of 30 percent compared to Euros 358.1 million in 2007. If restructuring expenses are also taken into account, the operating profit is equal to Euros 150.7 million.

In **Real Estate**, the market suffered from a year of serious international crisis. Falling prices, fewer transactions and the credit crunch penalized all companies in the sector. To contrast the changed scenario, the Pirelli & C. Real Estate group (henceforth referred to as 'Pirelli RE') implemented a program to reduce costs and reorganize its operations. The program, which focuses on the two macro-geographical areas of Italy and Germany/Poland, aims to relaunch activities and capitalize on the quality of the assets in the real estate portfolio.

In this scenario, real estate sales are down 48 percent overall from last year, the operating result including earnings (losses) from investments, before restructuring expenses and impairment losses/reversals, is an operating loss of approximately Euros 59.7 million against an operating profit of Euros 83.6 million in 2007 (net of the temporary contribution by DGAG of Euros 21.4 million). The operating loss was then impacted by impairment losses of Euros 135.8 million and restructuring expenses of Euros 44.2 million in connection with the rationalization of the structures and the organization.

With regard to other businesses, **Pirelli Broadband Solutions**, the company that is active in broadband access systems, continued to grow, with an increase in revenues and growth in profit results. As far as **Environment and Sustainable Mobility** activities are concerned, investments continued during the year in Romania for the production of particulate filters, where operations began at the end of the year.

The **Parent, Pirelli & C. S.p.A.**, closed the year with a loss of Euros 189.5 million, having been directly or indirectly affected by the impairment losses recognized on listed companies for Euros 263 million.

Significant events in 2008

With regard to the transaction for the reduction of share capital approved by the Pirelli & C. S.p.A. special shareholders' meeting held on December 12, 2007 and the Pirelli & C. S.p.A. special shareholders' meeting of the savings shareholders held on December 14, 2007, the savings shareholders that did not approve the above resolution had until January 5, 2008 to exercise their withdrawal right. At the end of that time, the withdrawal right had been exercised for a total of 4,546,093 shares.

In accordance with the law, such shares were offered to all Pirelli & C. S.p.A. shareholders from January 28 to February 27, 2008 at a per share price of Euros 0.8055 (equal to the arithmetic mean of the stock market price over the previous six months).

At the end of the placement period, 54,324 shares had been purchased. The remaining 4,491,769 shares were offered on the stock market between March 18 and March 26, 2008 inclusive, always at the per share price of Euros 0.8055. This offer ended without any purchases being made.

On March 27, 2008, Pirelli & C. S.p.A. therefore purchased all the 4,491,769 remaining shares that had not been placed at the per share price of Euros 0.8055, for a total amount of about Euros 3.6 million, by using available reserves.

On April 3, 2008, the "extraordinary dividends" of Euros 0.154 per each ordinary and savings share were then paid, for a total of Euros 826 million.

After this transaction, the share capital of Pirelli & C. S.p.A. is equal to Euros 1,556,692,865.28. The total number of shares remains unchanged (5,233,142,003 ordinary shares and 134,764,429 savings shares), whereas the par value per share went from Euros 0.52 to Euros 0.29.

In October 2008, Pirelli & C. S.p.A. purchased 1,250,000 treasury shares on the market (equal to 0.02 percent of total ordinary shares issued) for Euros 0.4 million.

At December 31, 2008, Pirelli & C. S.p.A. holds 3,867,500 ordinary treasury shares (equal to 0.07 percent of share capital) and 4,491,769 savings treasury shares (equal to 0.08 percent of share capital).

On January 16, 2008, Acea and Pirelli Ambiente announced that the 50-50 A.P.I.C.E. joint venture will operate in the sector of sources of renewal energy from waste and will combine Acea's expertise and territorial roots with Pirelli Ambiente's experience and technology to carry out projects aimed at the manufacture of CDR-Q, a fuel derived from quality waste, which will be used in thermo-electric power plants and cement factories.

On January 17, 2008, Pirelli unveiled the new Cinturato Pirelli. The tyre that set the pace for traveling in style in Italy and the world starting from the mid-fifties was revisited in a new version which combines all of the very best in state-of-the art technologies, safety and ecosustainability.

On February 22, 2008, the Piedmont Region, the Province of Turin, the City of Settimo Torinese, the Politecnico University of



Slatina, Romania – Car tyre factory

Turin and the Pirelli Group sealed a collaboration agreement aimed at developing research and innovation programs under the project to build a new Pirelli industrial hub in Settimo Torinese. Pirelli plans to invest about Euros 140 million in the Settimo Torinese project.

On March 11, 2008, Pirelli & C. S.p.A. reached an agreement to acquire the entire share capital of Speed S.p.A., a company in which interests are held by leading financial institutions (Intesa SanPaolo, Gruppo Banca Leonardo, UniCredit, One Equity Partners - JP Morgan Group, Lehman Brothers and Mediobanca), and, the holder, since August 2006, of the 38.9 percent stake in Pirelli Tyre S.p.A., for Euros 434.4 million which was financed by the company's liquid resources. The price takes into account a loan by Speed S.p.A. of Euros 401.1 million. Following the acquisition of the equity of the minority shareholders, the Group owns 100 percent of Pirelli Tyre S.p.A..

On April 22, 2008, the Pirelli Group and Politecnico University of Milan sealed an agreement to set up a chair on "Chemical Foundations of Rubber and Compounds Technology".

The new professorship will study innovative materials and the use of nanotechnology for the development of new-generation tyres. Pirelli will also fund five PhD research scholarships under this agreement over a period of 10 years in the Chemical, Materials and Chemical Engineering "G. Natta" Department at Politecnico University of Milan.

On June 3, 2008, the Pirelli Group announced its intention to increase production in Egypt thanks to a new investment of U.S. \$65 million to expand the capacity of the radial tyre factory for trucks and buses in Alessandria in Egypt. The new investment will enable this Egyptian factory to raise its annual production to one million pieces and become the largest radial tyres production facility for industrial vehicles in the MEA area (Middle East and Africa).

On June 16, 2008, Pirelli & C. S.p.A. sold the remaining stake in Intek S.p.A. (6,149,354 ordinary shares equal to 1.768 percent of the company's ordinary share capital) to Quattrodue Holding B.V. for approximately Euros 5 million. The transaction reflects the execution of the put&call agreement between the two companies sealed on January 9, 2007.

On July 10, 2008, the Italian Ministry for the Environment signed an agreement with the City of Beijing to begin an experiment in the Chinese capital on the particulate filter technology developed by Pirelli Eco Technology. Such filters are capable of reducing fine particle diesel engine emissions by more than 95 percent.

The agreement calls for the installation of Pirelli filtering systems on heavy vehicles (mainly buses, but also trucks and later snow ploughs and tractors) that will be supplied to the local public transport company. The first filtering systems were installed before the start of the Olympics in August 2008.

On July 24, 2008, an agreement was signed between Pirelli and CyOptics Inc. to integrate PGT Photonics S.p.A., a photonics com-

pany in the Pirelli Group, resulting from the spin-off of Pirelli Broadband Solutions and Pirelli Labs activities, in CyOptics, a privately-owned American company which is a leader in the field of optical components based on indium phosphide technology. At the same time, Pirelli subscribed to a CyOptics capital increase with a cash contribution of U.S. \$20 million.

Following the operation, Pirelli holds a 34.5 percent stake in the new CyOptics.

On July 28, 2008, the consortium formed by RREEF, Generali and Borletti completed the acquisition of a 49 percent stake in Highstreet, an investment company that owns properties leased to the German Karstadt department store chain. Highstreet has a portfolio of properties throughout Germany with a total gross area of 3.2 million square meters (the gross sales area is 2.1 million square meters). The enterprise value at the date of acquisition is equal to approximately Euros 4.6 billion, with about Euros 3.5 billion of loans secured by the properties.

On August 21, 2008, Pirelli Tyre S.p.A. purchased the minority stakes in the two subsidiaries through which it operates in Turkey from Isbank. The group acquired 25.75 percent of Pirelli Turk Lastikleri A.S. (which manufactures and markets car and industrial vehicle tyres) and 48 percent of Celikord A.S. (which manufactures and markets steelcord). As part of the transaction, Pirelli also acquired another 1 percent stake in Celikord from other shareholders. The total amount of the transactions is about Euros 43 million, with a positive impact on the result for the year of Euros 27.3 million owing to the fact that the cost of acquisition is lower than the relative accounting net assets acquired. Following the agreement, Pirelli holds 95.35 percent of Pirelli Turk Lastikleri and 100 percent of Celikord. The operation strengthens the group's position in a country that is strategic in terms of manufacturing, marketing and logistics.

On October 20, 2008, Pirelli Eco Technology S.p.A., the company in the Pirelli Group which operates in the field of technologies for controlling emissions from diesel engines, announced that it was the first in Italy to obtain homologation from the Italian Ministry of Infrastructures and Transportation for five types of particulate filters for existing light and heavy trucks. The Pirelli particulate filters, developed using silicon carbide technology, can reduce fine-particle diesel engine emissions by more than 95 percent, and can make a significant contribution to improving air quality.

As a result of homologation, vehicles fitted with Pirelli's particulate filters will have a better category of exhaust from the standpoint of the Euro standards (the range is Euro0 - Euro5) and will also be allowed to circulate freely in urban areas where vehicles that produce greater pollution are denied access.

On October 21, 2008, the bonds of Euros 500 million issued by Pirelli & C. S.p.A. in 1998 with a fixed rate of 4.875 percent were repaid, in accordance with the contractual maturity date.

On November 5, 2008, the Pirelli RE board of directors approved the terms and conditions of the contract for the sale, to Manutencoop Facility Management, of its 50 percent stake in Pirelli Re



Yanzhou, China – Mixing department

Integrated Facility Management, a 50-50 joint venture with Intesa Sanpaolo which, through its investment holdings, supplies project management and facility management services. The closing of the transaction and the announcement to the market, once all the conditions precedent had been satisfied and the necessary authorization were obtained from the Antitrust Authority, took place on December 23, 2008. The sales price of 100 percent of Pirelli RE Integrated Facility Management, including the 50 percent interest held by Intesa Sanpaolo, was equal to Euro 137.5 million and divided between the two seller companies Pirelli RE and Intesa Sanpaolo, against an Enterprise Value of Euros 270 million. For the Pirelli RE group, the impact on the net financial position, excluding Pirelli RE shareholder loans, was an approximate positive Euros 91 million.

On November 6, 2008, Pirelli & C. S.p.A. and Russian Technologies sealed an agreement for a new industrial joint venture between the two companies that will start production of tyres in Russia within the next two to three years, compatible with the evolution of the macroeconomic scenario. To date, the agreements signed between the two companies call for the building of a new site for the manufacture of car and truck tyres in the Samara region with initial production capacity of about 4.2 million pieces, for a joint investment of approximately Euros 300 million.

During 2008, Pirelli & C. S.p.A. purchased 1,184,468 Pirelli & C. Real Estate S.p.A. shares on the market for a total outlay of Euros 22.1 million. At December 31, 2008, Pirelli & C. S.p.A. directly holds 24,046,432 Pirelli & C. Real Estate S.p.A. shares equal to 56.45 percent of share capital.

In December 2008, Pirelli Finance (Luxembourg) S.A. sold 5,000,000 Telecom Italia S.p.A. ordinary shares on the market for total proceeds of Euros 5.8 million. At December 31, 2008, Pirelli & C. S.p.A. holds 177,113,185 Telecom Italia S.p.A. ordinary shares equal to 1.32 percent of voting stock (directly and indirectly through the subsidiary Pirelli Finance (Luxembourg) S.A.). Subsequently, in January 2009, Pirelli Finance (Luxembourg) S.A. sold 8,490,000 Telecom Italia S.p.A. ordinary shares on the market for total proceeds of Euros 10 million. Therefore, Pirelli & C. S.p.A. now holds 168,623,185 Telecom Italia S.p.A. ordinary shares equal to 1.26 percent of voting stock (directly and indirectly through the subsidiary Pirelli Finance (Luxembourg) S.A.).

The Group

ALTERNATIVE PERFORMANCE MEASURES

In this report on operations, in addition to the financial performance measures established by IFRS, certain non-IFRS measures originated from the latter are presented although they are not required by IFRS (Non-GAAP Measures).

These performance measures are presented for purposes of a better understanding of the trend of operations of the group and should not be construed as a substitute for the information required by IFRS.

Specifically, the Non-GAAP Measures used are described as follows:

- **Gross operating profit:** this financial measure is used by the group as the financial target in internal business plans and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the group as a whole and for each single segment, in addition to the Operating Profit. The Gross Operating Profit is an intermediate performance measure represented by the Operating Profit from which depreciation and amortization are excluded.
- **Earnings (losses) from investments:** earnings (losses) from investments consist of all the effects recorded in the income statement referring to investments that are not consolidated line-by-line. These include dividends, the share of the earnings (losses) of companies accounted for using the equity method, impairment losses on available-for-sale financial assets and gains (losses) on the disposal of available-for-sale financial assets. Changes in the fair value of available-for-sale financial assets which are recognized directly in equity are excluded.
- **Net financial (liquidity)/debt position:** this performance measure is represented by the gross financial debt less cash

and cash equivalents as well as other interest-earning financial receivables. The Notes present a table that shows the balance sheet amounts used to calculate the net financial (liquidity)/debt position.

The Five-year summary of selected consolidated financial data published at the beginning of the report includes other measures formed by an aggregation of IFRS performance measures.

In particular:

- **Fixed assets:** this measure is the sum of the line items “Property, plant and equipment”, “Intangible assets”, “Investments in associates and joint ventures” and “Other financial assets”.
- **Provisions:** this measure is the sum of the line items “Provisions for other liabilities and expenses (current and non-current)”, “Employee benefit obligations” and “Deferred tax liabilities”;
- **Net working capital:** this measure is formed by all other line items not included in the two above measures, in “Equity” and the “Net financial position”.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS

The **Photonics** business and the **Integrated Facility Management** business of Pirelli RE which were sold during the course of 2008 are considered “**discontinued operations**” and consequently contribute solely to the net result for the year. Therefore, for purposes of comparison, the income statement figures relating to 2007 are presented excluding the results of the discontinued operations.

GROUP CONSOLIDATION

The highlights of the Group's consolidated financial statements for the year ended December 31, 2008 can be summarized as follows:

(in millions of euro)

	12/31/2008	12/31/2007
Net sales	4,660.2	6,075.6
Net sales (excluding DGAG deconsolidation)	4,660.2	4,780.0
Gross operating profit before restructuring expenses	396.1	572.8
% of net sales (excluding DGAG deconsolidation)	8.5%	12.0%
Operating profit before restructuring expenses	187.4	364.0
% of net sales (excluding DGAG deconsolidation)	4.0%	7.6%
Restructuring expenses	(144.2)	-
Operating profit	43.2	364.0
% of net sales (excluding DGAG deconsolidation)	0.9%	7.6%
Earnings (losses) from investments	(366.5)	148.6
Operating profit (loss) including earnings (losses) from investments	(323.3)	512.6
Financial income (expenses)	(80.0)	(133.8)
Income taxes	(72.6)	(123.0)
Income (loss) from continuing operations	(475.9)	255.8
% of net sales (excluding DGAG deconsolidation)	(10.2%)	5.4%
Income from discontinued operations	63.4	67.8
Total income (loss)	(412.5)	323.6
Income (loss) attributable to the equity holders of Pirelli & C. S.p.A.	(347.5)	164.5
Earnings per share (in euros)	(0.065)	0.031
Total equity	2,374.4	3,804.1
Equity attributable to the equity holders of Pirelli & C. S.p.A.	2,171.8	2,980.2
Equity per share (in euros)	0.405	0.555
Net financial (liquidity)/debt position	1,027.7	(302.1)
Capital expenditures	311	287
R&D expenditures	156	173
Headcount (number at year-end)	31,056	30,823
Factories	23	24
PIRELLI & C. S.P.A. SHARES		
ordinary shares (number in millions)	5,233.1	5,233.1
of which treasury shares	3.9	2.6
savings shares (number in millions)	134.8	134.8
of which treasury shares	4.5	-
Total shares	5,367.9	5,367.9

For a better understanding of the Group's performance by business segment, the following income statement data and the net financial position are presented by business segment.

12/31/2008 (in millions of euro)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total
Net sales	4,100.2	365.1	124.6	71.6	(1.3)	4,660.2
Gross operating profit (loss) before restructuring exp.	441.2	(17.6)	4.8	(17.4)	(14.9)	396.1
Operating profit (loss) before restructuring exp.	250.7	(27.0)	3.9	(18.3)	(21.9)	187.4
Restructuring expenses	(100.0)	(44.2)	-	-	-	(144.2)
Operating profit (loss)	150.7	(71.2)	3.9	(18.3)	(21.9)	43.2
Earnings (losses) from investments	27.8	(168.5)	-	(1.0)	(224.8)	(366.5)
Operating profit (loss) incl. earnings (losses) from investments	178.5	(239.7)	3.9	(19.3)	(246.7)	(323.3)
Financial income (expenses)	(82.8)	(26.0)	(2.6)	(1.7)	33.1	(80.0)
Income taxes	(70.1)	(1.9)	0.7	0.2	(1.5)	(72.6)
Income (loss) from continuing operations	25.6	(267.6)	2.0	(20.8)	(215.1)	(475.9)
Income (loss) from discontinued operations	-	74.6	(10.9)	-	(0.3)	63.4
Income (loss)	25.6	(193.0)	(8.9)	(20.8)	(215.4)	(412.5)
Net financial (liquidity)/debt position	1,266.8	289.5	(15.0)	23.1	(536.7)	1,027.7

12/31/2007 (in millions of euro)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total
Net sales	4,161.7	1,724.4	112.5	71.4	5.6	6,075.6
Net sales (excluding DGAG)	-	428.8	-	-	-	4,780.0
Gross operating profit (loss)	548.6	40.7	1.9	(7.6)	(10.8)	572.8
Operating profit (loss)	358.1	33.1	0.9	(8.5)	(19.6)	364.0
Earnings (losses) from investments	1.5	139.4	-	(0.3)	8.0	148.6
Operating profit (loss) including earnings (losses) from investments	359.6	172.5	0.9	(8.8)	(11.6)	512.6
Financial income (expenses)	(55.2)	(37.5)	(3.5)	(0.5)	(37.1)	(133.8)
Income taxes	(93.9)	(23.6)	-	(0.5)	(5.0)	(123.0)
Income (loss) from continuing operations	210.5	111.4	(2.6)	(9.8)	(53.7)	255.8
Income (loss) from discontinued operations	-	49.5	(14.8)	-	33.1	67.8
Income (loss)	210.5	160.9	(17.4)	(9.8)	(20.6)	323.6
Net financial (liquidity)/debt position	559.6	289.7	21.5	5.6	(1,178.5)	(302.1)

NET SALES

Net sales in 2008 amount to Euros 4,660.2 million and are in line (-0.1 percent) on a like-for-like basis and net of the exchange effect (-2.5 percent including the exchange effect) compared to 2007.

A percentage breakdown of net sales by business segment, on a like-for-like basis, excluding the effect of the deconsolidation of DGAG in 2007, is as follows:

	2008	2007
Tyre	88.0%	87.1%
Real Estate	7.8%	9.0%
Broadband Access	2.7%	2.4%
Other	1.5%	1.5%
	100%	100%

A percentage breakdown of the change in net sales by business segment on a like-for-like basis is as follows:

Tyre	+ 1.3%
Real Estate	- 14.9%
Broadband Access	+ 10.8%
Other Businesses	+ 0.3%
Total group	- 0.1%
Foreign exchange effect	- 2.4%
Net sales for DGAG deconsolidation	- 20.8%
Total change	- 23.3%

OPERATING PROFIT

Operating profit (EBIT) before restructuring expenses amounts to Euros 187.4 million compared to Euros 364 million in 2007.

The restructuring expenses, equal to Euros 144.2 million, are in connection with employee reductions and the rationalization of the production structures in Europe for Pirelli Tyre and staff cutbacks for Pirelli RE.

Operating profit in 2008, including restructuring expenses, amounts to Euros 43.2 million compared to Euros 364 million in the prior year.

The change in operating profit by business segment is the following:

(in millions of euro)

Operating profit 2007		364.0
Tyre	(107.4)	
Real Estate	(60.1)	
Broadband Access	3.0	
Other Businesses	(9.8)	
Restructuring expenses	(144.2)	
Other	(2.3)	
Total		(320.8)
Operating profit 2008		43.2

OPERATING LOSS INCLUDING EARNINGS (LOSSES) FROM INVESTMENTS

The result for 2008 is an **operating loss including earnings (losses) from investments** of Euros 323.3 million, which also comprises the effect of earnings (losses) from companies accounted for by the equity method and dividends from unconsolidated holdings, compared to a profit of Euros 512.6 million in 2007.

The figure is significantly below that of 2007 and not only reflects the changes in operating profit (EBIT) but also a lower contribution from Pirelli Real Estate's investment holdings owing to the downturn in the real estate market and impairment losses recognized on those holdings for Euros 136 million. In addition, impairment losses were also recorded on the investments in listed companies (Telecom Italia S.p.A. for Euros 173 million, RCS Mediagroup S.p.A. for Euros 66 million and Avanex Corporation for Euros 24 million).

NET RESULT

The **net result from continuing operations** is a loss of Euros 475.9 million, compared to income of Euros 255.8 million in 2007.

The **income from discontinued operations** is Euros 63.4 million and includes the positive effects associated with the sale of the Facility Management business by Pirelli Real Estate (Euros 74.6 million, of which Euros 71.4 million relates to the gain on the sale). This is offset in part by the negative effect generated by the sale of the Photonics business (Euros 11.2 million).

The income from discontinued operations last year included the results of operations of the Facility Management business (Euros 49.5 million, of which Euros 41.4 million relates to the gain on the sale of the 49 percent stake) and the loss reported by PGT Photonics (Euros 14.8 million). It also comprised the negative effect connected with the sale of Olimpia S.p.A. (Euros 53.8 million), the gain (Euros 91 million) on the disposal to Goldman Sachs of the warrants obtained as part of the July 2005 sales agreement of the Energy and Telecom Cables and Systems activities and associated with the economic benefits on Prysmian (Lux) S.à.r.l. and an adjustment to the provision on the guarantees provided as a result of this last sale (Euros 4 million).

The **total loss in 2008** is Euros 412.5 million compared to income of Euros 323.6 million in 2007.

The **loss attributable to the equity holders of Pirelli & C. S.p.A.** is Euros 347.5 million (a negative Euros 0.065 per share) compared to income of Euros 164.5 million in 2007 (Euros 0.031 per share).

EQUITY

Equity at December 31, 2008 is Euros 2,374.4 million, compared to Euros 3,804.1 million at the end of 2007.

The **equity attributable to the equity holders of Pirelli & C. S.p.A.** at December 31, 2008 is equal to Euros 2,171.8 million (Euros 0.405 per share), compared to Euros 2,980.2 million at the end of 2007 (Euros 0.555 per share).

The change can be summarized as follows:

(in millions of euro)

	Group	Minority interest	Total
Equity at December 31, 2007	2,980.2	823.9	3,804.1
Translation differences	(134.6)	(2.1)	(136.7)
Loss for the year	(347.5)	(65.0)	(412.5)
Dividends paid to minority interest	(93.2)	(74.8)	(168.0)
Acquisition of minority stakes in Pirelli Tyre	-	(459.8)	(459.8)
Change in fair value of other financial assets/derivatives	(150.7)	(30.1)	(180.8)
Net actuarial gain (loss) on employee benefits	(84.9)	(0.1)	(85.0)
Acquisitions/sales of interests from minority interest	-	17.0	17.0
Other changes	2.5	(6.4)	(3.9)
Total changes	(808.4)	(621.3)	(1,429.7)
Equity at December 31, 2008	2,171.8	202.6	2,374.4

The reconciliation between the equity of the Parent, Pirelli & C. S.p.A., and the consolidated equity attributable to the equity holders of the Parent is as follows.

RECONCILIATION BETWEEN EQUITY PIRELLI & C. S.p.A. AND CONSOLIDATED EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS (in millions of euro)

	Share capital	Reserves	Income (loss)	Total
Equity - Pirelli & C. S.p.A. at December 31, 2008	1,554	321	(190)	1,685
Results for the year of consolidated companies (pre-consolidation adjustments)	-	-	(245)	(245)
Capital and reserves of consolidated companies (pre-consolidation adjustments)	-	1,744	-	1,744
Consolidation adjustments:				
- carrying amount of investments in consolidated companies	-	(1,050)	-	(1,050)
- intragroup dividends	-	127	(127)	-
- other	-	(176)	214	38
Consolidated equity - Group at December 31, 2008	1,554	966	(348)	2,172

NET FINANCIAL POSITION

The **net financial position** at December 31, 2008 is a debt position of Euros 1,027.7 million compared to a liquidity position of Euros 302.1 million at December 31, 2007.

The **net financial position at the corporate level** is, instead, a liquidity position of Euros 537 million. The most important factors affecting the net financial position in 2008 are the repurchase of the 38.9 percent stake in Pirelli Tyre (Euros 835.5 million) and the purchase of the minority stakes in Turkey as part of the strategy to build up the tyre business (Euros 43.3 million), in addition to the payment of dividends (Euros 168 million).

The change during the year can be summarized by the following cash flows:

(in millions of euro)

Net financial position at December 31, 2007		302.1
Cash flows used in ordinary activities		(146.7)
Financial and tax income (expenses)		(152.6)
Effect of Speed S.p.A. acquisition		(835.5)
Dividends paid to minority interest		(168.0)
Equity investments:		(100.2)
- acquisition of minority stakes in Turkey	(43.3)	
- investment in CyOptics Inc.	(12.7)	
- PRE Investment in Highstreet	(59.8)	
- purchase of Pirelli & C. Real Estate S.p.A. shares	(22.1)	
- other equity investments	(31.1)	
- sale of PRE Facility Management	68.8	
Change in scope of consolidation		81.3
Other		(8.1)
Total changes		(1,329.8)
Net financial position at December 31, 2008		(1,027.7)

The composition of the net financial position by business segment is as follows:

(in millions of euro)

	Tyre	PRE	Other Businesses	Corporate	Consolidated
Gross debt *	1,610	915	29	531	2,114
Financial receivables	(121)	(590)	(17)	(959)	(716)
Cash and cash equivalents and securities held for trading	(222)	(36)	(3)	(109)	(370)
Net financial position	1,267	289	9	(537)	1,028
* of which with Corporate	432	492	27	-	-

The analysis of the composition of gross debt, divided by type and due date, is the following:

(in millions of euro)

	Financial statements 12/31/2008	Expiration / Maturity date			
		2009	2010	2011	2012
Drawdown of committed lines	1,070	150	170	69	681
Other financing	894	434	136	92	232
Bonds	150	150	-	-	-
Total gross debt	2,114	734	306	161	913

At December 31, 2008, the Group has unused committed credit lines available for a total of Euros 785 million, which, together with the liquidity in the financial statements (Euros 370 million) means that the group will not have need to refinance for the next two years.

CAPITAL EXPENDITURES

Capital expenditures for property, plant and equipment total Euros 311 million, of which Euros 285 million relates to the tyre sector. The ratio of capital expenditures to depreciation is 1.56.

HEADCOUNT

At December 31, 2008, headcount is 31,056 (including 2,913 with temporary contracts) compared to 30,823 at December 31, 2007 (including 3,642 with temporary contracts).

	12/31/2008		12/31/2007	
GEOGRAPHICAL AREA				
Europe:				
- Italy	5,095	16.41%	6,681	21.68%
- Other European countries	9,174	29.54%	8,789	28.51%
North America	265	0.85%	265	0.86%
Central and South America	11,819	38.06%	10,548	34.22%
Oceania, Africa and Asia	4,703	15.14%	4,540	14.73%
	31,056	100.00%	30,823	100.00%
SECTORS				
Tyre	28,601	92.09%	27,224	88.33%
Real Estate	1,558	5.02%	2,692	8.73%
Broadband Access	113	0.36%	94	0.30%
Other Businesses	247	0.80%	197	0.64%
Other	537	1.73%	616	2.00%
	31,056	100.00%	30,823	100.00%

Research and Development

The focal point of the Pirelli Group's growth strategy is its capacity to innovate products and processes and assess new opportunities stemming from its continuing research activities.

The expenditures for R&D activities borne by the Group, and completely expensed to income since such expenditures do not meet the requirements for capitalization established by accounting principles, amount to Euros 156 million, equivalent to 3.3% of sales.

With regard to the **tyre sector**, which incurred costs equal to Euros 145 million, in addition to its traditional R&D work focusing on the development of new top-of-the-range products (e.g. UHP, Winter, Runflat, SUV and motorcycle tyres), increasingly, more attention is being paid to reducing environmental impact, by exploiting technological components and cutting-edge know-how. To achieve this, there has been intensive research in the area of materials, modeling, profiles, tread designs and processes.

The sphere of open innovation (technological cooperation between Pirelli, its most technologically advanced suppliers and customers and numerous universities around the world) resulted in some important discoveries in 2008. The Piedmont Region, the Province of Turin, the town of Settimo Torinese, the Politecnico University of Turin and the Pirelli Group signed a collaboration agreement with the aim of developing research and innovation programs under the project to build a new Pirelli industrial hub in Settimo Torinese. An important part of this activity will be achieved through the Politecnico University of Turin. In particular, according to the agreement, the new technologies on which Pirelli is focusing its research activities in the tyre sector will be introduced to the Settimo Torinese hub.

They include the latest generation of MIRS technology, a development of the robotized tyre-production process which guarantees high-quality and uniform products, TSM (Twin Screw Mixing), a new material compound process with a high level of quality and reliability, and the Cyber Tyre, the "intelligent" tyre of the future, equipped with sensors able to transmit useful information for driving and control of the vehicle. 2008 saw the first working prototypes of the Cyber Tyre, developed by a team of more than 80 engineers and researchers from some of the world's leading electronics development companies and some of the most distinguished universities in the world (Berkeley, Politecnico University of Milan, Politecnico University of Turin).

Mounted on cars, these tyre prototypes demonstrated their capacity to relay important information to the driver and the vehicle's control system: for example, the maximum friction available in an almost free-rolling situation (before braking). Furthermore, the foundations were laid for sealing strategic agreements with leading companies in the automotive segment to manufacture the electronic components of the Cyber Tyre on an industrial scale, and to develop new functions which will improve safety for car drivers and passengers.

The Pirelli Group and the Politecnico University of Milan signed an agreement to create a chair, funded along with five PhD research scholarships over a ten-year period, on the subject of "The Chemical Bases of the Technology of Rubber and Rubber Composites". The aim of the new chair is to promote the study of innovative materials and the application of nanotechnologies to develop a new generation of tyres.

The Silvio Tronchetti Provera Foundation and the University of Shandong in Jinan in China signed a research agreement to study a new generation of "green" tyres. Researchers from the university will work together with the Pirelli Group's R&D department in China to create tyres with low rolling resistance, in order to reduce vehicle fuel consumption.

This project fits into the framework of the Pirelli Group's longstanding commitment to R&D activities to develop tyres that are ever-more environmentally compatible. The agreement between the Italian company and the Chinese university also includes two joint research initiatives with respective goals of realizing more consistent compounds and studying low-temperature tyre vulcanization.

In the sphere of car tyres, in 2008, Pirelli's R&D department came up with two new products: the Cinturato and the Sottozero Serie II.

Thirty years after, the Pirelli Cinturato, a modern high-tech revisitation of the tyre that made history in the world tyre industry, is back on the market (manufactured in the P4 and P6 tread models) with new technological content. It is an environmentally friendly tyre (the side of the product is marked with the ECOIMPACT icons) with high performance and safety which, thanks to innovative technologies, offers:

- lower fuel consumption: the new Cinturato tyres reduce rolling resistance - that is, the energy dissipated when the tyre rolls on a road surface - by 20%, ensuring lower fuel consumption and fewer CO₂ emissions for the same level of performance. When the new Cinturato was being designed, Pirelli introduced innovative solutions covered by Pirelli patents for a new structure, compound and tread design);
- a reduction of up to 4% in harmful emissions: in advance of the European regulations that come into force in 2010, Cinturato tyres have a tread with no aromatic oils, a critical factor for the environment especially in the dust generated as particulate, one of the main causes of urban air pollution; in fact, as the tread is consumed, it releases particles into the atmosphere containing potential pollutants;
- better mileage: the compound used in the tread of the new Cinturato has been strengthened by elements such as silicon that improve the mileage of the tyre without compromising its road-holding properties. What's more, the whole geometry of the tyre has been redesigned, from the sides to the tread, so as to balance rolling resistance, mileage and safety. This has improved the average mileage of the new Cinturato by 30% and, for the average motorist, is equivalent to changing tyres every four years instead of every three. It also means savings in terms of energy, raw materials and CO₂ emissions in production;
- an important contribution in terms of acoustic comfort thanks to the tread design which lowers the internal and external noise levels of the tyre.

The new Cinturato has been chosen as original equipment for the most popular models of leading automakers such as Fiat, Mercedes, Peugeot, Volkswagen and Seat.

Pirelli's concern for the environment is matched by its concern for safety. The new Cinturato range has a tread design that gives better road-holding around curves in all weather conditions and ensures that the vehicle performs well on wet road surfaces, especially during braking, even in the case of small and medium-size vehicles.

During tests last summer when it first appeared on the market, the new Cinturato P4 proved to be by far the best in its category, passing even the most severe tests conducted by the German Automobile Club (ADAC). The test, conducted on 18 different models of tyres of different makes, saw the Cinturato P4 in first place in all five of the test parameters (resistance to wear, performance on dry and wet road surfaces, comfort and rolling resistance). It performed particularly well in the resistance to wear test, where it proved to be streets ahead of all of its competitors. The U.K.'s most popular and authoritative consumer magazine rated it as the best choice for people who intend to change their tyres.



Breuberg, Germany - MIRS production process

On the other hand, the Sottozero Serie II, launched spectacularly on the Plateau Rosa glacier, is the new Winter tyre. In fact, the new series has considerably improved its performance in terms of aquaplaning, internal and external noise and handling on dry road surfaces.

The Ultra High Performance tyre for premium sports cars beat the competition hands down in the tests conducted by Auto Zeitung, Sport Auto, Sport Auto Tuning Spezial and Power Car which, unanimously, voted it the top tyre in the segment (4 unrivalled victories in the 4 tests devised by the German specialized press).

With regard to development, close collaboration continues with automobile manufacturers. A list of the final homologations obtained by Pirelli in 2008: the Alfa Romeo 8C Racing and Mito, the Bentley Arnage and GT Coupé, the Ferrari California, the Ford F150 pick-up and the new versions of those all-American cars, the Ford Mustang and the GM Camaro, the new Jaguar XK, the new Lamborghini Gallardo (presented at the Geneva International Motor Show), the Mercedes GLK, and many other top models made by Aston Martin, Audi, BMW, Fiat, Lancia, Land Rover, Peugeot, Porsche, Saab, Seat, Volkswagen and Volvo.

In the sphere of motorcycle tyres, Pirelli launched the Diablo Rosso in the 'Hypersport' segment, also the Racetec Interact (under the Metzeler brand), the Diablo Scooter, the Scorpion Trail (a new on-road tyre for Enduro motorbikes, designed specially for asphalt, yet maintaining the excellent off-road performance of its predecessor, with a new revolutionary tread design), and the Night Dragon for the Custom segment, presented at the Daytona Bike Week.

In the sphere of Truck tyres, Pirelli launched the Gommoncino (thus called because of its broad, low profile): the new ultra low FH85 Amaranto designed for directional axles on long-distance haulage trucks, offering increased capacity per axle in terms of volume and load.

Other activities in the Tyre sector include the completion of a feasibility study about recycling reject tyres generated by the various factories. The aim is to analyze whether or not the recovery of energy and/or the materials that can be reused in the production of similar tyres is economically viable.

Various processes and the investments they would require are being assessed, together with the quality and performance in compound of products recovered from scrapped material.

In **real estate**, R&D activities focused on supporting 'Eco-building', that is, erecting buildings with a high standard of environmental sustainability, quality and efficiency in terms of energy consumption. Efforts focused on the following areas:

- using materials from renewable sources, with the identification and possible development of products containing natural and renewable materials with low environmental impact that have been or can be recycled;
- rubber in self-compacting concrete, through a study program to establish the mechanical properties of matrices containing rubber granules derived from end-of-life tyres.

Pirelli Labs has developed and patented a product for acoustic insulation from footfalls/overhead noise. This product is made with recycled rubber (made from end-of-life tyres) and a special water-based binder, called SILEREX™ (a Pirelli patent).

SILEREX™ guarantees excellent acoustic performance and, since it is made with materials with a low environmental impact, will contribute significantly to the development of sustainable, environmentally-friendly building.

On September 1, 2008, Pirelli signed an agreement with the company Project for Building S.p.A. in which Pirelli granted a non-exclusive license for the industrial exploitation of this product.

As far as **other businesses** are concerned, development continued of a system of intelligent antennas for wireless video systems within the sphere of broadband access. One of the advantages of this type of antenna is the high degree of integration and improved radio coverage. Another significant element is the fact that the system consumes less energy, due to the presence of sectorized antennas which do not have omni-directional propagation.

The campaign involving the measurement of photovoltaic systems based on different technologies installed at the Telecom Italia telephone exchange at Naples Barra was completed. The work was conducted within the sphere of the partnership with the ENEA Research Center at Portici and Telecom Italia.

Pirelli is involved in the development of a solar tracker which will be larger than the first prototype. While maintaining its low visual impact, it will also be suitable for land installations of conventional photovoltaic modules in large-scale photovoltaic plants.

In parallel, CPV (concentrated photovoltaic power) has been selected as the high-efficiency innovative technology on which to focus development. This technology has high potential to reduce costs compared to consolidated photovoltaic technologies. Photovoltaic cells are used with an efficiency rating of up to 40% but with surface areas that are 500 to 1000 times less, thanks to the use of low-cost plastic lenses.

Information systems

The Information Systems of the Pirelli Group, a fundamental tool for managing the various business areas efficiently and a competitive factor for the Group, are operated and coordinated centrally. The main activities carried out during the year in the individual areas of operation are described below:

ARCHITECTURES, INFRASTRUCTURES AND SHARED GROUP SERVICES

Work began to convert Pirelli's SAP environments to the new release ECC 6.0. With regard to the distributed architecture (APISxp), the migration of Baubecon (Pirelli RE Germany) IT systems to Pirelli standards has been completed. The South American E-mail service has now also been consolidated on Milan. This operation concluded the program to consolidate E-mail. The services in this sphere for the whole Pirelli Group worldwide are now distributed from the sole site in Milan.

New contracts have been signed according to which PSI - Pirelli Sistemi Informativi S.r.l. will provide Data Center services to Prysmian S.p.A. until the end of 2011 and will operate the Telecommunications area until the end of 2009.

PIRELLI TYRE

Activities focused on aspects of the geographical extension of the CRM (Customer Relationship Management) platform, the up-grade of SCM (Supply Chain Management), and the extension of the PVT (Purchasing Value Targeting) program in Purchasing. Work also continued to consolidate the One-supplier initiative and the gradual implementation of industrial systems in factories, the functional extension of the Business Intelligence platform and PLM (Product LifeCycle Management). The new release will be issued in April 2009. On the sell side, the roll-out of the CRM solution for "sales force automation" was completed and the contact center launched at the end of 2007 became operational.

The main aim of the initiative is to improve the efficiency of the sales force in the sphere of planning and making visits to customers, marketing intelligence, the management of campaigns and order entry, and monitoring and directing the various levels of the sales organization (Area/Channel/Sales Managers). With regard to the contact center, new interfaces have been devised so that customer calls can be handled more effectively with the aim of monitoring all the information which is important for the company. The B2B e-commerce website dedicated to dealers and trading was enhanced with a new order entry function to show customers net prices, in an attempt to show greater transparency towards the market. New functions were also added to manage promotions. The new version of the e-CRM system for the management of final customers was released to the markets with a new, more user-friendly interface.

In the area of Business Intelligence, the statistics of the contact centers and the information collected by the new CRM platform were



integrated into the central platform. The first "push" function was activated, making it possible to access data about more than 500 users worldwide with regard to orders, shipments and invoicing, updated in real time at regular intervals throughout the day, on PCs, palmtops or mobile phones. In the sphere of Logistics and the Supply Chain, activities focused on the upgrade of the APO-SCM (Supply Chain Management) platform. In Purchasing, the easy-purchasing platform was activated in Turkey, while integration with the HUB of the RNC (Rubber Network) in the U.S.A. for the Order to Invoice process, the VMI (Vendor Management Inventory) solution in Germany and the technical implementation of the VMOI (Vendor Management Own Inventory) system in Romania and England were extended.

The management solution for the coverage of races (TISV) was activated in several countries and, in the case of the World Rally Championship, worldwide. In the sphere of R&D, work focused on extending and developing the pillars of PLM (Product LifeCycle Management).

For the Mold DB (Mold Technology Management) solution, functional development was completed to simplify the exchange of molds between various production sites. Finally, with regard to the New Omolog Phase (Legal Homologation Management), a module has been completed that will make it possible to share the homologation certificates obtained and EEC Noise Regulation management via Intranet.

PIRELLI REAL ESTATE

The information systems of Pirelli Real Estate included conditions to enhance and increase functional coverage and the efficiency of the business systems of the Services Companies, to support the corporate merger in Germany and the recent organizational revisions. In Germany, in March 2008, the process of standardizing and consolidating the ex-DGAG SAP infrastructures with SAP of the PRE Group was completed in March 2008. Subsequently, in September 2008, the project of merging the IT infrastructures of Baubecon with Group SAP was also completed. For the Pirelli RE Agency, various projects were completed with the aim of using the Internet channel more efficiently as a support for business. The business system was revised in order to provide better support for the integration between Agency and Franchising and the focus of the New Agency on the external market.

INTERNET & NEW MEDIA

In February 2008, the corporate Intranet was given a new Home Page. The new graphics and associated services attracted a greater number of individual visitors. In December 2008, 8,997 people visited the page compared to just over 5,000 in December 2007. The 2008 survey conducted by the rating agency Hallvarsson & Halvarsson ranked Pirelli's institutional website fifth on a national scale.

The Pirelli Internet area for the companies in the Tyre sector saw the roll-out of local websites completed. Constant support was guaranteed for the business events and product launches of Pirelli Tyres and Metzeler (Cinturato, Winter SottoZero, Z6, Scorpion and Diablo), in the form of updating the websites and publishing all the content and multimedia material produced. In July 2008, Italian and German blogs of the biking RidExperience community were placed online.

For the Pirelli Real Estate companies, in September 2008, the blogs of the Pirelli RE Agency Loft community were placed online. Furthermore, the content of the Pirelli RE Agency website was given a new structure in terms of Search Engine Optimization, with the aim of making the website more visible to search engines.

Significant events subsequent to the end of 2008

On January 27, 2009, Brembo, Magneti Marelli and Pirelli announced that they had launched a technological cooperation initiative with the aim of developing hi-tech solutions for the Italian and international automotive industry.

The Cyber Tyre, the intelligent tyre developed by Pirelli, will be integrated with Magneti Marelli's electronic control systems and Brembo's hi-tech braking systems to create special technological solutions which will meet the performance and safety requirements of every kind of user.

The competence and expertise of the three Italian companies is recognized at an international level. By combining their experience, they aim to create important synergies and to develop applications, especially in the field of car safety systems. Another aim of the project is to reduce environmental impact, and develop applications that are in line with international regulations and which reflect the new CO₂ limits established by the EU, scheduled to come into force in 2012.

On February 11, 2009, the Pirelli Group presented the guidelines of its 2009-2011 Industrial Plan.

On March 5, 2009, the Pirelli Real Estate board of directors confirmed the resolutions passed in February authorizing a share capital increase against payment, divisible, to be offered as option rights to the shareholders for a maximum amount of euro 400 million. The transaction is aimed at strengthening the company's equity structure and supporting its new business model. The share capital increase is expected to be completed by the end of the first half of the current year, assuming that it will be approved by the special session of the shareholders' meeting called at the same time as the ordinary session of the shareholders' meeting that, among other things, will resolve on the approval of the financial statements for the year ended December 31, 2008, and that the necessary authorizations will also be obtained from the relevant authorities.

Pirelli & C. S.p.A. has given its full support to the capital increase and has made a commitment to subscribe to its share equal to Euros 226 million. The company has also stated that it will subscribe to any unsubscribed shares that remain at the end of the offer period for a total amount of Euros 174 million. Pirelli & C. S.p.A. will fulfill its obligation by converting to equity a part of the financial receivable due from Pirelli RE, amounting to Euros 491 million at December 31, 2008.

On March 24, 2009, Pirelli and Alcatel-Lucent reached an agreement for the sale to Alcatel-Lucent by Pirelli of its investment in Alcatel-Lucent Submarine Networks, a telecommunications submarine systems company. The deal took place after Pirelli exercised the put option contracted between the two companies in 2004 when the agreement had been sealed with Alcatel for the acquisition of some of Pirelli's activities in submarine systems. The sale, for a total amount of Euros 56 million, will be paid in three tranches by the end of 2009. Pirelli's divestiture is consistent with its strategy of focusing on the core business as announced by the Group upon presentation of the Industrial Plan 2009-2011.

Risks and uncertainties

The current macroeconomic picture features a series of uncertainties that are mainly associated with the volatility of financial markets, the trend of interest rates, the cost of raw materials, the unemployment rate and the growing difficulties in gaining access to credit. This scenario requires the adoption of rigorous business models that make it possible to mitigate the uncertainties generated by the limited predictability of future events that are influenced by outside factors that often cannot be controlled.

Confronted with the state of the market, the Group initiated an important review of its strategies and the preparation of a decisive action plan to ensure maximum efficiency and competitiveness. The main strategic lines, the actions adopted and the correlated financial resources available to implement them were announced at the presentation of the 2009-2011 Industrial Plan to the financial community.

RISKS ASSOCIATED WITH THE BUSINESSES IN WHICH THE GROUP OPERATES

As far as the **Tyre sector** is concerned, profitability in the new Industrial Plan is based on the current scenario in the Tyre sector and the automobile market. A difficult year is again predicted in 2009 in terms of sales volumes, especially tyre sales in the Original Equipment channel, which has been seriously affected by the fall in the sales of new cars since the second half of 2008. The same scenario is forecast for tyre sales in the Industrial segment which is directly affected by the slowdown of the whole economy and, consequently, by the reduced need to transport goods.

The Consumer Replacements market should again report lower rates of contraction in 2009, because of lower sales in the Original Equipment channel, the gradual destocking process on the part of dealers (with the prospects of a good winter season in 2009), but also the fall in the price of diesel and, an associated return, on the part of private car owners, to driving longer distances, thus increasing tyre consumption. An even more negative market than the current scenario could further influence results in the short term, but the efficiencies resulting from restructuring measures, the positive channel mix and the focus on "green" products (the Cinturato P7 and the Snowcontrol II) in the Consumer segment and in the core markets of the Industrial segment, along with the decline in the costs of raw materials should favor a structural upturn in profitability.

As far as the **Real Estate sector** is concerned, the profitability in the new Industrial Plan takes into account the macroeconomic scenario of the real estate market. With particular reference to the Italian real estate market, in 2008, there was a gradual fall of the main indicators: the number of transactions made and the average time required to complete renting, selling and relative loan operations.

Operators on the real estate market predict a difficult year in 2009, with a recovery beginning in the second half of 2010, partly

prompted by political economic decisions taken by governments and central banks.

However, to counterbalance the above, there are some structural, economic and financial aspects of the Italian real estate market which, unlike other European countries, may favor the recovery of the market:

1. as a result of the low growth rate of available new properties in recent years, Italy has not seen the excessive supply that there has been in other countries such as Spain and England;
2. the low level of indebtedness of Italian families compared to other countries, which makes our credit system more solid, should help to sustain the propensity to consume and, hence, sustain rents for commercial operators;
3. the substantial reduction in the cost of money at the end of 2008, with the return of the Euribor to the levels of 2002, will help to sustain the financial costs of real estate investment operations;
4. investment in real estate is perceived as defensive and less risky by nature, especially in periods of financial crisis.

Given this scenario, therefore, prices and values may continue to be very volatile until the market recovers its stability.

This scenario has led management to consider the potential of every single initiative and review the structure of operating costs, comparing it to what was achieved in 2008, in order to calculate the efficiency that can reasonably be achieved during the period of the plan.

FINANCIAL RISKS

As reported in the notes to the consolidated financial statements, the Group is exposed to risks of a financial nature associated mainly with the trend of exchange rates, access to financial resources on the market, the fluctuation of interest rates and the possibility of its customers meeting its obligations with the Group.

Financial risk management is an integral part of the management of the Group's operations and is carried out centrally using guidelines defined by the general management function. Such guidelines define the categories of risk and specify the procedures to be followed and the operating limits for each type of transaction and/or instrument.

Foreign exchange risk

The diverse geographical distribution of the Group's manufacturing and commercial operations generate an exposure to foreign exchange risk. Such risk is managed by the Group Treasury function which coordinates with the corresponding sector functions and gathers information on the positions subject to exchange rate and currency risk and manages the net position for every currency according to established guidelines and pre-set limits.

This is accomplished by negotiating derivative hedging contracts, generally forward contracts aimed at minimizing the effects generated by this type of risk.

Liquidity risk

The main instruments used by the Group to manage the risk of insufficient financial resources available to meet financial and commercial obligations according to pre-established terms and maturities are constituted by one-year and three-year financial plans and treasury plans that would enable the Group to fully and correctly recognize and measure incoming and outgoing monetary flows. Variances between the plans and the actual figures are the subject of constant analysis.

A prudent management of the above liquidity risk relies on maintaining an adequate level of available liquidity and/or short-term securities that can be readily converted into cash, the availability of funding through a sufficient amount of committed credit facilities and/or the ability to close out market positions. Due to the dynamic nature of the businesses in which it operates, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group has put into place a centralized system for the management of collection and payment flows that follows the different local currency and tax laws. The negotiation and management of banking relations is conducted centrally so that short-term and medium-term financial requirements are assured of coverage at the lowest cost possible. Even the funding of medium/long-term resources on the capital market is optimized by using centralized management.

The availability of unused committed credit lines, together with the liquidity in the financial statements at December 31, 2008, means that the Group will not have the need to refinance for the next two years.

Interest rate risk

The Group's policy is to tend to maintain a correct balance between fixed-rate and floating-rate debt.

The Group manages the risk of an increase in floating-rate debt by indirect compensation with floating-rate financial receivables and, on a net basis, using derivative contracts, generally interest rate swaps and interest rate collars, with the aim of protecting itself against an excessive rise in interest rates while maintaining the correct mix as described above.

Price risk associated with financial assets

The Group is exposed to price risk to the extent of the volatility of financial assets such as listed and unlisted equity shares and bonds, listed real estate investment funds and unlisted closed-end real estate investment funds.

Credit risk

The Group's exposure to credit risk is represented by potential losses due to the non-fulfillment of obligations undertaken by commercial and financial counterparts.

In order to limit this risk, with commercial counterparts, the Group has put into place procedures to assess the potential and financial creditworthiness of the customer in order to monitor flows of estimated proceeds and in order to take recovery actions. The aim of these procedures is to establish the customer credit limits which, if exceeded, will activate the rule causing supplies to be blocked.

In some cases, the client is asked to provide guarantees; these will mainly be bank guarantees provided by high-credit standing banks or personal guarantees. Mortgages are requested less frequently.

Another tool used to manage commercial credit risk are insurance policies taken out to avert the risk of non-payment through a meticulous selection of the customer portfolio made together with the insurance company, which undertakes to guarantee compensation in the case of insolvency.

As for financial counterparts, for the management of temporary excess resources or for the negotiation of derivatives, the Group only uses high-credit worthy counterparts.

The Group does not have significant concentrations of credit risk.

RISKS CONNECTED WITH HUMAN RESOURCES

The Group is exposed to the risk of the loss of key resources which could have a negative impact on future results. To meet these risks, the Group adopts an incentive policy which is periodically reviewed also in relation to the general macroeconomic context. Moreover, the effectiveness of any restructuring measures which involve a reduction in the workforce might be limited by legal or union restrictions in the various countries in which the Group operates.

COUNTRY RISK

The Group operates in countries such as Venezuela, Argentina, Brazil, Turkey, China and Egypt, where the political and general economic situation and tax system could prove to be unstable in the future.

RISKS CONNECTED WITH ENVIRONMENT

The activities and products of the Pirelli Group, a multinational group which operates throughout the world, are subject to a number of environmental regulations associated with characteristics that are specific to the different countries.

Such regulations nevertheless share the tendency to evolve in an increasingly restrictive manner, also by virtue of the growing commitment of the international community for environmental

sustainability. A gradual introduction of harsher regulations to safeguard the various environmental aspects can therefore be expected and which could impact corporations (water use, atmospheric emissions, waste generation, ground impact, impact of products on the environment of life, etc.) as a result of which the Pirelli Group expects it will have to continue to invest and/or sustain costs which could be significant.

Outlook for the current year

In a macroeconomic scenario which continues to display critical elements and uncertainties, the Pirelli Group has already begun and will continue to implement the actions necessary to increase its competitive positioning and improve its efficiency.

For 2009, as announced when the 2009-2011 Industrial Plan was presented on February 11, 2009, Pirelli expects to report revenues amounting to about Euros 4.3 billion.

The ratio of the operating profit to sales (ROS) is forecast at 4.5 percent-5 percent. The net financial position at year-end is predicted to be an approximate negative Euros 1 billion, which will basically be in line with the level at year-end 2008.

Pirelli Tyre

The consolidated economic and financial results for 2008 compared to 2007 are as follows:

(in millions of euro)

	12/31/2008	12/31/2007
Net sales	4,100.2	4,161.7
Gross operating profit before restructuring expenses	441.2	548.6
- % on net sales	10.8%	13.2%
Operating profit before restructuring expenses	250.7	358.1
- % on net sales	6.1%	8.6%
Restructuring expenses	(100.0)	-
Operating profit	150.7	358.1
- % on net sales	3.7%	8.6%
Earnings from investments	27.8	1.5
Operating profit including earnings from investments	178.5	359.6
Financial income (expenses)	(82.8)	(55.2)
Income taxes	(70.1)	(93.9)
Income	25.6	210.5
- % on net sales	0.6%	5.1%
Net financial (liquidity)/debt position	1,266.8	559.6
Capital expenditures	285	262
R&D expenses	145	148
Headcount (number at year-end)	28,601	27,224
Factories (number)	23	24

NET SALES

Net sales amount to Euros 4,100 million, with a reduction of 1.5 percent compared to the prior year. Instead, the organic change is a growth in net sales of 1.3 percent, with volumes down (-6 percent) particularly in the last quarter (-19 percent). The price/mix shows a positive change (+7.3 percent), thanks primarily to the contin-

ued focus on higher-end product segments and price increases made to partly compensate the increase in per unit costs. The exchange rate change is negative (-2.8 percent).

The single components of the change in net sales are as follows:

Volumes	-6.0%
Prices/mix	+7.3%
Change on a like-for-like basis	+1.3%
Foreign exchange effect	-2.8%
Total change	-1.5%

In the last quarter, the change in sales is a negative 10.2 percent compared to the corresponding period of 2007, with a negative exchange rate effect of 5.2 percent and an organic reduction of 5 percent (-19 percent in volumes and +14 percent in the price/mix).

The distribution of net sales by geographical area and product category is as follows:

GEOGRAPHICAL AREA

	2008	2007
Italy	9%	10%
Other European countries	36%	38%
North America	7%	8%
Central and South America	33%	28%
Oceania, Africa, Asia	15%	16%
	100%	100%

PRODUCT CATEGORY

	2008	2007
Car tyres	60%	61%
Truck tyres	29%	28%
Motorcycle tyres	9%	8%
Steelcord/other tyres	2%	3%
	100%	100%

Sales continue to grow in South America in response to a positive market trend and an increase in the currency value in the first three quarters while the overall reduction in sales volumes is mainly due to the contraction of markets in Europe and North America.

The composition of sales remains the same in the two business segments: Consumer (68 percent) and Industrial (32 percent).

OPERATING PROFIT

In 2008, operating profit was basically influenced by the following factors:

- a strong and gradual growth of all production cost factors (raw materials, energy, etc). Raw materials, in particular, grew by Euros 195 million compared to 2007 (of which Euros 150 million in the second half);
- a downturn in the second part of the year (in particular, in the fourth quarter) in the Original Equipment market;
- the decision to initiate restructuring actions for a total of Euros 100 million to combat this negative scenario.

Operating profit before restructuring expenses is Euros 250.7 million (6.1 percent of net sales). This is a decrease of 30 percent from Euros 358.1 million in 2007, which represented 8.6 percent of net sales.

The reduction in Operating profit before restructuring expenses, compared to the prior year, can be summarized as follows (in millions of euros):

Operating profit 2007		358.1
Foreign exchange effect	(15.4)	
Prices/mix	263.2	
Volumes	(72.4)	
Production factors per unit cost	(267.5)	
Efficiencies	(4.6)	
Depreciation and other	(10.7)	
Total		(107.4)
Operating profit 2008		250.7

Despite the positive contribution made by the price/mix, the operating profit was sharply impacted by the increase in production costs, in particular, raw materials and energy and by the highly negative market scenario which affected the trend of sales volumes.

Partial excess production capacity was caused by the negative market picture particularly during the last part of the year. As a result, Pirelli Tyre further stepped up its restructuring actions and placed renewed emphasis on efficiency and improvement of the industrial structure. Fixed overheads were also adjusted to reflect the changed market scenario, by activating measures that will benefit future years. This all had a negative impact on results for the year 2008 of Euros 100.0 million, bringing the Operating profit after restructuring expenses to Euros 150.7 million.

The actions are mostly based on reductions of the staff and rationalization of the industrial structures to increase competitiveness in this negative market scenario. The effect will be a 15-percent reduction in the workforce in Western Europe by the end of 2009.

Staff reductions particularly took place in all the major European countries and it was also decided to totally suspend production at the Manresa factory in Spain by the end of 2009 where production had already been reduced by 40% starting from February 2009.

Instead, Pirelli Tyre has kept its R&D expenditures at basically the same level (Euros 145 million compared to Euros 148 million in 2007), maintaining the focus on all activities in progress involving product and process innovation.

NET RESULT

The net result is income of Euros 25.6 million (after financial expenses and earnings from investments equal to Euros 55.0 million and income tax expenses of Euros 70.1 million) compared to Euros 210.5 million in the prior year (after net financial expenses and earnings from investments equal to Euros 53.7 million and income tax expenses of Euros 93.9 million).

During the year, the minority stakes in the holdings in Turkey were purchased for Euros 43.3 million, with a positive impact on earnings from investments of Euros 27.3 million due to the positive difference between the cost of acquisition and the net assets acquired.

NET FINANCIAL POSITION

The net financial position is a net debt position of Euros 1,266.8 million compared to Euros 559.6 million at December 31, 2007.

The increase in the net debt position is mainly due to the following factors:

- Euros 93 million for the payment of dividends;
- Euros 452 million for the consolidation of Speed S.p.A.'s net debt (Euros 409 million) after the merger with Pirelli Tyre S.p.A. at the end of the year, and the purchase of the minority stakes in Turkey in August (Euros 43 million);
- Euros 161 million for cash used for ordinary activities, particularly concentrated in the management of investments/depreciation-amortization (cash used for Euros 106 million) and higher working capital with cash used for Euros 156 million, mainly due to the increase in inventories, recorded primarily in the last quarter, and the abrupt slowdown of the markets, especially in the Original Equipment channel.

FACTORIES

The number of factories fell to 23, highlighting the transfer of the Cinisello Balsamo factory to inside the Bicocca area.

Business Consumer

Revenues of the Consumer line total Euros 2,801 million (-2.1 percent compared to 2007), whereas the Operating Profit from ordinary operations is Euros 139 million, with a ROS of 5 percent, compared to Euros 253 million in 2007, with a ROS of 8.8 percent.

In the **Original Equipment** channel, the marked reduction in demand in the automotive market began in the second half of the year, whereas the first half was positive in terms of production in Europe and very positive in South America and in the emerging markets, although a negative trend had already been posted in the U.S.A.. This reduction of demand was concentrated in the last quarter, forcing vehicle manufacturers to slow down production considerably in order to reduce stock levels, resulting in a lower demand for tyres (in the fourth quarter, the tyre market was -23% in Europe, -26% in North America, -26% in Mercosur, with an annual total of -5% in Europe, -17% in North America and +8% in Mercosur).

In the **Replacement** channel, in the fourth quarter, in the presence of a far from brilliant sell-out demand and a delayed start to the winter in Europe, the general financial situation encouraged dealers to reduce their inventories (market in the fourth quarter, -9% in Europe, -17% in North America and -6% in Mercosur). Over the year as a whole, the trend of the market registered a reduction of 5% in Europe, 9% in North America and growth of 4% in Mercosur.

While these market scenarios generated an overall reduction in volumes of 5.8%, Pirelli Tyre focused on the price/mix change, which was a positive figure of 6.5%, confirming organic growth in sales of 0.7%. The negative exchange rate effect of 2.8% generated an overall change in revenues of -2.1%.

In the auto **Motorsports** segment, in 2008, Pirelli Tyre began to be the exclusive supplier of the prestigious American Grand-Am Rolex Sports Car series and the WRC (World Rally Championship). As far as car racing is concerned, Pirelli made a great contribution to the Grand Am series, which reported improved performances compared to those of the previous supplier. In the international FIA GT championship, Pirelli came second among the teams in the GT2 class (with BMS-Scuderia Italia). The PZero made a name for itself with the Saleen S7-R in Argentina on the new San Luis circuit and excelled in the GT2 class with the Ferrari 430 GTC at the Spa 24 Hours endurance race for the third consecutive year. What's more, Pirelli was the official racing tyre supplier at the Italian, European and American Ferrari Challenge, at the GT Asian SuperCar Challenge, the French FFSA GT Championship and the Italian GT Championship.

As far as rallies are concerned, the WRC was a showcase for the new exclusive products PZero, Scorpion and Sottozero, made according to specifications established by the FIA and the constructors. On all types of terrain, they demonstrated an excellent level of performance, duration, resistance to punctures and level of integrity, attracting only positive comments from all the drivers par-

ticipating in the championship. In other rally competitions, Pirelli also did well in the FIA Asia Pacific Rally Championship with C. Crocker driving a Subaru Impreza, came second overall in the Italian Rally Championship and won first place in the N class with P. Andreucci. Pirelli also won victories in the Austrian Championship with R. Baumschlager, the German DRM Championship with H. Gassner, the Swiss Championship with G. Hotz and the independent drivers Italian Rally Championship with L. Cantamessa. Pirelli was also the control tyre supplier for prestigious championships like the British Rally Championship and the Italian IRC.

The year 2008 saw the start of the selection program for the most promising young drivers in the world (5 teams), who, in 2009, will participate in the Pirelli Star Driver project, the races of which will be held concurrently with those of the WRC in Europe.

In addition to its competitive activities, Pirelli also continued to develop its sales and distribution network in new markets such as the Middle East and China.

In the **Motorcycle** segment, sales increased in 2008, at a higher rate than the market.

In the Replacements channel, sales increased most significantly in the Americas and in Europe.

The sales trend in the Original Equipment channel was positive, especially in South America.

Pirelli was awarded important homologations in 2008: for the Aprilia RSV4 1000 Factory fitted with the Diablo Supercorsa SP and the Dorsoduro 750 fitted with the Diablo Corsa III; for the BMW F800GS fitted with the Scorpion Trail; for the Buell Polysses fitted with the Scorpion Sync; for the Ducati 1198 B and S fitted with the Diablo Supercorsa SP and the Street Fighter B and S fitted with the Diablo Corsa III; for the KTM RC8 R fitted with the Diablo Supercorsa SP; for the MV Agusta F4 1078RR fitted with the Diablo Supercorsa SP; for the Triumph New Daytona 675 fitted with the Diablo Supercorsa SP; and for the Piaggio MP3 250 three-wheeler fitted with the GTS 23/ GTS24.

The Metzeler brand was also awarded important homologations: for the BMW F800 R fitted with the Sportec M3 and the K1300 GT fitted with the Roadtec Z6; for the Moto Guzzi Breva 850/1100, the Norge 1200 fitted with the Z6 Interact and the Stelvio 1200 Adventure fitted with the Tourance; for the Triumph New Bonneville fitted with the ME Z4/ME Z2; and for the Yamaha WR250F and the WR450F fitted with the 6 Days Extreme.

Pirelli's decision to participate in the world of competitive racing has led to some important results, for example the important press acclaim received as a result of its participation in the 2008 World Superbike Championship. This year, Pirelli became the sole supplier of another important championship, the British Superbike Championship. In off-road racing, Pirelli came first in all three classes of the 2008 World Motocross Championship, a result it has achieved five times since 1980, a total of 51 world titles. Under the Metzeler brand, it won two classes of the 2008 World Enduro Championship.

Pirelli's presence in Road Racing and off-road racing in championships at all levels is the ideal platform for developing new technical solutions and establishing its technological leadership.

Business industrial

In the Industrial market, net sales amount to Euros 1,299 million, in line with 2007 (Euros 1,300 million), whereas the operating profit from ordinary operations reached Euros 112 million, with a ROS of 8.6%, compared to Euros 106 million in 2007, when ROS was 8.1%.

Despite the fact that, in the industrial market too, the scenario was negative, especially in the last part of the year, Pirelli Tyre's positive strategic positioning with 87% of overall production in the Low Cost area and 75% of sales in emerging markets favored the achievement of positive results.

The Industrial segment is generally the most cyclical segment of all, since it is directly affected by the general trend of the whole economy and by certain sectors, such as public works, large-scale construction sites, etc.. As a result, the general sustained contraction of volumes in the industrial segment in the last quarter (Original Equipment in Europe -13%, Mercosur -9%, Replacements in Europe -27%, Mercosur -17%, China overall -23%) is a result directly connected with the general slowdown of the economy and the reduced need for the industrial transport of goods.

In 2008 as a whole, the European market fell by 1% in the Original Equipment segment and by 12% in the Replacements segment, whereas Mercosur reported a positive sales trend of 18% in Original Equipment and 7% in the Replacements segment.

Overall, sales volumes of Pirelli Tyre were 6.6% less than in the prior year, with a positive price/mix variation of 9.1%, bringing overall organic growth to a positive figure of 2.6%. The negative exchange rate effect of 2.7% does not seem to have affected sales to any great degree.

Capital Expenditures

Net capital expenditures amount to Euros 285 million (Euros 262 million in 2007) and, in keeping with Group strategy and market demand, were used to develop innovative processes, increase production in China and Romania and to develop new "green performance" products.

In the sphere of workers' health and safety and the environmental management of our factories, capital expenditures almost doubled compared to the prior year.

- *Cars*: to meet market demand, it was decided to augment top range tyre production in Europe and to consolidate the actions to delocalize production to geographical areas with low costs, focusing in particular on China, Romania and Brazil. In addition, in Turkey, a new production unit for Motorsports tyres was opened.

At the Settimo Torinese factory, work began on the construction of the new industrial technological hub.

- *Truck - All Steel*: actions aimed at delocalization proceeded with the increase of production in the low-cost areas of China

and Turkey and the start-up of projects in Brazil and Egypt. In line with Group strategy, measures were implemented to improve product technology and quality.

In the field of innovative processes, installation of machinery for producing products with the innovative SATT (Spiral Advanced Technology for Truck) technology derived from Pirelli's MIRS technology continued.

- *Motorcycles*: in line with Group strategy and market demand, new products were developed and presented and activities began to increase production capacity in Brazil.
- *Steel Cord*: the plan to increase production of brass-coated steel wire in Brazil and activities to develop prototypes for new products and materials in Italy are nearing completion.



San Paolo, Brazil – Industrial vehicle tyres factory

Headcount

At December 31, 2008, there are 28,601 employees, including 2,392 with temporary contracts and 247 temp workers.

The increase compared to December 31, 2007 is concentrated in Brazil, China and Romania, where investments have been made to increment operations.

Outlook for the current year

In keeping with the Industrial Plan presented on February 11, 2009, the year 2009 is expected to be a difficult year for the market, both in the Industrial segment (Original Equipment -35% in mature markets, -15% in emerging markets, Replacements -10% in mature markets and -5% in emerging markets) and in the Consumer segment (Original Equipment -20% in mature markets, -15% in emerging markets, Replacements -3% in mature markets and in line with the prior year in emerging markets), where the Replacements market should report a less negative trend on account of the gradual market destocking, the fall in the price of diesel and the forecast of a good winter season.

If the above market forecasts are correct, the efficiency resulting from restructuring measures, the positive channel mix and concentration on green products (Cinturato P7 and Snowcontrol II) in the Consumer and core markets of the Industrial segments, and the reduced costs of raw materials should result in slightly better profitability than in 2008, with a more difficult start in the first half of the year (particularly the first quarter) and a recovery in the second half of the year.

Pirelli & C. Real Estate

The consolidated economic and financial results are presented in the following table:

(in millions of euro)

	2008	2007 net of DGAG's temporary consolidation ³	2007
Pro-rata aggregate revenues ¹	775.6	949.0	1,043.7
Consolidated revenues ¹	365.1	334.1	428.8
Operating profit (loss) before restructuring expenses property writedowns/revaluations	(17.7)	12.0	33.4
Earnings (losses) from investments before property writedowns/revaluations	(42.0)	71.6	71.6
Operating profit (loss) including earnings (losses) from investments before restructuring expenses and property writedowns/revaluations	(59.7)	83.6	105.0
Restructuring expenses	(44.2)	-	-
Property writedowns/revaluations ²	(135.8)	67.5	67.5
Operating profit including earnings from investments	(239.7)	151.1	172.5
Income (loss) from continuing operations	(267.6)	119.9	111.4
Discontinued operations	74.6	49.5	49.5
Income (loss)	(193.0)	169.4	160.9
Minority interest	(2.0)	(6.7)	(9.7)
Income (loss) attributable to the equity holders of the company	(195.0)	162.7	151.2
Equity	366.4		720.1
<i>of which attributable to the equity holders of the company</i>	<i>361.7</i>		<i>715.7</i>
Net financial (liquidity)/debt position	289.5		289.7
Shareholder loans	572.3		526.4
Net financial (liquidity)/debt position before shareholder loans	861.8		816.1
Gearing ratio *	2.35		1.13

¹ Pro-rata aggregate revenues express the total business volumes of the Group, calculated as the sum of consolidated revenues and the share of the revenues of the associates, joint ventures and funds in which the Group has holdings.

² Of which Euros -9.3 million is included in the operating profit (loss). Adding that amount to the Operating profit (loss) before restructuring expenses and property writedowns/revaluations (-Euros 17.7 million), gives the Operating loss (-Euros 27 million).

³ The DGAG Group, purchased at the beginning of 2007, was consolidated line-by-line until control ceased following its partial sale to third-party counterparts gradually over the course of the year.

* The gearing ratio corresponds to the ratio between the net financial position excluding shareholder loans and equity.

Pirelli Real Estate's mission is to be the real estate sector's front runner through innovation, sustainable quality and continuing development of its capabilities, creating value for the company, the environment and the community.

The strategic objectives of this mission can be summarized as follows:

- to innovate real estate products and services through a quality response that meets the needs of end users and investors and the general public;
- to become a hub aggregating the management of real estate assets through its specialist know-how and expertise;
- to create a higher culture by contributing to the structural evolution of the real estate sector.

Operating in Italy, Germany and Poland, Pirelli Real Estate is one of the most important players in the European real estate sector. The company has been listed on the Milan Stock Exchange since 2002.

Pirelli Real Estate is a real estate fund & asset management company which buys, increases in value and manages real estate assets with a high-quality profile, through partnerships with leading international investors, in which it holds minority stakes.

The organization structure is based on geographical areas (Italy, Germany and Poland) and business units specialized by type of product. The company is able to combine knowledge of the geographical markets with specialist know-how in the different segments.

Over the course of the years, Pirelli Real Estate has developed a tried and proven business model with a team of professionals to serve investors and users of commercial and residential properties, actively managing the real estate portfolios and co-investing together with leading institutional investors.

Pirelli Real Estate has recently revised and improved the components of this model in order to meet the challenges of the changed market scenario through the following:

- streamlined and efficient organization, which relies on the sound operating experience of a high-profile management team and on the absorption of its costs with recurring revenues and less frequent portfolio turnover;
- focus on the management of the assets in portfolio with the aim of maximizing their value;
- as for Italy, the integration of asset management and specialist services (agency and property) functional to increasing the portfolio value in Pirelli RE SGR.

As far as real estate properties are concerned, the market was penalized by a year of serious international crisis. Price reductions, slowdowns in concluding transactions and difficulties in accessing credit hurt all the companies in the sector. In order to contrast the changed scenario, at the end of the prior year Pirelli RE announced a cost-cutting and reorganization plan focusing on the two macro-territorial areas of Italy and Germany/Poland, which are less exposed to the volatility of the real estate market. The plan aims to relaunch activities and capitalize on the quality of the assets in portfolio.

Assets under management have a market value of Euros 17.3 billion at the end of 2008, composed of Euros 15.4 billion of properties (Euros 12.6 billion at December 31, 2007) and Euros 1.9 billion of non-performing loans (NPL) (Euros 2.4 billion at December 31, 2007).

Total rents equal Euros 669.2 million (Euros 535.8 million in 2007), of which Pirelli RE's pro-rata share is Euros 164.9 million compared to Euros 158.3 million in 2007.

Sales of properties in 2008 total Euros 864.9 million (Euros 1,804.9 million in 2007), of which Pirelli RE's pro-rata share is equal to Euros 361.8 million (Euros 526.8 million in 2007). The sales margin is 19 percent (in 2007, it was 22 percent).

Economic review

Consolidated revenues amount to Euros 365.1 million, compared to Euros 334.1 million at December 31, 2007 (net of sales of DGAG properties at cost through the disposal of shares to the joint ventures with RREEF and MSREF for Euros 1,295.6 million).

Operating profit (loss) (EBIT) including earnings (losses) from investments before restructuring expenses and property writedowns is a loss of Euros 59.7 million compared to a profit of Euros 83.6 million in 2007 (net of DGAG). The decrease of Euros 143.3 million is due lower operating profit (mainly in reference to services) for Euros 29.7 million and lower earnings from investments for Euros 113.6 million (principally attributable to lower sales volumes for Euros 74 million, lower fees from capital activities for Euros 21.6 million and the negative impact generated by fair value adjustments on interest rate hedging instruments for about Euros 18 million).

Restructuring expenses incurred in 2008 total Euros 44.2 million; the writedowns taken in 2008 are equal to Euros 135.8 million compared to revaluations of Euros 67.5 million recorded in 2007. The **operating profit (loss) (EBIT) including earnings (losses) from investments** is a loss of Euros 239.7 million (compared to a profit of Euros 151.1 million in 2007, net of DGAG).

The **loss from continuing operations** is Euros 267.6 million (a profit of Euros 119.9 million in 2007 net of DGAG). In 2008, discontinued operations resulted in income of Euros 74.6 million (of which Euros 71.4 million refers to the gain realized on the sale of the 51 percent interest in Integrated Facility Management) and in 2007 income of Euros 49.5 million (of which Euros 41.4 million refers to the gain on the sale of a 49 percent stake in the same company).

Loss attributable to the equity holders of the company is Euros 195 million (income of Euros 162.8 million in 2007, net of DGAG), including Euros 74.6 million generated by discontinued operations in connection with the sale of the investment in Integrated Facility Management.



Milan Bicocca, Italy - Pirelli RE Headquarters

Balance sheet and financial review

The **NAV** of the real estate assets attributable to Pirelli RE amounts to about Euros 0.8 billion. It is the net amount of Pirelli RE's pro-rata share of the market value of the assets held by Pirelli RE (about Euros 3.8 billion) and the pro-rata share of the net financial position of the same assets (Euros 3 billion).

Equity attributable to the equity holders of the company at December 31, 2008 is Euros 361.7 million compared to Euros 715.7 million at the end of 2007. The reduction is basically due to the net effect of the loss for the year (-Euros 195.0 million), the payment of dividends (-Euros 85.1 million) and the change during the year in the reserve for interest rate hedges (-Euros 54.4 million).

The **net financial position** shows a net debt position of Euros 289.5 million at December 31, 2008, with an improvement of Euros 34.3 million compared to September 30, 2008 and in line with Euros 289.7 million at the end of 2007.

The **adjusted net financial position** (excluding shareholder loans made to minority-owned companies) is a net debt position of Euros 861.8 million, an improvement over Euros 934.5 million compared to September 30, 2008 and a deterioration compared to December 31, 2007 (Euros 816.1 million).

The **gearing ratio** went from 1.52 at September 30, 2008 to 2.35 at December 31, 2008 (1.13 at December 31, 2007).

The **total net financial position of the real estate investment funds and companies** in which Pirelli RE has holdings at December 31, 2008 amounts to Euros 11.3 billion, of which Euros 10.1 billion refers to bank debt and Euros 1.2 billion to shareholder loans. The total net financial position of NPLs amounts to Euros 1.7 billion.

Pirelli RE's share of the net financial position of real estate investment funds and vehicles amounts to Euros 3.6 billion (of which Euros 0.4 billion is for shareholder loans to real estate activities and Euros 0.2 billion for shareholder loans to NPLs). Bank debt of Euros 3 billion is divided between Euros 2.6 billion invested in real estate and Euros 0.4 billion in NPLs. Such debt, which has an average residual life of about 3.6 years, is secured by properties and NPLs underlying the loans.

Performance by division in 2008

During the course of 2008, Pirelli RE adopted a **new structure according to geographical area**.

ITALY

Real estate **sales** in 2008 are Euros 570.5 million compared to Euros 1,730.4 million in the prior year. In Italy, the sales margin is 18 percent (in 2007, it was 22 percent). Total **rents** amount to Euros 336.9 million (Euros 371.9 million in 2007).

Operating profit (loss) (EBIT) including earnings (losses) from investments before restructuring expenses and property writedowns/revaluations in 2008 is a loss of Euros 19.2 million compared to a profit of Euros 77.9 million in 2007. The reduction of Euros 97.1 million is attributable to a reduction of Euros 75 million in earnings from capital activities and a decrease of Euros 22.1 million in earnings from management activities, especially reflecting the sharp decline in the agency business.

GERMANY

Real estate **sales** in 2008 are Euros 184.5 million compared to Euros 43.4 million in the prior year. In Germany, the sales margin is 16 percent (in 2007, it was 13 percent). Total **rents** amount to Euros 331.9 million (Euros 163 million in 2007).

Operating profit (loss) (EBIT) including earnings (losses) from investments before restructuring expenses and property writedowns/revaluations in 2008 is a loss of Euros 35.3 million compared to a profit of Euros 5.6 million in 2007. The change during the year is -Euros 40.9 million and is composed of -Euros 26.2 million from management activities (which last year, among others, included Euros 11.2 million of gains from the sale of investments) and -Euros 14.7 million from capital activities.

POLAND

Real estate **sales** in 2008 are Euros 109.9 million compared to Euros 31.1 million in the prior year. In Poland, the sales margin is 31 percent (in 2007, it was 33 percent).

Operating profit (loss) (EBIT) including earnings (losses) from investments before restructuring expenses and property writedowns/revaluations in 2008 is a profit of Euros 18.2 million compared to a profit of Euros 6.8 million in 2007. The increase during the year totaling Euros 11.4 million includes a negative change of Euros 1 million (in addition to Euros 2 million of costs relating to Romania and Bulgaria which have now ceased operations) from management activities and a positive change of Euros 14.4 million from capital activities. The improvement is due to the sale of part of the real estate portfolio in Warsaw.

NON-PERFORMING LOANS

Collections on non-performing loans are Euros 514.2 million in 2008 compared to Euros 541 million in the prior year.

Operating profit (loss) (EBIT) including earnings (losses) from investments in 2008 is a profit of Euros 10.1 million compared to a profit of Euros 23.4 million in 2007.

The reduction of -Euros 13.3 million is due to the negative change of Euros 4.9 million from management activities and the negative difference of Euros 8.4 million from capital activities.

Outlook for the current year

In 2009, a further improvement in revenues from rents and asset sales is forecast for about Euros 1 billion; Pirelli RE will benefit for its share of that amount.

The company will focus on a turnaround for 2009, unless other adverse changes occur in the reference market. The target is an operating profit (EBIT), including earnings (losses) from investments which is in line with the Three-year Plan thanks to actions taken to reduce costs, the sale of part of the non-performing loan portfolios and the start of a strategic partnership for the SGR.

Proposed share capital increase

On March 5, 2009, the board of directors confirmed the resolutions passed in February and approved the operation to strengthen the equity structure of Pirelli Real Estate and to sustain the new business model by proposing a share capital increase against payment, divisible, to be offered as option rights to the shareholders for a maximum amount of Euros 400 million.

It is probable that the share capital increase will be completed by the end of the first half of the current year, under the assumption that it will be approved by the special session of the shareholders' meeting, called at the same time as the ordinary session of the shareholders' meeting that among other things will resolve on the approval of the financial statements for the year ended December 31, 2008, and that the necessary authorizations will also be obtained from the relevant authorities.

On February 10, 2009 the Parent, Pirelli & C. S.p.A., gave its full support to the capital increase and made a commitment to subscribe to its share and stated that it will subscribe to any unsubscribed shares that remain at the end of the offer period. Pirelli & C. S.p.A. will fulfill its obligation by converting to equity a part of the financial receivable due from Pirelli Real Estate.

Pirelli

Broadband Access

The highlights for the year ended December 31, 2008 can be summarized as follows:

(in millions of euro)

	12/31/2008	12/31/2007
Net sales	124.6	112.5
Gross operating profit	4.8	1.9
Operating profit	3.9	0.9
Earnings (losses) from investments	-	-
Operating profit incl. earnings from investments	3.9	0.9
Financial income (expenses)	(2.6)	(3.5)
Income taxes	0.7	-
Income (loss)	2.0	(2.6)
Net financial (liquidity)/debt position	(15.0)	21.5
Headcount (number at year-end)	113	94

NET SALES

Net sales in 2008 amount to Euros 124.6 million, an increase of 10.8 percent compared to Euros 112.5 million in 2007. The total change from 2007 is due to a better product mix in broadband access and IPTV and the growth in volumes which offset the erosion of prices recorded in both markets.

OPERATING PROFIT

Operating profit is Euros 3.9 million compared basically to a breakeven in 2007. The change is due for the most part to the growth of revenues and the relative margins.

NET RESULT

The net result is income of Euros 2.0 million after financial expenses of Euros 2.6 million, compared to a loss of Euros 2.6 million in the prior year.

NET FINANCIAL POSITION

The net financial position is a net liquidity position of Euros 15.0 million compared to a net debt position of Euros 21.5 million in 2007. The improvement reflects the transfer of the investment held in Alcatel Submarine Networks S.A. for Euros 44.8 million to Pirelli & C. S.p.A.

HEADCOUNT

At December 31, 2008, there are 113 employees, an increase of 19 compared to December 31, 2007, concentrated in the R&D and Commercial functions.

Broadband Access

The world broadband market continues to grow, despite the fact that the economic slowdown reduced the growth rate of ADSL in the mature markets. This was compensated by growth in the emerging markets and the gradual process of replacing ADSL with new-generation networks. The IPTV market confirms its growth trend and was only slightly affected by the unfavorable economic situation.

In 2008, activity development continued, both in terms of the product range and the acquisition of new markets and customers, in the main CPE lines. These include Residential Access Gateways, Small Business Access Gateways, Set-top Boxes for IPTV and auxiliary equipment such as Extenders (devices for distributing IPTV in the home), PMPs (Pirelli Management Platforms, that is, software systems for remote management of CPEs) and Terminals (dual-mode phones).

In the line of **Residential Access Gateways**, the new IAD ADSL2+ (Integrated Access Devices with integrated VoIP termination) was introduced and successfully launched with Italian operators such as Telecom Italia and Fastweb, and foreign operators like Alice France.

A variation of the product, based on VDSL2 technology, was qualified for Telecom Italia and, together with the GPON - ONT (Gigabit Passive Optical Network - Optical Network Terminal) termination - also pre-qualified for Telecom Italia - will direct the latest NGN (Next Generation Networks) access projects which will be able to increase connection speeds to 100 Mbps, thanks to fiber optics transmission coming closer to the user. The ADSL2+ access gateway lines of medium-low range (Wi-Fi and Combo Routers) have successfully directed entry opportunities towards emerging operators, who initially favored low-cost solutions (Teo Telecom,

Telecom Argentina, Wind and Tele2). In 2008, solutions for fixed-mobile convergence and mobile connectivity were established that are scheduled to be structurally expanded in 2009.

As far as the new **Small Business Gateways** line is concerned, development was completed of the IAD ADSL2+ product for users with up to 4 voice channels, for which the IP-PBX (Internet Protocol - Private Branch Exchange) software functionality was also introduced. The product can be used to replace conventional office switchboards at a very low cost.

For the **Set-top Box** (STB) line, cooperation with Alcatel-Lucent was consolidated through the certification of Pirelli Set-top Boxes in the Alcatel-Lucent end-to-end solution. This has resulted in the Pirelli products being selected for customers such as Arcor in Germany and CYTA in Cyprus, and means that the company can offer its services for pre-qualification to potential customers such as the Telefónica Group.

The increase in the number of customers using Telecom Italia's Alice Home TV service also boosted the volume of demand for the relative hybrid IPTV model with digital terrestrial TV, creating the basis for an important reference in the market.

The **Extenders** line brought the DEX-W50N product to maturity. It is based on Wi-Fi technology that has been optimized to transport IPTV video content. The product was positively assessed by pre-qualification tests in the laboratory conducted by various European operators and was selected by Telecom Italia for its IPTV service.

PMP, that is, the software for the remote management of CPEs, reached a level of stability and maturity with its current customers (Slovak Telekom and On Telecom). Thanks to this fact, it has acquired increasing consideration from a series of potential "Tier2" customers, in conjunction with the sale of Pirelli CPEs, and numerous evaluation campaigns have been launched. In addition to the product being further exploited as a software platform for value-added and B2C services, it has been given the additional function of a Web portal, to enable direct interaction between Pirelli and its customers.

The **Terminals** line maintained its positioning on the new-generation dual-mode (GPRS and Wi-Fi) telephone based on Windows Mobile 6.1 technology, seen as a product that will lead to many new applications and services.

Outlook for the current year

The current year sees company operations concentrated on three main lines of product development: 1) completion of the range for all core product lines and technological renewal of the chipset platforms; 2) expansion of the portfolio in the mobile connectivity (mobile routers, data cards and femtocells) and Small Business (the new IAD platform designed to serve Small Business users with up to 8 voice channels and users connected through SHDSL tech-

nology) lines; 3) Innovation with the aim of creating new chains of value through Epicentro™, a new open, modular, expandable architecture for Pirelli CPE software.

From the standpoint of geographical positioning, as well as broadening the company's presence in Europe, more investments are being made to increase growth in emerging markets, with a special focus on the South American market.

By following these lines of development, the company intends to boost its credibility and competitiveness as a supplier in terms of its range of solutions and its capacity to customize and deliver them in complex projects. In so doing, it hopes to create the conditions whereby it can hold on to its traditional customers, sustain growth based on new customers acquired over the last three years, and develop new markets in geographical areas with a high growth rate.

Milan Biocca, Italy - Pirelli Broadband Solutions



Other Businesses

This section of the report discusses the businesses of the companies Pirelli & C. Eco Technology (sustainable mobility), Pirelli & C. Ambiente (environment) and Pzero (fashion).

With regard to the first two businesses, these are companies in which a 51% stake is held by Pirelli & C. S.p.A. and a 49 percent stake by Cam Partecipazioni S.p.A., a company in the Camfin Group, and in relation to which in February 2009, Pirelli & C. S.p.A. and Cam Partecipazioni S.p.A. renewed a shareholders' agreement so as to regulate their relationships as shareholders of the above companies operating in the environment and sustainable mobility businesses.

This agreement gives a purchase option to Pirelli & C. S.p.A. and a sales option to Cam Partecipazione S.p.A. in the event either of the two parties, at the June 30, 2012 expiration date, and every three years thereafter, does not renew the shareholders' agreement.

In the event the purchase option or sales option is exercised, the price will be decided on the basis of the discounted cash flow method and provides, for any corrective function, the application of the market multiples of comparable companies.

There is also a sales option in favor of Cam Partecipazioni S.p.A. in the event of disagreement on relevant issues.

Pirelli & C. Eco Technology

Sales amount to Euros 62.9 million (Euros 67.4 million in 2007) and are again concentrated mainly in activities associated with GecamTM.

The operating result was a loss of Euros 11.8 million, compared to a loss of Euros 3.8 million in 2007.

The higher loss can be attributed essentially to the increase in structural costs needed to develop the international side of the retrofit filter business and for the final phase of the costs incurred for the

start-up of the factory in Romania that produces particulate filters. In 2008, activities related to the development, fine-tuning and marketing of particulate filter systems for diesel engines was further intensified. Overall, 1,318 retrofit filter systems were sold, compared to 497 in the prior year, for a total of Euros 5.7 million (Euros 2.6 million in 2007).

In Italy, in February 2008, the Filter Decree was approved. The filter systems were homologated at the beginning of the second half of the year and the Lombardy Region made available a regional grant of Euros 10 million for the purchase of about 4,000 systems. Selling started in England and Holland (a total of 545 systems) while homologation tests were started for the markets in Spain, Portugal, Germany and China.

2008 saw the completion and start-up of the silicon carbide filter factory in Romania, at Bumbesti-Jiu, in Gorj county.

As far as GecamTM is concerned, in a fiercely competitive market, sales volumes in Italy fell from 80 million liters in 2007 to 56 million liters in 2008, a reduction of about 30%. Half of that reduction was due to the loss of the customer ATM, whereas, in France, volumes totaled 24 million liters, a decrease of 4%.



Beijing, China - Pirelli Eco Technology particulate filters

Pirelli & C. Ambiente

The business operates in the environmental field, in three specific sectors: the production of photovoltaic electric energy, environmental reclamation and the production of high-quality fuel from municipal solid waste.

In 2008, sales amount to Euros 5.1 million (compared to Euros 2.7 million in 2007) with an operating loss of Euros 2.6 million (compared to Euros 3.6 million in 2007).

In the photovoltaic sector, activities were conducted through the company Solar Utility S.p.A., a 50-50 joint venture with Global Cleantech Capital. Development work continued, and various sites were identified as being suitable for investments in photovoltaic systems.

In order to maximize the return from these investments, efforts were focused in the regions of Apulia, Calabria and Sicily, which offer such systems higher productivity because they have more hours of sunlight.

The volume of the initiatives currently in progress and at the development stage is for systems with overall power of about 50 MW, of which 3.1 MW completed and 9 MW in the process of realization in 2009.

Activities relating to environmental reclamation involve the complete management of problems of an environmental nature, with particular reference to the companies of the Pirelli Group and their affiliates. However, the company also conducts activities for external customers, especially in the field of environmental due diligence and energy certification for buildings.

In 2008, the activity of producing high-quality fuel (CDR-Q) was conducted through the associate company I.D.E.A. Granda S.Cons.r.l, which produced about 19,000 tons of fuel from waste. Furthermore, during the year, a new company, A.PI.C.E. S.p.A., was formed, a 50-50 joint venture with ACEA S.p.A. (an important Italian operator in the field of energy) with the aim of promoting and developing projects to produce CDR-Q (high-quality fuel made from waste), to be used in thermal power plants and cement factories in some regions of Italy.

PZero

Started at the end of 2007, this activity is the natural development of a licensing and brand extension project conceived in the first years of the new millennium with the aim of building Brand Equity from the Pirelli trademark. In synergy with Pirelli's communication activities, PZero, through its own activities, makes it possible to create value around the trademarks of the Group, thanks partly to the large-scale advertising campaigns on Italian and international media, the high acclaim from the Press, and numerous activities and special projects such as Sci Winter Sottozero.

2008 was dominated by the global economic crisis which had a considerable impact on consumption in the clothing and fashion accessories sector, thus further accentuating a trend that had affected the sector for a number of years.

Despite a considerable fall in demand, PZero, which specializes in articles in the medium-high price range, began a process of developing the distribution of footwear and accessories, mainly in Italy to begin with, but with the aim of expanding the business abroad, achieving sales amounting to about Euros 5 million.

In addition to the markets already covered through agency or distribution agreements at the end of 2007 (Spain, Benelux, Switzerland and Canada), in 2008 new agency contracts were signed to cover Russia and Eastern Europe, Germany and the countries of Scandinavia, and, towards the end of the year, to cover France, the U.K., Portugal, Cyprus, the Middle East and Hong Kong.

During 2008, numerous research and development activities were initiated for PZero products with a high innovative and technological content. In particular, the research aims to identify new materials, technologies or functions with special performance that can be rapidly introduced to items of clothing and footwear. What's more, in the medium term, there are plans to identify innovative technologies that can be introduced to the production processes. All the PZero R&D work is supported by Pirelli Labs and is protected by an effective system of patents.

Pirelli & C. S.p.A.

Summary of selected data

Balance sheet and financial position

(in millions of euro)

	12/31/2008	12/31/2007
Property, plant and equipment	93.2	97.2
Intangible assets	1.5	1.4
Financial assets:		
- Group	1,041.1	718.6
- Associates and others	419.9	540.5
Net working capital	(16.1)	(68.8)
Total	1,539.6	1,288.9
Equity	1,685.6	2,076.0
Provisions	59.4	59.2
Net financial (liquidity)/debt position	(205.4)	(846.3)
Total	1,539.6	1,288.9

The above presents the balance sheet and financial position of the company. The most significant changes during 2008 refer to the following:

— **financial assets** record a net increase of Euros 201.9 million compared to the prior year (Group: net increase of Euros 322.5 million, associates and others: net decrease of Euros 120.6 million). In detail:

GROUP (in millions of euro)

Investments	
Pirelli & C. Real Estate S.p.A.	22.1
Pirelli Finance (Luxembourg) S.A.	60.0
PGT Photonics S.p.A.	24.9
Pirelli & C. Eco Technology S.p.A.	8.2
Speed S.p.A.	434.4
Other companies	7.5
	557.1

Divestitures	
PGT Photonics S.p.A.	(32.0)
Other companies	(0.2)
	(32.2)

Impairment losses	
Pirelli Finance (Luxembourg) S.A.	(167.1)
Pirelli UK Ltd	(31.8)
PZero S.r.l.	(4.0)
Other companies	(0.3)
	(203.2)

Reclassifications	0.8
Total	322.5

ASSOCIATES AND OTHERS (in millions of euro)

Investments	
Alcatel Lucent Submarine Networks Sas	44.8
CyOptics Inc.	38.2
Alitalia S.p.A.	20.0
RCS Mediagroup S.p.A.	4.0
F.C. Internazionale Milano S.p.A.	1.6
Others	0.8
	109.4

Divestitures	
Intek S.p.A.	(4.0)
Others	(0.1)
	(4.1)

Impairment losses	
RCS Mediagroup S.p.A.	(65.7)
Telecom Italia S.p.A.	(46.1)
CyOptics Inc.	(8.7)
	(120.5)

Reclassifications	(0.8)
Changes in fair value recognized in equity	(104.6)
Total	(120.6)

At December 31, 2008, the investment in RCS Mediagroup S.p.A. was reclassified from “Other financial assets” to “Investments in associates”. The investment in RCS Mediagroup S.p.A. (equal to 5.3 percent of voting capital) forms part of the shareholders’ agreement which aims to ensure the stability of the shareholder base and guide the management of the operations of the RCS Group in a single direction (the companies in the shareholders’ agreement have contributed 63.5 percent of share capital).

The reason for the reclassification lies in the fundamental strengthening of the single orientation within the shareholders' agreement and the intensification of other forms of exercising the rights of governance.

At December 31, 2008, the investment was tested for impairment and was adjusted to its value in use of Euros 1.70 per share, with a resulting writedown recognized in the income statement equal to Euros 65.7 million. The value in use was determined, with the assistance of an independent expert, using a discounted cash flow model which takes into account the generalized decline in the profitability of the sector within the context of the negative trend of the financial markets.

At December 31, 2008, Pirelli & C. S.p.A. holds, directly or indirectly through its subsidiary, Pirelli Finance (Luxembourg) S.A., 177,113,185 Telecom Italia S.p.A. ordinary shares equal to 1.32 percent of voting stock. The book value is Euros 1.1492 per share (market value at December 31, 2008) for a total of Euros 203.5 million. An impairment loss of Euros 173 million was recognized during the year.

Pirelli & C. S.p.A. holds directly 24,046,432 Pirelli & C. Real Estate S.p.A. shares equal to 56.45 percent of share capital. The book value is equal to Euros 4.08 per share for a total of Euros 98 million. The amount of Euros 104.6 million relating to the line item "Fair value change with an offsetting entry to equity" is due almost exclusively (Euros 102 million) to the measurement of Mediobanca S.p.A. shares;

- **equity** decreased by Euros 390.4 million compared to December 31, 2007. The main changes in equity are presented in the following table:

CHANGES IN EQUITY (in millions of euro)

Equity at December 31, 2007	2,076.0
Dividends distributed	(93.2)
Effect of purchase of treasury shares	(3.3)
Gains (losses) recognized directly in equity	(104.6)
Loss for the year	(189.5)
Other changes	0.2
Equity at December 31, 2008	1,685.6

The composition of equity is the following:

COMPOSITION OF EQUITY (in millions of euro)

	12/31/2008	12/31/2007
Share capital	1,554.3	1,555.9
Share premium reserve	416.5	418.2
Legal reserve	94.3	89.2
Other reserves	24.1	22.5
IAS reserve	(215.1)	(110.5)
Retained earnings	1.0	-
Income (loss) for the year	(189.5)	100.7
Total	1,685.6	2,076.0

The movement in the IAS reserve equity of Euros 104.6 million refers to the fair value measurement of investments with an offsetting entry to equity and is due almost exclusively to the valuation of Mediobanca S.p.A. shares (Euros 102 million);

- the net financial position at December 31, 2008 is a **net liquidity position** of Euros 205.4 million (Euros 846.3 million at December 31, 2007). The changes are analyzed in the following table:

NET LIQUIDITY POSITION (in millions of euro)

Net liquidity position at 12/31/2007	846.3
Financial investments	(641.0)
Financial divestitures	5.6
Dividends received	147.8
Dividends paid	(93.2)
Change in net working capital	(52.7)
Net financial income	30.5
Other changes	(37.9)
Net liquidity position at 12/31/2008	205.4

Income statement

(in millions of euro)

	2008	2007
Financial income (expenses), net	30.5	(63.6)
Income (expenses) from investments, net	(181.0)	263.8
Other operating income (expenses)	(37.4)	(30.4)
Income (loss) before taxes	(187.9)	169.8
Income taxes	(1.6)	3.7
Income (loss) from continuing operations	(189.5)	173.5
Income (loss) from discontinued operations	-	(72.8)
Total income (loss) for the year	(189.5)	100.7

The loss for the year amounts to Euros 189.5 million compared to income in the previous year of Euros 100.7 million. The most important items are described below:

- **financial income (expenses) net**, shows an improvement of Euros 94.1 million compared to 2007. The change is mainly due to the effect of higher average liquidity in 2008 compared to 2007. An analysis is presented below:

(in millions of euro)

	2008	2007
Interest expenses	(45.0)	(85.6)
Other financial expenses	(5.3)	(7.6)
Interest income	80.0	28.8
Other financial income	0.8	0.8
Total income (loss) for the year	30.5	(63.6)

- details of **income (expenses) from investments, net** are presented in the following table:

(in millions of euro)

	2008	2007
Dividends		
Pirelli Tyre S.p.A.	54.9	42.7
Pirelli & C. Real Estate S.p.A.	48.6	44.1
Pirelli Holding N.V.	11.0	557.4
Mediobanca S.p.A.	9.8	9.8
Sipir Finance N.V.	9.5	5.5
Telecom Italia S.p.A.	3.8	6.6
Other companies	10.2	9.9
	147.8	676.0
Impairment losses		
Pirelli Finance (Luxembourg) S.A.	(167.1)	(16.7)
RCS Mediagroup S.p.A.	(65.7)	-
Telecom Italia S.p.A.	(46.1)	(23.7)
Pirelli Uk Ltd	(31.8)	29.0
CyOptics Inc.	(8.7)	-
PGT Photonics S.p.A.	(6.4)	-
Pirelli Holding N.V.	-	(385.7)
Pirelli Broadband Solutions S.p.A.	-	(16.5)
Other companies	(4.3)	(5.2)
	(330.1)	(418.8)
Gains from sales	1.3	6.6
	(181.0)	263.8

- **other operating income (expenses)** went from Euros 30.4 million in 2007 to Euros 37.4 million.
The reduction is primarily due to the presence, in 2007, of income of Euros 10 million relating to the last payment of royalties for the use of Pirelli intellectual property rights by the Energy and Telecom Cables and Systems companies sold in 2005;
- **income taxes** show a charge compared to last year principally as a result of a reduction in the tax benefit on the Group consolidated tax return;
- in 2007, **income (loss) from discontinued operations** included: the gain realized on the sale to Goldman Sachs International of 4,763 warrants that had been obtained as part of the sale of the Energy and Telecom Cables and Systems activities in July 2005 (Euros 91.0 million); the net loss, including transaction costs net of revenues for services rendered to Olimpia S.p.A., originating from the sale of the investment in Olimpia S.p.A. (Euros 159.7 million); the adjustment of the provision for future liabilities and charges on the guarantees provided to the buyer as part of the sale of the Energy and Telecom Cables and Systems activities (Euros 4.1 million).

Compensation paid to Directors, Statutory Auditors and General Managers

(in thousands of euros)

Individual	Office		Compensation received in 2008				Compensation referring to 2008 to be paid in 2009	
			Fee for office held in Pirelli & C. S.p.A.	Non-monetary benefits	Bonuses and other benefits	Other compensation	Fee for office	Bonus, other benefits and other compensation
Tronchetti Provera Marco	Chairman	2011	2,605			1,735 ²	50	
Pirelli Alberto	Deputy Chairman	2011	577	4		368 ³	50	
Puri Negri Carlo Alessandro	Deputy Chairman	2011	328	5 ⁴		2,070 ⁴	50	
Acutis Carlo	Director	2011					50	
Angelici Carlo	Director	2011					50	25 ⁵
Antonelli Cristiano	Director	2011 ¹⁰					34	
Benetton Gilberto	Director	2011					50	
Bombassei Alberto	Director	2011					50	13 ⁶
Bruni Franco	Director	2011					50	25 ⁵
Campiglio Luigi	Director	2011 ¹⁰					34	
Cucchiani Enrico Tommaso ¹	Director	2011					50	
Galateri di Genola Gabriele ¹	Director	up to 4/28/08					16	
Garraffo Mario	Director	up to 4/28/08					16	
Giarda Dino Piero	Director	up to 4/28/08					16	
Libonati Berardino	Director	2011					50	20 ⁶
Ligresti Giulia Maria	Director	2011					50	
Moratti Massimo	Director	2011					50	
Pagliaro Renato	Director	2011 ¹⁰					34	
Paolucci Umberto	Director	2011 ¹⁰					34	
Perissinotto Giovanni	Director	2011					50	
Pesenti Giampiero	Director	2011					50	20 ⁶
Roth Luigi	Director	2011					50	
Roveri Aldo	Director	up to 4/28/08					16	7 ⁶
Secchi Carlo	Director	2011					50	38 ⁷
De Conto Claudio	General Manager	-		6		915 ⁸		
Gobbi Luciano	General Manager	up to 3/31/08		1		207		
Guatri Luigi	Chairman Board of Stat. Aud.	2009					62	
Laghi Enrico	Standing Statutory Auditor	2009					41	
Lazzati Paolo	Standing Statutory Auditor	up to 3/31/08					13	3 ⁹
Stameni Paolo Domenico	Standing Statutory Auditor	2011 ¹⁰					28	10 ⁹

¹ Fee paid to the company of which the individual is a director

² Of which Euros 1,300 thousand from Pirelli Tyre S.p.A. and Euros 435 thousand from Pirelli & C Real Estate S.p.A.

³ From Pirelli Tyre S.p.A.

⁴ From Pirelli & C. Real Estate Group

⁵ Member of the Internal Control and Corporate Governance Committee

⁶ Member of the Remuneration Committee

⁷ Member of the Internal Control and Corporate Governance Committee (Euros 25 thousand) and Supervisory Board (Euros 13 thousand)

⁸ Of which Euros 870 thousand from Pirelli & C. S.p.A. and Euros 45 thousand from Pirelli & C. Real Estate S.p.A.

⁹ Member of Supervisory Board

¹⁰ In office since 4/29/2008

Equity investments held by Directors, Statutory Auditors, General Managers and Key Managers

Pursuant to article 79 of Consob Regulation approved by Resolution 11971 dated May 14, 1999, the following information is provided in respect of equity investments held in the company Pirelli & C. S.p.A., and its subsidiaries, by directors, statutory auditors, general managers and key managers, as well as spouses, not legally separated, and minor children, directly or through subsidiaries, trustee companies or individual persons, resulting from the shareholders' register at December 31, 2008, from notices received or other information acquired from the same directors, statutory auditors, general managers and key managers.

Name	Company in which investment held	No. of shares held at 12/31/2007	No. of shares purchased / subscribed	No. of shares sold	No. of shares held at 12/31/2008
Tronchetti Provera Marco	Pirelli & C. S.p.A.	13,764	-	-	13,764
	Pirelli & C. S.p.A. (indirect ownership)	1,369,504,398 ¹	-	-	1,369,504,398
	Pirelli & C. S.p.A. (indirect ownership)	1,217,398 ²	-	-	1,217,398
	Pirelli & C. Ambiente S.p.A. (indirect ownership)	2,998,800 ¹	-	2,998,800	-
	Pirelli & C. Ambiente S.p.A. (indirect ownership)	-	2,998,800 ²	-	2,998,800
	Pirelli & C. Eco Technology S.p.A. (indirect ownership)	8,388,800 ¹	7,840,000	16,228,800	-
	Pirelli & C. Eco Technology S.p.A. (indirect ownership)	-	16,228,800 ²	-	16,228,800
Pirelli Alberto	Pirelli & C. S.p.A.	1,447,925	-	-	1,447,925
	Pirelli & C. Real Estate S.p.A.	1,400	-	-	1,400
Puri Negri Carlo Alessandro	Pirelli & C. S.p.A.	66,500	-	-	66,500
	Pirelli & C. Real Estate S.p.A.	1,026,500	-	-	1,026,500
Ligresti Giulia Maria	Pirelli & C. Real Estate S.p.A.	10 ³	-	-	10
Moratti Massimo	Pirelli & C. S.p.A.	11,551,427	-	-	11,551,427
	Pirelli & C. S.p.A. (indirect ownership)	37,427,732 ⁴	-	-	37,427,732
	Pirelli & C. S.p.A. (indirect ownership)	13,435,544 ⁵	-	-	13,435,544
De Conto Claudio	Pirelli & C. S.p.A.	55,258	-	-	55,258
Gobbi Luciano ⁶	Pirelli & C. S.p.A.	150,000	-	-	150,000
Guatri Luigi	Pirelli & C. S.p.A.	186,654 ³	-	-	186,654

¹ Shares held through Camfin S.p.A.

² Shares held through Cam Partecipazioni S.p.A.

³ Shares held by spouse

⁴ Shares held through C.M.C. S.p.A.

⁵ Shares in the name of Istifid S.p.A. as a trustee

⁶ Company General Manager of Finance and Strategic Planning to March 31, 2008

Stock option plans

The information on stock option plans provided in accordance with Consob communication 11508 dated February 15, 2000 has been included in the notes to the financial statements.

Information on ownership structures (ex art. 123 Bis tuf)

The information required by article 123 bis of Legislative Decree 58 dated February 24, 1998 is provided in the Report on Corporate Governance which is included with the annual financial statements and published in the Governance section of the corporate website (www.pirelli.com).

Security planning document

In compliance with Legislative Decree 196 dated June 30, 2003 Appendix B, paragraph 26, the Pirelli Group has updated the Security Planning Document for the year 2008.

Compliance with Article 36 of Consob Regulation 16191/2007 concerning market regulations

Considering that Pirelli & C. S.p.A. controls, directly and indirectly, certain companies established and regulated under the law of non-EU countries*, which are deemed to be of material significance pursuant to art. 36 of Consob Regulation 16191/2007 concerning Market Regulations, the company has decided to adopt a specific and suitable “Group Operating Instruction” which ensures immediate, constant and integral respect for the provisions of the above-mentioned Consob regulation, even though there are already administrative/accounting and reporting systems of the Pirelli Group in place so that the company is substantially in line with the requirements of the market regulation. As stated in the above Operating Instruction, the competent corporate functions of the parent, in abiding by the market regulation, at specific dates and periodically, shall identify and publicize materially significant non-EU companies as defined in the market regulation, and - with the necessary and timely collaboration of the interested companies - guarantee the collection of the data and information and the verification of the circumstances as stated in article 36, ensuring that the information and data provided by the subsidiaries are available in the event of a request by Consob.

Furthermore, a periodical flow of information shall also be provided in order to ensure that the Pirelli & C. board of statutory auditors can carry out the required and necessary tests.

Finally, the operating instruction adopted by the company, in keeping with the provisions of the market regulation**, instructs how the financial statements (the balance sheet and income statement) of the materially significant non-EU companies prepared for the purpose of the consolidated financial statements are to be made available to the public.

It can therefore be stated that the company has fully complied with the provisions of article 36 of the above Consob 16191/2007.

* Non-EU companies controlled, directly and indirectly, by Pirelli & C. S.p.A., relevant pursuant to article 36 of the Market Regulation are currently: Turk Pirelli Lastikleri AS; Pirelli Tyre CO LTD; Pirelli Pneus LTDA; Pirelli Tyre (EUROPE) S.A.; Pirelli Tire LLC.

** It should be noted that - as elucidated by Consob – article 36, paragraph 1, letter a) of the Market Regulations will be applied “in respect of financial statements for the years in progress at the date the same comes into effect” and therefore the financial statements shall be made available to the public starting from the approval of the financial statements for year 2008 for the non-EU companies controlled by Pirelli & C. which carry material significance at December 31, 2008.

Shareholders' resolution

APPROPRIATION OF THE RESULT FOR THE YEAR

The year ended December 31, 2008 shows a loss of Euros 189,548,806.

The board motions that the loss should be absorbed by using available reserves.

If in agreement with our proposal, we ask you to pass the following:

Resolution

The shareholders' meeting:

- having taken note of the Directors' Report on Operations;
- having taken note of the reports of the board of statutory auditors' and the independent auditors;
- having examined the financial statements at December 31, 2008 which show a loss of Euros 189,548,806

Resolves

a) to approve:

- the balance sheet, the income statement, the statement of recognized income and expense, the statement of cash flows and the notes to the financial statements for the year ended December 31, 2008 which show a loss of Euros 189,548,806 as presented by the board of directors in their entirety and in the individual entries, with the proposed accruals;

b) to fully absorb the loss for the year 2008 of Euros 189,548,806 as follows:

- by full use of the revaluation reserve Law 413/91 for Euros 707,349
- by full use of the revaluation reserve Law 72/83 for Euros 972,216
- by full use of retained earnings of Euros 985,279
- by partial use of the share premium reserve for Euros 186,883,962

after which the share premium reserve amounts to Euros 229,710,152.

APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

- appointment of standing and alternate auditors;
- appointment of the chairman of the board of statutory auditors;
- determination of the compensation of the members of the board of statutory auditors

Shareholders,

The board of statutory auditors in office was elected by the ordinary session of the shareholders' meeting held on April 21, 2006. The board's mandate will therefore expire upon the approval of the financial statements for the year ended December 31, 2008.

The shareholders' meeting is therefore called, in accordance with the law and regulations according to article 16 of the bylaws (reported in full at the end of this report) to

- appoint the standing and alternate auditors (respectively, three and two in number)
- appoint the chairman of the board of statutory auditors
- determine the compensation of the members of the board of statutory auditors

The appointment of the standing and alternate auditors shall be carried out casting a vote for a slate of candidates.

To this end, shareholders shall have the right to submit slates, alone or together with other shareholders, representing at least 2 percent of the share capital with voting rights in the ordinary session of the shareholders' meeting (the maximum threshold established in the bylaws and identical to that established by Consob in resolution 16679 dated January 27, 2009), with the obligation to prove the ownership of the number of shares required to present slates within the terms of filing the slates.

The slates of candidates, undersigned by those presenting them, must file the slates at the legal office of the company by April 5, 2009. If only one slate is filed by that date, or only slates that are associated among each other pursuant to the applicable laws and regulations, additional slates may be presented within the following five days. In that case, the previously indicated threshold of 2 percent indicated for the filing of the slates is reduced to 1 percent. The slates that are filed without observing the provisions contained in article 16 of the bylaws shall be disregarded.

The company shall make public the slates of candidates filed by the shareholders, together with the information required by the applicable discipline, at its offices and at Borsa Italiana S.p.A. and also through publication on the internet website *www.pirelli.com*.

With regard to the requisites required of the shareholders intending to present slates for the election of the board of statutory auditors and the requisites that the statutory auditor candidates must possess, your attention is drawn to the provisions issued in this sense by Consob in its regulation 11971 dated May 14, 1999 (articles 144-*quinquies* and subsequent articles), with regard to

the implementation of the provisions of articles 148 and 148-*bis* of Legislative Decree 58 dated February 24, 1998 (TUF).

Finally, it should be noted that – in accordance with art. 10.C.2 of the Code of Self-Disciplines for Listed Companies, to which the company adheres – the statutory auditors must be chosen from among persons who can be qualified as independent, also in accordance with the criteria established by the Code with reference to the directors and, therefore, the shareholders having the right and intention to present slates are asked to take this into account when identifying the candidates to be proposed.

Having said this, the board of directors,

- having taken note of the provisions of the bylaws with regard to the composition and manner of electing the board of statutory auditors: asks the shareholders' meeting
- to elect three standing auditors and two alternate auditors, elect the chairman of the board of statutory auditors and establish the compensation to which the board of statutory auditors is entitled;
- to vote for the slates of candidates for office as a member of the board of statutory auditors of the company that have been filed and made known in the manner and according to the terms of article 16 of the bylaws and the existing laws and regulations.

Article 16 of the bylaws

The Board of Statutory Auditors shall be composed of three standing and two alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.

The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one standing auditor and one alternate auditor.

The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of the third-to-last paragraph of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.

Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

Shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.

Each shareholder may present or take part in the presentation of only one slate.

The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office and be available to anyone on request, at least fifteen days prior to the date set for the shareholders' meeting to be held on first call except for those cases in which the law and/or the regulation provide an extension of the deadline.

Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum, mentioning also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must be enclosed with the slates together with statements in which the individual candidates agree to:

- their nomination*
- attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these By-laws and by regulation for the position.*

Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

Any slates submitted without complying with the foregoing provisions shall be disregarded.

Each candidate may appear on only one slate, on pain of ineligibility.

The slates shall be divided into two sections: one for candidates for the position of standing auditor and one for candidates for the position of alternate auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years.

Each person entitled to vote may vote for only one slate.

The Board of Statutory Auditors shall be elected as specified below:

- a) two standing members and one alternate member shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;*

b) the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all the shareholders attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.

The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the alternate auditor chosen from the same slate as the former. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the candidate listed in the same slate of the former Chairman, following the order contained in the list; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By Laws ensure the right to take part to the appointment of the Board of Statutory Auditors.

The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.

In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors.

When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.

Outgoing members of the Board of Statutory Auditors may be re-elected to office.

Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

The Board of Directors
Milan, March 10, 2009



Corporate Governance Report 2008 Financial Year

GLOSSARY

Self Regulatory Code: means the Self-Regulatory code of conduct for listed companies approved in March 2006 by the Corporate Governance Committee and promoted by the Italian stock exchange, Borsa Italiana S.p.A. and available on its website *www.borsaitaliana.it*.

Civil Code: means the Italian Civil Code.

Board / Board of Directors: means the board of directors of Pirelli & C.

CONSOB: means the Commissione Nazionale per le Società e la Borsa, the Italian official body for regulating and supervising companies and stock exchanges.

Date of approval of the Report: means the meeting of the Board of Directors on 10 March 2009 that approved this report.

Responsible Officer: indicates the officer responsible for preparing the company accounting documents referred to in article 154-bis of the FSA.

Financial year: indicates the company financial year that ended on 31 December 2008 to which this Report refers.

Market Regulation Instructions: indicates the Instructions for the Regulation of Markets organised and managed by Borsa Italiana S.p.A.

Pirelli & C.: indicates Pirelli & C. S.p.A., with registered offices in Milan, tax code, VAT number and Milan Business Registry no. 00860340157.

Pirelli RE: indicates Pirelli & C. Real Estate S.p.A., with registered offices in Milan, tax code, VAT number and Milan Business Registry no. 02473170153.

Pirelli Tyre: indicates Pirelli Tyre S.p.A., with registered offices in Milan, tax code, VAT number and Milan Business Registry no. 07211330159.

Stock Exchange Regulations: indicates the Market Regulations organised and managed by Borsa Italiana S.p.A.

Issuer Regulations: indicates the Regulations issued by CONSOB with deliberation no. 11971 of 1999 on the subject of issuers.

Market Regulations: indicates the Regulations issued by CONSOB with deliberation no. 16191 of 2007 on the subject of markets.

Report: indicates this report on the corporate governance and share capital, drafted pursuant to articles 123 bis of the FSA, 89 bis of the Issuer Regulations and article IA.2.6. of the Stock Exchange Instructions.

Company: indicates Pirelli & C.

Company bylaws: indicates the bylaws of Pirelli & C., available on the company internet site www.pirelli.com and printed at the end of this Report.

FSA: indicates Legislative Decree no. 58 of 24 February 1998 (the Testo Unico di Finanza, or consolidated Financial Services Act).

1. PROFILE OF THE COMPANY ISSUING THE REPORT

Pirelli & C. is a company listed on the Italian Stock Exchange that controls a multinational Group that does business in 160 countries with 135 years' experience in the industry.

In the tyres sector it operates Pirelli Tyre, the fifth largest manufacturer in terms of turnover, and leader in the high quality tyre market, with an industrial presence on four continents.

In the property sector it trades as Pirelli RE, a company which in just a few years has established its leadership in Italy, and has developed a major property business in Germany. It has a marginal presence in Poland.

With its strong orientation towards innovation, the Group has also initiated a number of start-up initiatives in recent years, in high technology sectors such as new generation photonics, broadband access, renewable energy sources and sustainable mobility, now supported by the new antiparticulate filter business.

Pirelli Labs S.p.A. is the advanced research centre that serves all the Group businesses.

Awareness of the importance of an efficient Corporate Governance system in fulfilling its objective of creating value induces the Company to keep its corporate governance system constantly in line with national and international best practice.

Pirelli adopts the traditional administration and control system based on the central role played by the Board of Directors. The Company Governance model is based on the presence of correct disclosure practices regarding the choices and the procedures for decision-making within the Company, on an effective system of internal controls, on an effective regulation of potential conflicts of interest and on a rigorous code of conduct for transactions with related parties.

The system of governance is documented in the Code of Ethics, the Company Bylaws, the regulations regarding shareholders' meetings, and a series of principles, rules and procedures, periodically updated to reflect regulatory and legal developments, that are available on the Company website at www.pirelli.com in the section dedicated to Governance and the approach and policies of the Board of Directors.

Moreover, the Company has been publishing its sustainability reports since 2005 - further information is available in the appropriate section in the company financial reports.

It should be noted that the Company voluntarily highlights updates and additions made to its corporate governance system since the preceding annual report in its half-yearly report.

2. INFORMATION ON THE SHAREHOLDER STRUCTURE (EX ART. 123 BIS TUF) AT 10/03/2009

a) Structure of the share capital

The Share capital is divided into ordinary shares and savings shares each of 0.29 euros par value: the table below shows its exact composition:

	No. shares	% of share capital	Listing
Ordinary shares*	5,233,142,003	97.49%	Listed on the MTA (Telematic Stock Market) organised and managed by Borsa Italiana S.p.A. - Blue Chip segment.
Savings shares**	134,764,429	2.51%	Listed on the MTA (Telematic Stock Market) organised and managed by Borsa Italiana S.p.A. - Blue Chip segment.

* Identification code ISIN IT0000072725

** Identification code ISIN IT0000072733

Rights and obligations

Ordinary shares entitle the holder to one vote each. They are registered shares or bearer shares, to the extent permitted by law, and in this case can be converted into the other type of shares at the request and expense of their owner.

Savings shares do not have voting rights and, unless otherwise provided by law, are bearer shares. At the request and expense of the shareholder they can be converted into registered savings shares.

In addition to the rights and privileges specified by the law and the Company bylaws, savings shares have the right of pre-emption in the reimbursement of capital for their whole face value; if the share capital is reduced by losses, the face value of the savings shares is only reduced for the part of the losses that exceeds the overall face value of the other shares. They also retain the rights and privileges assigned to them by the law and the Company bylaws, even when ordinary and savings shares are excluded from trading.

If share capital should be increased by the issue of shares of a single category, they must be offered as an option to all categories of shareholders.

If capital is increased by the issue of both ordinary and savings shares:

- a) holders of ordinary shares have the right to receive options for ordinary shares and, for any difference, savings shares;
- b) holders of savings shares have the right to receive options for savings shares and, for any difference, ordinary shares.

The net annual profits are divided as follows, after the legal allocations have been made:

- a) savings shares are attributed a sum of up to seven percent of their par value. If in a financial year the savings shares are assigned a dividend of less than seven percent of their par value, the difference is added to the preference dividend in the two following financial years. The profits remaining after the dividend specified above has been assigned to the savings shares are allocated to all the shares in such a way that the savings shares receive a dividend that is two percentage points of their par value higher than that of the ordinary shares;
- b) without prejudice to the above provisions concerning the increased total dividend payable on savings shares, ordinary shares are attributed a sum totalling five percent of their par value.

The remaining profits will be distributed to all the shares, in addition to the sums assigned as described in letters a) and b) above, unless the shareholders' meeting should decide to approve the Board's proposal to make special allocations to extraordinary reserves or for other uses, or should to carry forward part of said share of the profits.

If reserves are distributed the savings shares have the same rights as the other shares.

Financial instruments that attribute the right to subscribe to new issue shares

At the date of approval of the Report no financial instruments that attribute the right to subscribe to new issue shares were found to have been issued.

It should be noted that in a decision made by the Extraordinary Shareholders' meeting held on 11 May 2004, the Directors were given the right to issue convertible bonds in both ordinary and savings shares, or with warrants valid for the subscription of such shares to be offered as options to shareholders and holders of convertible bonds, for a maximum nominal sum of 1,000 million euros, before 10 May 2009, in one or more operations, within the limits permitted at the time of issue by the current regulations, with a consequent possible increase in share capital to serve the conversion of the bonds and/or the exercise of the warrants. See the section below entitled "Powers to increase the share capital and authorisations to purchase own shares".

Stock incentive plans

See the financial report and the information prospectus drafted in September 2007 pursuant to art. 84 bis of the Consob Issuer Regulations available in the Governance section of the Company website www.pirelli.com.

b) Restrictions on the transfer of securities

There are no restrictions on the transfer of securities.

c) Major shareholdings

Those subjects holding voting shares corresponding to more than 2% of the ordinary share capital according to the register of shareholders supplemented by the communications received pursuant to art. 120 of Legislative Decree no. 58/1998 and other information available are listed below:

	DECLARING SUBJECT	% share of ordinary and voting capital	% share of whole capital
1	MARCO TRONCHETTI PROVERA	26.19	25.53
	of which directly	0.00	0.00
	and indirectly through CAMFIN S.p.A.	26.17	25.51
	and through Cam Partecipazioni S.r.l.	0.02	0.02
2	ASSICURAZIONI GENERALI S.p.A.	5.49	5.36
	of which directly	2.18	2.12
	and indirectly through		
	- Ina Assitalia S.p.A.	2.00	1.96
	- Generali Vie S.A.	1.10	1.07
	- Alleanza Assicurazioni S.p.A.	0.02	0.02
	- Intesa Vita S.p.A.	0.02	0.02
	- La Venezia Assicurazioni S.p.A.	0.00	0.00
	- Toro assicurazioni S.p.A.	0.17	0.17
3	EDIZIONE S.r.l.	4.77	4.65
4	MEDIOBANCA S.p.A.	4.61	4.49
5	ALLIANZ SE	4.52	4.40
	and indirectly through		
	Allianz S.p.A.	4.52	4.40
	CreditRas Vita S.p.A.	0.00	0.00
	Antoniana Veneta Popolare Vita S.p.A.	0.00	0.00
6	PREMAFIN FINANZIARIA S.p.A.	4.48	4.36
	of which indirectly through		
	- FONDIARIA - S.A.I. S.p.A.	4.45	4.34
	- Milano Assicurazioni S.p.A.	0.03	0.02
	- Popolare Vita S.p.A.	0.00	0.00
7	AXA ROSENBERG GROUP LLC	2.00	1.96

Note: The information on shareholders who directly or indirectly hold ordinary shares corresponding to 2% or more of the capital with voting rights in ordinary meetings of the Company shareholders is also available on the CONSOB website. In this respect, it should be noted that the information published by CONSOB on its website by virtue of the communications made by the subjects required to fulfil the obligations of article 120 of the FSA and the Issuer Regulation, may differ appreciably from the real situation, since the obligations to communicate changes in the percentage holdings arise not when these percentages change, but only when they "exceed" or "fall below" predetermined thresholds (2%, 5%, 10% and subsequent multiples of 5%). It follows as a result that a shareholder (i.e. a declaring subject) which has declared ownership of 2.6% of the voting capital may increase their holding to up to 4.9% without any obligation to communicate this to CONSOB pursuant to art. 120 of the FSA.

d) Securities that confer special rights

No securities that confer special monitoring rights have been issued.

e) Employee shareholdings: mechanism for exercising voting rights

In the case of employee shareholders, there are no mechanisms for the exercising of their voting rights when the voting rights are not exercised directly by said employees.

f) Restrictions on voting rights

There are no restrictions on voting rights (such as, for example, limitations on voting rights at a certain percentage or a certain number of votes, terms imposed on the exercise of voting rights, or systems in which, with the cooperation of the Company, the financial rights related to the securities are separate from the ownership of the securities).

g) Shareholder agreements

The participants in the Pirelli & C. S.p.A. Block Share Syndicate, the purpose of which is to ensure the stability of the Pirelli & C. share structure and an excerpt of the relevant agreement may be found at the end of this Report, and are available on the Company website at www.pirelli.com.

h) Appointment and replacement of Directors

The Company bylaws¹ have provided that the Board of Directors is appointed by a slate system since 2004. This system ensures that - if more than one slate is presented - minority shareholders can elect one fifth of the Directors.

The slates presented by the shareholders, signed by those presenting them, must be filed² at the registered offices of the Company, for inspection by anyone wishing to do so, at least fifteen days before the date the Shareholders' Meeting is first convened.

Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate, on penalty of ineligibility.

Pursuant to the bylaws, only shareholders who, alone or together with other shareholders, hold at least 2 per cent of the share capital entitled to vote at the ordinary shareholders' meeting, or the lesser proportion required by regulatory provisions issued by CONSOB³, may present slates, subject to their proving ownership of the necessary number of shares not later than the date by which they must be deposited.

Declarations in which the candidates individually accept their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and the bylaws, must be deposited with each slate. The declarations must be accompanied by a curriculum vitae for each candidate regarding their personal and professional characteristics, indicating the administration and control appointments held by the candidate with other companies and their suitability to quality as independent, according to the legal and Company criteria.

Slates presented in violation of the above rule are considered null.

Each person entitled to vote may vote for only one slate.

The following procedure will be used for the election of the Board of Directors:

- a) four fifths of the directors to be elected are selected in the progressive order in which they are listed on the slate that obtained the majority of the votes cast by the shareholders, rounding down to the nearest whole number;
- b) the remaining directors are appointed from the other slates; for this purpose, the votes obtained by the slates will be divided by a sequence of whole numbers from one up to the

¹ Article 10 of the company bylaws.

² Also in line with Criterion of application 6.C.1 of the Self Regulatory Code.

³ CONSOB (CONSOB Resolution no. 16779 of 27 January 2009) has determined the percentage shareholding required for presentation by the shareholders of the slates of candidates for election to the administration and control bodies of Pirelli & C. for the 2009 financial year as 2% of the capital with voting rights in the ordinary shareholders' meeting.

number of directors that remain to be elected. The quotients thus obtained are assigned progressively to the candidates of each of the slates, in the order in which they are listed. The quotients attributed to the candidates of the various slates are arranged in a single list, in decreasing order. The persons with the highest quotients are elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director, or which has elected the fewest directors, is elected.

If no-one from these slates has yet elected a director, or if they have all elected the same number of directors, then within these slates the candidate who obtained the highest number of votes is elected. If two candidates on a slate have the same number of votes, and the same quotient, then the entire shareholders' meeting votes again and the candidate obtaining a simple majority of votes is elected.

If the slate voting mechanism should not assure the minimum number of independent directors, the elected non-independent candidate with the highest progressive number in the list who has received the highest number of votes is replaced by the unelected independent candidate from the same list according to their progressive number on it, and so on, list by list, until the minimum number of independent directors has been achieved.

For the appointment of directors not nominated according to the procedure described above, for any reason, then the shareholders decide with the legal majorities.

If one or more directorships should become vacant during the financial year, the provisions of art. 2386 of the Italian Civil Code apply.

Loss of the requisites for independence by a director does not cause their appointment to lapse if the minimum number of directors - specified by the legal and/or regulatory provisions - in possession of the legal requisites for independence remain in office.

As per international best practices, when renewing the Board of Directors it is Company practice to allow the shareholders separate votes on: (i) the number of people on the Board of Directors; (ii) the election of Directors through a vote on the slates presented; (iii) the duration of the mandate of the Board of Directors; and (iv) the remuneration of the Directors.

i) Changes to the bylaws

Changes to the bylaws of the Company are deliberated as provided by the legal regulations.

l) Powers to increase share capital and authorisations to purchase own shares

A resolution of an Extraordinary Shareholders' Meeting held on 7 May 2003, gave the Directors the right to issue, in one or more tranches, up to a maximum of 100,000,000 ordinary shares by 30 April 2008, to be assigned to managers and directors of the company, its subsidiaries or their subsidiaries, in Italy or abroad, pursuant to articles 2441 subsection eight of the Civil Code and article 134 of the FSA. On 25 February 2005, the Board of Directors, in partial execution of the powers attributed to it by the Extraordinary Shareholders' Meeting of 7 May 2003, resolved to increase the share capital for a maximum of Euro 15,725,496.50 par value, by the issue of a maximum of 54,225,850 ordinary shares of 0.29 euros par value, at a price of 0.996 euros each, of which 0.706 as share price premium, to be reserved for subscription by managers and executives of the company, its subsidiaries and their subsidiaries, in Italy and abroad.

By a resolution of the Extraordinary Shareholders Meeting held on 11 May 2004, the Directors were attributed:

- the right to increase the share capital by payment, by 10 May 2009, in one or more operations, up to a total sum of 600 million euros par value, with or without share premium, by issuing a maximum of 2,068,965,517 ordinary shares to be offered in option to shareholders and holders of convertible bonds, with the possibility of excluding the right to option pursuant to the combined provisions of art. 2441, last subsection, of the Civil Code, and article 134, subsection two, of the FSA, where the shares are offered for subscription by the employees of Pirelli & C. or its subsidiaries;
- the right to issue convertible bonds in both ordinary and savings shares, or with warrants valid for the subscription of such shares to be offered as options to shareholders and hold-

ers of convertible bonds, for a maximum nominal sum of 1,000 million euros, before 10 May 2009, in one or more operations, within the limits permitted at the time of issue by the current regulations, with a consequent possible increase in share capital to serve the conversion of the bonds and/or the exercise of the warrants.

Resolutions to increase the share capital that may ultimately be made by the Board of Directors in exercising its rights as attributed above must set the subscription price (including any share premium) and the corresponding term within which the shares may be subscribed. It may also specify that if the deliberated increase should not be wholly subscribed within the period of time set, the capital will be increased by a sum equal to the subscriptions collected at the end of said period.

At the date of approval of this Report, the Board of Directors had not made use of the last two powers mentioned above.

The Ordinary Shareholders Meeting held on 29 April 2008 authorised the Board of Directors to purchase the Company's own shares within the maximum limit specified in art. 2357 of the Civil Code, equal to 10% of the pro-tempore share capital, taking the own shares the Company or its subsidiaries already hold into account. The purchase may be made in one or more operations within 18 months of the date of authorisation. The arrangements for purchasing and disposing of the Company's own shares are determined by the Shareholders' Meeting in accordance with the Directors' Report, available in the 2007 financial reports and on the Company internet site, which may be consulted for further detail.

In its meeting on 9 May 2008 the Board of Directors followed up on the authorisation given by the Shareholders' Meeting held on 29 April 2008 and approved the programme to purchase and dispose of the Company's own shares. The main features of the plan were announced to the Company and the market in a press release issued by the Company on 9 May 2008.

On the date of approval of this Report, the Company had purchased 1.250,000 ordinary shares in execution of this programme.

At the date of this report, the Company holds 3,867,500 of its own ordinary shares and 4,491,769 of its own savings shares.

m) Change of control clauses

There are no subjects which may directly or indirectly, also by virtue of shareholder agreements, individually or jointly with other persons included in these agreements, exercise control over Pirelli & C.

It follows that, this being the case, no change of control of the company could occur.

n) Directors' indemnity in case of resignations, termination or cessation of appointment after a public takeover bid

The Company has not stipulated agreements with its directors that envisage indemnities in case of resignations or the termination/cancellation of appointments without good reason or if the employment relationship ceases after a public takeover bid.

3. COMPLIANCE

Pirelli & C. has adhered to the self-regulatory code of the Italian Stock Exchange (published in July 2002) since its first issue, and in the Board meeting held on 12 March 2007 it formulated its adhesion to the new self-regulatory code for listed companies (published in March 2006) published on the website of the Italian Stock Exchange www.borsaitaliana.it.

As stated, the Company's awareness of the importance of an efficient Corporate Governance system to achieve its objectives of creating value induces the Company to keep its corporate governance system constantly in line with national and international best practice.

At the date of approval of this Report non-Italian legal provisions that influence the corporate governance structure of the Company do not apply to Pirelli & C.

4. DIRECTION AND COORDINATION ACTIVITIES

There are no subjects which may directly or indirectly, control Pirelli, also by virtue of shareholder agreement, individually or jointly with other persons included in these agreements, exercise control over Pirelli & C.

Nor is the Company subject to direction and coordination activities by any company or body pursuant to article 2497 and subsequent articles of the Civil Code.

In contrast, Pirelli & C., which heads the Group of that name, exercises direction and coordination activities pursuant to the provisions of the Italian Civil Code over many companies, having published appropriate information about these matters pursuant to article. 2497-bis of the Civil Code.

The Boards of Directors of Pirelli & C. and Pirelli RE, in their meetings on 10 March 2009 and 5 March 2009, respectively, reconsidered their previous assessments and considered that - also as a result of the recent changes to the organisation structure and operational character of the latter, which integrated its activities and functions more closely with that of the parent Pirelli & C. - and determined that the parent now performs direction and control activities pursuant to article 2497 and subsequent articles of the Italian Civil Code.

5. BOARD OF DIRECTORS

In accordance with the Italian regulations for the traditional direction model, the management of the Company is assigned to the Board of Directors, which plays an active role in guiding its strategy and controlling its operations, with the power to direct its overall management and intervene directly in a series of decisions that are necessary or useful in the pursuit of its corporate aims.

To carry out its duties the Board of Directors relies on the support provided by specific Board Committees composed entirely of independent directors.

5.1. Composition

The Board of Directors of the Company, as provided by the bylaws, consists of no less than seven and no more than twenty-three members, who serve for three years (unless a lesser period is specified by the Shareholders' Meeting upon their appointment) and may be re-elected.

The Board of Directors in office on 31 December 2008 consists of twenty members and was appointed by the Shareholders' Meeting held on 29 April 2008 for three financial years to expire at the Shareholders' Meeting called to approve the financial reports for the year ending 31 December 2010. The average age of the Directors is just over 62 years.

By voting on a slate⁴ the minority shareholders were able to nominate four Directors, i.e. one fifth of the total number (specifically, Carlo Angelici, Cristiano Antonelli, Franco Bruni and Umberto Paolucci).

Two lists were presented at the Shareholders' Meeting on 29 April 2008, one by the participants in the Pirelli & C. Share Block Syndicate and the other by a group of institutional investors⁵. Those proposing the slates made the candidates' profiles available so that the candidates' personal and professional characteristics, as well as some candidates' qualifications as independents, were made known prior to voting. The curricula vitae presented when the slates were filed were promptly published on the Governance section of *www.pirelli.com*, the Company website, where updated versions remain available.

⁴ The voting list is specified in article 10 of the bylaws.

⁵ The minority list was presented by: ARCA SGR SPA (rubrica Fondo Azioni Italia - Rubrica Fondo Arca BB), BNP PARIBAS ASSET MANAGEMENT SGR SPA (BNL Azioni Italia), MONTE PASCHI ASSET MANAGEMENT SGR SPA (Ducato Geo Italia), PIONEER INVESTMENT MANAGEMENT SGR P.A. (Pioneer Azionario Crescita), PIONEER ASSET MANAGEMENT S.A., EURIZON CAPITAL SGR SPA (San Paolo Azioni Italia - Sanpaolo Italian Equity Risk - Sanpaolo Opportunità Italia - Nexta Rendita), EURIZON CAPITAL S.A. (SPI Obiettivo Industria - SPI Obiettivo Europa - SPI Obiettivo Euro - SPI Obiettivo Italia), FIDEURAM INVESTIMENTI S.G.R. S.p.A. (IMI Italy), FIDEURAM GESTIONS S.A. (Fonditalia Global - Fonditalia Equity Italy - Fonditalia Euro Cyclical - Fideuram Fund Equity Italy - Fideuram Fund Europe Listed Industrials Equity), INTERFUND SICAV (Interfund Equity Italy - Interfund Equity Europe Industrials), AMBER MASTER FUND SPC (Managed by Amber Capital LP).

The composition of the Board of Directors at the date of approval of this Report is indicated below:

Name	Office	Appointed on	Slate	Exec.	Non-exec.	Indep.	Indep. FSA	% BOD
Marco Tronchetti Provera	Chairman	29/04/2008	Maj.	X				100*
Alberto Pirelli	Deputy Chairman	29/04/2008	Maj.	X				100*
Carlo Alessandro Puri Negri	Deputy Chairman	29/04/2008	Maj.	X				100*
Carlo Acutis	Director	29/04/2008	Maj.		X	X	X	100*
Carlo Angelici	Director	29/04/2008	Min.		X	X	X	67*
Cristiano Antonelli	Director	29/04/2008	Min.		X	X	X	100**
Gilberto Benetton	Director	29/04/2008	Maj.		X			33*
Alberto Bombassei	Director	29/04/2008	Maj.		X	X	X	67*
Franco Bruni	Director	29/04/2008	Min.		X	X	X	83*
Luigi Campiglio	Director	29/04/2008	Maj.		X	X	X	100**
Enrico Tommaso Cucchiani	Director	29/04/2008	Maj.		X			33*
Berardino Libonati	Director	29/04/2008	Maj.		X	X	X	83*
Giulia Maria Ligresti	Director	29/04/2008	Maj.		X			50*
Massimo Moratti	Director	29/04/2008	Maj.		X			67*
Renato Pagliaro	Director	29/04/2008	Maj.		X			50**
Umberto Paolucci	Director	29/04/2008	Min.		X	X	X	100**
Giovanni Perissinotto	Director	29/04/2008	Maj.		X			67*
Giampiero Pesenti	Director	29/04/2008	Maj.		X	X	X	67*
Luigi Roth	Director	29/04/2008	Maj.		X	X	X	83*
Carlo Secchi	Director	29/04/2008	Maj.		X	X	X	100*

LEGEND

Slate: Maj/Min according to whether the director was elected from the majority or minority slates (art. 144-decies of the Issuer Regulations)

Exec.: if checked indicates that the director is an executive director

Non-exec.: if checked indicates that the director is a non-executive director

Indep.: if checked indicates that the director is independent according to the criteria contained in the Self Regulatory Code

Indep. FSA: if checked indicates that the director possesses the attributes of independence specified in art. 148, subsection 3 of the FSA (art. 144-decies of the Issuer Regulations)

% BOD: indicates the percentage of Board meetings attended by the director

* The percentage also takes meetings attended by the Director in the financial year prior to the renewal of the Board of Directors by the Shareholders' Meeting of 29 April 2008.

** The Director was appointed for the first time by the Shareholders' Meeting of 29 April 2008. The percentage thus only takes account of the meetings held after that date.

In accordance with the provisions of the Self Regulatory Code⁶, the positions occupied by the Directors in major companies other than Pirelli Group companies are listed at the end of the Report.

⁶ Self Regulatory Code: Criterion of application 1.C0.2.

The composition of the Board Committees at the date of approval of this Report is indicated below:

Name	Office	R.C.	CCI	% Committee
Carlo Angelici	Member		X	100*
Alberto Bombassei	Member	X		100**
Franco Bruni	Member		X	100*
Berardino Libonati	Chairman	X		100*
Giampiero Pesenti	Member	X		100*
Carlo Secchi	Chairman		X	100*

LEGEND

R.C.: indicates the Remuneration Committee

C.I.C.C.G.: indicates the Committee for Internal Control and Corporate Governance

% Committee: indicates the percentage of meetings of the Committee in question attended by the director

* The percentage also takes meetings attended by the Director in the financial year prior to the renewal of the Committees consequent on the renewal of the Board of Directors by the Shareholders' Meeting of 29 April 2008.

** The Director was appointed to this Committee for the first time after the renewal of the Board of Directors by the Shareholders' Meeting of 29 April 2008. The percentage thus only takes account of the meetings held after that date.

No Director ceased to serve after the election of the Board of Directors by the Shareholders' Meeting of 29 April 2008.

In addition to those directors appointed to the Board on 29 April 2008, Gabriele Galateri di Genola, Mario Garraffo, Dino Piero Giarda and Aldo Roveri also served as directors, and ceased to serve due to the expiry of their mandates with the Shareholders' Meeting of 29 April 2008 that approved the financial statements for the year ended on 31 December 2007.

Maximum accumulation of directorships in other companies

On 29 April 2008, in accordance with the provisions of the Self Regulatory Code⁷ the Board of Directors confirmed the validity and applicability of the Policy adopted by the Board during the previous mandate⁸, which established that serving as a director or auditor of more than five companies other than those directed and coordinated by Pirelli & C. S.p.A, or controlled or affiliated to such companies, is not considered compatible with serving as a director of the Company, when the companies are (i) listed companies included in the S&P/MIB index (or equivalent foreign indices), or (ii) companies operating prevalently in the retail finance sector (members of the lists specified in article 107 of legislative decree no. 385 of 1 September 1993), or (iii) companies that undertake banking or insurance activities. Moreover, it is not considered compatible for a director to hold more than three executive positions in companies described in (1), (ii) or (iii).

Offices held in more than one company in the same group are considered a single office, and executive positions prevail over non-executive ones.

The Board of Directors retains the right to form a different opinion, and this will be made public in the annual report on corporate governance, together with the congruent grounds for doing so. Positions occupied by the Directors in major companies other than Pirelli Group companies are listed at the end of this Report.

After investigation by the Committee for Internal Control and Corporate Governance, the Board of Directors, in its meeting of 10 March 2009, examined the offices held and reported by the individual Directors and determined that all Directors hold appointments that are compatible with the execution of their office of Director or Pirelli & C. according to the policy on this issue adopted by the Company.

⁷ Self Regulatory Code: Criterion of application 1.C0.3.

⁸ Board of Directors meeting of 7 November 2007.

When the Board of Directors is due for renewal, Shareholders who, pursuant to the bylaws, intend to present slates for the composition of the Board of Directors, are invited to examine this document.

The aforementioned Policy is attached at the end of this Report, and is also available in the Governance section of the Company website, www.pirelli.com.

5.2. ROLE OF THE BOARD OF DIRECTORS

The Bylaws do not specify a minimum interval between Board meetings. The Company has circulated a calendar⁹ that schedules 4 meetings for 2009, specifically:

- 10 March 2009: Board of Directors' meeting to examine the budget and consolidated financial reports for the year ended on 31 December 2008
- 07 May 2009: Board of Directors' meeting to examine the consolidated results for the first quarter of 2009 (intermediate report on operations at 31 March 2009).
- 30 July 2009: Board of Directors' meeting to examine the half-yearly financial report at 30 June 2009.
- 5 November 2009: Board of Directors' meeting to examine the consolidated results for the last quarter of 2009 (intermediate report on operations at 30 September 2009).

Board meetings may take place by means of telecommunication, enabling all parties to participate in the debate, with equal information.

The Board of Directors meetings are convened by means of letter, telegram, fax or e-mail sent at least five days prior (or, in the event of emergencies, at least six hours prior) to the meetings to each Director and Statutory Auditor.

Barring exceptional cases, the Directors and the Auditors have always received the necessary documentation and information with reasonable notice in order to express their informed opinion on the matters submitted to their scrutiny.

During the 2008 financial year there were 6 meetings of the Board of Directors, 4 of which after the Board had been renewed. After the renewal, each meeting lasted an average of about two hours. The percentage attendance of Directors during the financial year was over 75% on the whole, and the independent Directors assured an average attendance of about 95%.

The Lead independent director attended all meetings of the Committee for Internal Control and Corporate Governance (which he Chairs), all meetings of the Board of Directors and all Shareholders' Meetings that were held during the 2008 financial year.

At the date of approval of the Report, there have been 2 meetings of the board.

Functions of the Board of Directors

As stated, the Board of Directors plays a central role in the corporate governance system of the Company; it has the power (and the duty) to direct Company business, pursuing and fulfilling its primary and ultimate objective of creating shareholder value.

Pursuant to the bylaws¹⁰, the Board is responsible for the management of the Company and, to this end, it is vested with the broadest powers, except for those matters remitted by law or the bylaws to the authority of the shareholders' meeting.

The Board of Directors, also in accordance with the recommendations of the Self Regulatory Code¹¹:

- examines and approves the strategic, industrial and financial plans of the Company and the Group;
- formulates and adopts the rules for the corporate governance of the Company, and defines the Group governance guidelines;
- evaluates the adequacy of the general organisational, administrative and accounting structure of the Company as well as of those subsidiaries of strategic importance as set up by

⁹ Press release of 7 November 2008.

¹⁰ Article 11 of the company bylaws.

¹¹ Self Regulatory Code: Criterion of application 1.C.1, lett. a).

the Managing Directors, with special reference to internal auditing and the management of clashes of interests;

- grants powers to the Managing Directors and the Executive Committee (if established) and revokes them; defining their limits, the manner in which they are to be exercised and the frequency, at least quarterly, at which such bodies must report their activities in the exercise of the powers granted to them to the Board;
- determines, after having examined the proposals of the Remuneration Committee and consulted the Board of Statutory Auditors, the remuneration of the Managing Directors and of those directors who are vested with special offices and, if the Shareholder Meeting has not already resolved upon it, allocates the total remuneration to which the members of the Board of Directors are entitled;
- evaluates the general performance of the Company, taking into consideration, specifically, the information received from the delegated bodies, and periodically compares the results achieved with those planned;
- examines and approves in advance all operations involving the Company and its subsidiaries which have a significant impact on the strategy, the profitability, the assets or the financial position of the Company, paying particular attention to situations in which one or more directors act in their own interest or in the interest of third parties, and more generally to transactions with related parties;
- at least once a year, evaluates the size, composition and functioning of the Board itself and its Committees, expressing opinions on any professional figures whose presence in the Board it might deem advisable;
- constitutes the Supervisory Body pursuant to legislative decree no. 231 of 8 June 2001;
- appoints the General Managers and the executive responsible for drawing up the company accounting documents, determining their responsibilities and powers;
- appoints and dismisses the internal control officer and determines their duties and remuneration, after having received the opinions of the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors;
- reviews and approves periodic reports prepared according to applicable legislation;
- exercises the other powers and fulfils the responsibilities attributed to it by the law and the Company bylaws.

Evaluation of the general results of operations¹²

Pursuant to the bylaws¹³ and the current regulations¹⁴, the Board of Directors has evaluated the general results and likely development of operations at least once a quarter. Please see the paragraph headed “Information to the Board” in the “Delegated Bodies” section.

Internal control system and governance system¹⁵

The Board of Directors has assessed¹⁶, the adequacy of the internal control system and, more generally, the governance of the Company and of the Group it controls, at six monthly intervals. In this respect it should be noted that recently the Board of Directors, in its meeting on 10 March 2009, adopting the considerations made by the Committee for Internal Control and Corporate Governance, evaluated the adequacy of the general organisational, administrative and accounting structure of the Company, and expressed a positive opinion of the internal control system and, more generally, of the governance system of the Company and the Group¹⁷.

¹² Self-Regulatory Code Criterion of application 1.C.1, lett. e).

¹³ Article 11 of the company bylaws.

¹⁴ Article 150 of the FSA.

¹⁵ Self-Regulatory Code. Criterion of application 1.C.1, lett. b).

¹⁶ Self-Regulatory Code. Criterion of application 1.C.1.

¹⁷ See the paragraph headed “Committee for Internal Control and Corporate Governance”, below, for further details.

Remuneration of the directors vested with special responsibilities¹⁸

The Board has examined and approved the Committee's proposal for the remuneration of the General Managers of the Company and has been informed of the remuneration of the Managing Director and General Manager of Pirelli Tyre¹⁹.

After its renewal, the Board also deliberated the proposal of the Remuneration Committee, approved by the Board of Statutory Auditors, for the fixed and variable remuneration package for directors vested with special responsibilities.

See section 10 "Remuneration of directors" for (all) issues related to remuneration.

Transactions with significant impact on the strategy, the profitability, the assets or the financial position of the Company²⁰

The "Procedure for information flows to Directors and Auditors", appended at the end of this Report, and available in the Governance section of the company website, www.pirelli.com, specifies that the general information on the activities carried out should be complete with specific detailed information on, among other matters, transactions with significant impact on the strategy, profitability, assets or financial position of the company.

Moreover, the Board, without prejudice to the responsibilities and powers reserved to it by the law, bylaws, powers structure and internal procedures, has also determined that it is the responsibility of the Board of Directors to approve in advance certain non infragroup operations and actions (determined on the basis of the latest qualitative criteria and further quantitative thresholds) when carried out by Pirelli & C. or by unlisted foreign companies subject to the direction and coordination of Pirelli & C.

Transactions with related parties:

For transactions with related parties, see the section entitled "Interest of the directors and transactions with related parties".

Board performance evaluation²¹

During 2006, for the first time, the Board of Directors made a self-evaluation of its performance (officially called a "Board performance evaluation"), thus adhering to international best practices and the provisions in the new Self-Regulatory Code²².

As proposed by the Committee for Internal Control and Corporate Governance, and based on suggestions made by the independent directors²³, and taking the positive experience of preceding years into account, the Board concluded that it would be advisable to start a similar self-evaluation of the Board of Directors for the 2008 financial year.

Specifically, considering the good results of the previous financial year, an opportunity arose to examine other topics in depth, and also to propose that the Board focus on other topics that emerged from the self-evaluation undertaken in the previous year to check on the improvements made. In accordance with common practice, the self-evaluation process occurred by direct interviews with individual Board members or, alternatively, allowing Board members to provide written answers to a questionnaire (which was also used as a guide for the interviews). The evaluation was carried out with the assistance of a major consultancy company that worked alongside the Committee for Internal Control and Corporate Governance to develop methods for the self-evaluation and to analyse its results.

¹⁸ Self Regulatory Code: Criterion of application 1.C.1, lett. d).

¹⁹ As reported in the section entitled "Remuneration of Directors", the Managing Director and General Manager of Pirelli Tyre, Dr. Francesco Gori, has been categorised, for self-regulatory purposes, as a "director with strategic responsibilities".

²⁰ Self Regulatory Code: Criterion of application 1.C.1, lett. f).

²¹ Self Regulatory Code: Criterion of application 1.C.1, lett. g).

²² Self Regulatory Code: Criterion of application 1.C.1, lett. g).

²³ The board performance evaluation was examined in depth in the meetings of the independent directors. Please see the "Meeting of the independent directors" paragraph under "Direction and coordination activities".

Directors not only expressed their views of some topics that emerged during the previous year's assessment, checking on any improvements noted, but were also asked to express their opinions, primarily on the following aspects:

- a Board performance evaluation: consisting of an evaluation by Directors principally concerning the operation of the Board and its Committees;
- a directors' evaluation: focussed on examining in depth the Directors' opinions of the degree of effective participation in and knowledge of the Company by other Directors;
- a self evaluation: involving self assessment by individual Directors of their own participation in and knowledge of the Company.

The following specific aspects were examined in particular depth:

- the functioning of the Committees and the information they feed back to the full Board;
- the analysis and management of the risks the Company has to oversee, and Directors' knowledge and assessment of the internal control system;
- the adequacy of the general organisational, administrative and accounting structure;
- the governance of the Group from a market perspective.

The Directors interviewed had an opportunity to express four degrees of opinion and to formulate their own comments.

The results were subject to in depth analysis by the Committee, and then examined by the Board of Directors in its meeting of 10 March 2009.

The Directors expressed a high degree of participation in the board performance evaluation and the examination of the results showed the emergence of a positive impression of the Board and its Committees, although a need for some changes also emerged.

Specifically, the Directors expressed their appreciation of the working meetings they had had with Senior Management to examine in depth the different business sectors in which the Group operates²⁴ and suggested that this practice should be consolidated, since it improves their knowledge of the Company and its businesses.

Moreover, taking the specific economic scenario into account, the Directors suggested that the topic of risk management should be further examined, to better understand how the Company and the Group identify, evaluate and control the most significant risks.

This third edition of the board performance evaluation again confirmed the participation in and satisfaction of the Directors with their Board.

Article 2390 Civil Code

Article 10, last subsection of the bylaws provides that, unless otherwise deliberated by the Shareholders' Meeting, the directors are bound by the prohibition contained in article 2390 of the Civil Code.

5.3. Delegated Bodies

Chairman

The Board of Directors appoints its Chairman, where the Shareholders' Meeting has not done so. After its renewal, the Board of Directors appointed Marco Tronchetti Provera as Chairman in its meeting of 29 April 2008.

The Chairman is the legal representative of the Company, empowered to perform any action pertinent to corporate activity in its various manifestations.

The Board of Directors has identified the limits to the powers it confers, which have been defined as the inner limits of the relationship between the delegating body of the Board and the subject with delegated powers. In particular, the following inner limits have been identified for the Chairman: the power to guarantee Company and subsidiary bonds having individual values of more than 25 million euros, or for third parties regarding bonds with individual values of

²⁴ Cf. Section 5.4 "Other Executive Directors".

more than 10 million euros (in the latter cases another Managing Director's signature must accompany the Chairman's signature).

Furthermore, the Chairman, Marco Tronchetti Provera, was confirmed as responsible for the following organizational functions:

- relations with shareholders and the information provided to them;
- formulation of the general strategies and development policy for the Company and the Group, and any extraordinary corporate actions, to be submitted to the Board of Directors;
- proposals for the appointment of members of the General Managers' departments and, after consulting the Remuneration Committee, for their remuneration, to be submitted to the Board of Directors;
- chairmanship of the Managing committees with strategic functions;
- coordination of the activities of Managing Directors, where appointed;
- all forms of communication with the market, with the power to delegate to Managing Directors, where appointed.

General Managers and other Managers

Powers pertaining to his specific assigned functions, are subject to certain quantitative limits, have been granted to Claudio De Conto, Chief Operating Officer.

Less broad powers have been granted to other Managers of the Company to be used in their individual spheres of competence.

As in the past, in 2008 the Chairman, the Chief Operating Officer and the Managers used their delegated powers only for the ordinary management of the activities of the Company (in regard to which the Directors were periodically informed) and submitted the significant transactions to the Board of Directors.

In fact, delegation is not a way of assigning exclusive powers but is rather the solution adopted by the Company to ensure the best degree of operational flexibility in terms of the organization of the Board (and in terms of relationships with third parties).

Information to the Board

Pursuant to Article 11 of the bylaws and the prescriptions of Article 150, subsection 1 of the FSA), the Board of Directors and the Board of Statutory Auditors are kept informed about the performance of the Company, its general management, its prospects, and the transactions with greatest impact on its profitability, financial position or assets and liabilities carried out by the Company or its subsidiaries; in particular, the delegated bodies report any transactions in which they have an interest, on their own account or on behalf of third parties, or that are influenced by the person, if any, who performs management and coordination activities. Such reports are made promptly and at least once every three months, on occasion of the Board of Directors meetings (and the Executive Committee, if established) or by means of a written communication.

To foster the orderly organisation of the flow of information, the Company developed a specific Procedure, in use since 2002, which clearly defines the rules to follow to comply with the information reporting obligations.

After its renewal, in its meeting on 29 April 2008 the Board of Directors confirmed the validity and applicability of the procedure on information flows adopted by the Board during its previous mandate.

The purpose of the new procedure is to regulate and coordinate the various types of data flowing to Directors and Auditors, so that they all have the common aim of making the data needed to properly fulfil its directional, policy and control responsibilities continuously available to the Board.

The text of the procedure, reprinted at the end of this Report, is also available in the Governance section of the Company website www.pirelli.com.

5.4. Other Executive Directors

The Board of Directors considers the Chairman of the Board of Directors, Marco Tronchetti Provera, and the two Vice Chairmen, Alessandro Puri Negri (also Vice Chairman and Managing Director of subsidiary Pirelli RE) and Alberto Pirelli (also director and manager of a business unit of subsidiary Pirelli Tyre and director of other companies that are subsidiaries of Pirelli Tyre) to be executive directors.

In accordance with the recommendations of the Self Regulatory Code²⁵, to increase all directors' knowledge of the reality and dynamics of the company, several working lunches with Senior Management were organised during the year, to examine in greater detail the various business sector in which the Group operates.

5.5. Independent Directors

The Board of Directors of the Company evaluate the requisites for independence specified in the Self Regulatory Code and the FSA for non-executive directors qualified as independent upon their appointment and during their mandate.

In light of a substantial evaluation of the information provided by the Directors and that available to the Company, the Board of Directors confirmed that the eleven directors who, on appointment, were qualified as independent (Carlo Acutis, Carlo Angelici, Cristiano Antonelli, Alberto Bombassei, Franco Bruni, Luigi Campiglio, Berardino Libonati, Umberto Paolucci, Giampiero Pesenti, Luigi Roth and Carlo Secchi), continue to maintain these requisites in the Board meeting on 10 March 2009. A further six Board members (Gilberto Benetton, Enrico Tommaso Cucchiani, Giulia Maria Ligresti, Massimo Moratti, Renato Pagliaro and Giovanni Perissinotto) could be qualified as non-executive members. It follows that the percentage of independent directors on the Board as currently composed is 55%, which is about 65% of all the non-executive directors.. The average of the independent Directors is about 67 years. It should also be noted that the Board of Directors has accepted that all directors who can be qualified as independent are also independent in terms of the requisites specified in the FSA for the members of the Board of Statutory Auditors.

In line with the recommendations of the Self-Regulatory Code²⁶, the Board of Statutory Auditors has checked that the criteria and ascertainment procedures adopted by the Board to assess the independence of its members are correctly applied.

The Board of Directors performed this assessment based on the most rigorous requirements of the Self-Regulatory Code²⁷, which states that a director may not - by law - be considered independent:

- a) if they, directly or indirectly including on behalf of subsidiaries, trust companies or through third parties, control the issuer or are able to exercise considerable influence, or are a participant in a shareholder agreement through which one or more subjects can exercise control or significant influence on the issuer;
- b) if they have or have been in the past three financial years a prominent exponent²⁸ of the issuer, or one of its strategic subsidiaries or a company under joint control with the issuer, or a company or a body that, alone or together with others in accordance with shareholders agreements, control the issuer or are able to exercise considerable influence;
- c) if directly or indirectly (e.g. through subsidiaries or bodies that have a significant position, such as a partner in a law firm or consultancy company) they have, or had in the previous financial year, a close business, financial or professional relationship with:
 - the issuer, one of its subsidiaries, or any related prominent exponent thereof;
 - a subject who, alone or together with others in a shareholder agreement, controls the issuer, or
 - is or has been an employee of one of the above-mentioned subjects within the previous three financial years;

²⁵ Self Regulatory Code: Criterion of application 2.C0.2.

²⁶ Self-Regulatory Code. Criterion of application 3.C.5.

²⁷ Criteria of application 3.C.1 and 3.C.2.

²⁸ The following may be considered "prominent exponents" of a company or body: the chairman of the body, the legal representative, the chairman of the Board of Directors, the executive directors and managers with strategic responsibilities in the company or body considered.

- d) if they receive, or have received in the past three financial years, from the issuer or one of its subsidiaries or parent companies, a substantial bonus in addition to their “fixed” salary as non-executive director of the issuer, including performance-based incentive plans, including share options;
- e) if they have been a director for more than nine years of the past twelve;
- f) if they are an executive director in another company in which an executive director²⁹ of the issuer is a director;
- g) if they are a partner or director of a company or body belonging to the company mandated to audit the accounts³⁰ of the issuer;
- h) if they are a close family member of a person that finds themselves in one of the situations described above.

Meetings of the independent directors

In accordance with the recommendations of the Self-Regulatory Code³¹, the independent directors met four times during the financial year in the absence of the other directors, two after the renewal of the Board of Directors by the Shareholders' Meeting held on 29 April 2008. The meetings held during the new mandate focussed on topics inherent to the corporate governance system of the Company, with particular attention paid to the system used for the self evaluation of the Board of Directors and the results achieved after the experiences of previous years, as well as to the remuneration mechanisms for the Senior Management of the company. During 2009, two meetings of the independent directors only have already been held.

5.6. Lead independent director

In November 2005, to further extend the role of the independent directors, the Board of Directors decided to introduce a Lead Independent Director.

The Lead Independent Director (Carlo Secchi, the Chairman of the Committee for Internal Control and Corporate Governance, was chosen) coordinates and acts as a point of reference for the issues raised and contributions made by the independent Directors.

The Lead Independent Director also has the right to convene - on his own initiative or upon the request of other Directors - specific meetings of independent Directors only in order to discuss any topics felt at the time to be of interest to the functioning of the Board of Directors or to the running of the business. Last but not least, please note that the Lead Independent Director works with the Chairman of the Board of Directors to improve the operation of the Board itself, and in order to cooperate to ensure that directors receive complete and prompt information.

The Lead independent director attended all meetings of the Committee for Internal Control and Corporate Governance (which he Chairs), all meetings of the Board of Directors and all Shareholders' Meetings that were held during the 2008 financial year.

6. HANDLING OF COMPANY INFORMATION

6.1 Internal management and disclosure of documents and information

Market transparency, and clear, correct and complete information, are the values that are upheld by the conduct of the corporate bodies, the management and all those who work for the Pirelli Group.

In March 2006 the Board of Directors adopted a specific Procedure for the management and communication to the market of privileged information that, taking account of the regulations on market abuse, governs the management of privileged information on Pirelli & C., its unlisted

²⁹ The following persons are executive directors of the issuer: Chairman Marco Tronchetti Provera and Vice Chairmen Alberto Pirelli and Carlo Alessandro Puri Negri.

³⁰ The company mandated to audit the accounts of Pirelli & C. is Reconta Ernst&Young S.p.A. a member of the Ernst&Young network (Cf. Section 12.4)

³¹ Self-Regulatory Code. Criterion of application 3.CO.6

subsidiaries and the listed financial instruments of the Group. The procedure applies to all members of corporate bodies, employees and collaborators of companies external to the Group that might have access to information that could evolve into privileged information.

This procedure also applies as instructions to all subsidiaries, in order to obtain from them, without hesitation, the necessary information for the timely and proper fulfilment of financial reporting obligations.

In accordance with the legal provisions, the Procedure specifically defines:

- the requisites and responsibilities for classifying privileged information;
- the arrangements for tracing access to privileged information in transit;
- the tools and rules to protect the confidentiality of privileged information in transit;
- the operational arrangements for the communication of privileged information to the market and, in general, on communications with the public and/or analysts and investors.

The Procedure also disciplines the institution of a register of persons with access to confidential information, in operation since 1 April 2006.

In its meeting on 29 April 2008, the Board of Directors confirmed the validity and applicability of the "Procedure for the management and communication to the public of privileged information" and, in line with its practice of periodically revising its procedures in relation to regulatory changes and best practice, the Board, changed and sharpened the text, as proposed by the Committee.

The updated text of the procedure is printed at the end of this Report and is also available in the Governance section of the Company website *www.pirelli.com*.

6.2 Insider dealing

Matters regarding the transparency of transactions involving Company shares or financial instruments linked to them, made directly or by third parties by relevant persons or by persons closely related or linked to them (i.e. insider dealing) are currently fully governed by law and by the Consob implementing regulation (art. 114 of the Financial Services Act and articles 152-sexies and subsequent articles of the Issuer Regulations).

Pursuant to the law, Directors and statutory auditors of the Company, as well as "persons who carry out administrative [...] functions in a listed company and managers that have regular access to privileged information [...] and have the power to make management decisions that could affect the performance and the future prospects of a listed company..." and others, are obliged to disclose to the market any insider dealing transactions made on Company shares or financial instruments linked to these shares having a value of more than euros 5,000 annually.

The Company opted to identify these managers as its Chief Operating Officer, and - as an example of self-regulation - the Managing Director and General Manager of subsidiary Pirelli Tyre. Similar disclosure obligations have also been adopted by Pirelli RE, a company that is also listed on regulated markets.

Within the more general auditing process for the corporate governance instruments, despite being not obliged by the law, the Board of Directors decided to confirm, in accordance with the previous mandate, black out periods for the persons mentioned above who must adhere to insider dealing regulations, who must therefore abstain from making transactions on Company shares or on financial instruments linked to these shares in these periods. These periods may, moreover, be extended or suspended by the Board of Directors in exceptional cases.

The text of this procedure is printed at the end of this Report, and available in the Governance section of the Company website, *www.pirelli.com*.

7. BOARD COMMITTEES

In the meeting of the Board of Directors on 29 April 2008, after its renewal, the Board instituted two subcommittees: the Committee for Internal Control and Corporate Governance, and the Remuneration Committee.

8. APPOINTMENTS COMMITTEE

The Board of Directors decided not to establish a subcommittee charged with nominating candidates for the position of Director, since the conditions envisaged by the Code for its establishment do not exist, because of the current ownership structure and, above all, because of the provision for the slate system in the by-laws, given the transparency this mechanism ensures in the selection of candidates.

Since the Board considers the above arguments still valid, it did not feel that the constitution of a specific elections committee is necessary. Moreover, it has given the Committee for Internal Control and Corporate Governance the power to identify candidates to propose to the Board in the event that an independent Director replaced pursuant to article 2386, subsection 1 of the Civil Code.

9. REMUNERATION COMMITTEE

The Board established the “Remuneration Committee”, a subcommittee among its members, charged with fact-finding and advisory functions, in the year 2000.

In full compliance with the provisions of the Self-Regulatory Code³², the Remuneration Committee appointed by the Board of Directors in its meeting on 29 April 2008, is composed exclusively of independent Directors:

- Berardino Libonati (Chairman)
- Alberto Bombassei
- Giampiero Pesenti

The Secretary to the Board of Directors acts as Secretary to the Committee.

The meetings of the Remuneration Committee are regularly minuted by the secretary and the minutes are transcribed into a specific register³³.

Functions of the Remuneration Committee:

In line with the provisions of the Self-Regulatory Code, the Board of Directors confirmed the fact-finding and consultative role of the Remuneration Committee.

Specifically, the Remuneration Committee:

- formulates proposals to the Board for the remuneration of the Managing Directors and those persons who hold certain offices to ensure that their remuneration is aligned with the objective of shareholder value creation in the medium-long term;
- periodically evaluates the remuneration criteria for the senior management of the Company and, as requested by the Managing Directors, formulates proposals and recommendations, with specific reference to the adoption of possible stock option plans or stock bonuses;
- monitors the application of the decisions made by the competent bodies and of the company policies regarding top management pay. The Committee - which may also request the assistance of external consultants in fulfilling its mandate - meets whenever its Chairman deems it appropriate or when a meeting has been requested by another member of the committee or by a Managing Director.

The Board of Statutory Auditors and, if deemed appropriate, other Company and/or Group representatives and the External Auditors, attend the meetings of the Committee.

In line with the recommendations of the Self Regulatory Code³⁴, directors vested with special offices do not attend Remuneration Committee meetings.

The information and documents available and required for informed deliberation of the material submitted to the committee have always been circulated to all members reasonably in advance.

The Committee also has the right³⁵ to access company departments and information as necessary for the execution of its assigned duties, making use of the support of the Secretary of the Board of Directors.

³² Self Regulatory Code: Principle 7.P.3.

³³ Also in accordance with the recommendations of the Self Regulatory Code: Criterion of application 5.C.1, lett. d).

³⁴ Self Regulatory Code: Criterion of application 7.C.4.

³⁵ Also in line with the provisions of the Self Regulatory Code. Criterion of application 5.C.1, lett. e).

The Committee has adequate financial resources for the performance of its duties with independent expenses.

During 2008, the Remuneration Committee met four times (two after its renewal), with all members in attendance, and examined issues including the pay packages of the Chairman and the General Managers, formulating proposals for the Board and disclosing the criteria applied in reaching its decisions. The Committee was also informed of the decisions taken by Pirelli Tyre on the subject of the pay of the Managing Director and General Manager Dr. Francesco Gori. The Committee made use of leading executive pay consultants to develop its analyses based on job-comparable benchmarking and an analysis per grade, independently of the specific role held. The analysis was developed taking data published by Italian and International Groups considered comparable in terms of organisational structure and/or industrial sector and/or capitalisation into account.

10. REMUNERATION OF DIRECTORS

In addition to reimbursement for expenses incurred in performing their duties, Directors receive annual fees determined by the Shareholders' Meeting³⁶.

The meeting of 29 April 2008 decided "to establish a maximum of 1,200,000 euros as the total annual remuneration of the Board of Directors pursuant to Art. 2389, subsection 1, of the Civil Code, said amount to be distributed among its members in accordance with the decisions taken in this regard by the Board".

At the same meeting, on 29 April 2008, the Board of Directors established the distribution of the remuneration as follows:

- 50,000 euros per annum for each of the 20 members of the Board of Directors;
- 25,000 euros per annum for each of the members of the Committee for Internal Control and Corporate Governance;
- 20,000 euros per annum for each of the members of the Remuneration Committee.

Reserving the right to use the residual amount (65,000 euros) in the future, to give the Board a margin of organizational flexibility, including for the adoption of any new governance solutions. A fee of 15,000 euros per annum is also payable to the Board member called on to be a member of the Self-Regulatory Body pursuant to legislative decree no. 231/2001 (Carlo Secchi).

The remuneration of directors given particular tasks is established by the Board of Directors upon consultation with the Board of Statutory Auditors as proposed by the Remuneration Committee. The current remuneration system provides³⁷ for payments to comprise a fixed amount and an additional bonus linked to the performance of the Group, and to be related to the attainment of specific objectives set by the Board. Specifically, Company practice, based on analyses carried out with major executive pay consultants, is to attribute an incentive based on a mechanism that includes a financial type (Net Financial Position) as an access condition (an "on/off" condition), linked to a quantitative parameter of annual profitability (PBIT).

A short report on the remuneration of the directors vested with special powers and managers with strategic responsibilities can be found in the table in the notes to the financial statements for 2008. It should be noted that the Board of Directors of the Company has identified the managers with strategic responsibilities as those who "hold the power to take decisions which may impact on the future development and evolution" of the Company" and as such its Chief Operating Officer (Dr. Claudio De Conto), and the Managing Director and General Manager of Subsidiary Pirelli Tyre (Dr. Francesco Gori).

It should also be noted that the pay proposals (fixed and variable components) for the Chief Operating Officer of the Company were developed after an in-depth comparative analysis by a major consultancy on market positioning in terms of the remuneration packages of a comparable sample of Italian and international companies.

Lastly, it should be noted that there are no stock-option plans for either the executive or the non-executive directors³⁸.

³⁶ Article 14 of the company bylaws.

³⁷ Also in line with the provisions of the Self Regulatory Code. Criterion of application 7.C.1.

³⁸ Vice Chairman Carlo Alessandro Puri Negri is an exception to this, since he is a recipient of stock options in his capacity as Chief Executive Officer of Pirelli RE.

11. THE COMMITTEE FOR INTERNAL CONTROL AND CORPORATE GOVERNANCE

The Board established³⁹ the Committee for Internal Control and Corporate Governance, charged with fact-finding and advisory functions, from amongst its members in the year 2000.

In line with best practices and in full compliance with the recommendations in the Self-Regulatory Code, the Committee appointed by the Board of Directors in its meeting on 29 April 2008 is exclusively composed of the following independent Directors:

- Carlo Secchi (Chairman);
- Carlo Angelici;
- Franco Bruni

two of whom⁴⁰ possess adequate accounting and financial experience.

The Secretary to the Board of Directors acts as secretary to the Committee.

The meetings of the Committee for Internal Control and Corporate Governance are regularly minuted by the secretary, and the minutes are transcribed into a specific register⁴¹.

Functions attributed to the Committee for Internal Control

The Board of Directors that convened on 29 April 2008 confirmed the attributes - of a fact-finding and advisory nature - of the Committee for Internal Control and Corporate Governance in line with those specified in the Self-Regulatory Code, and also specified that the Committee should continue to maintain the corporate governance prerogatives that have characterised it since its establishment.

Specifically, the Committee for Internal Control and Corporate Governance:

- assists The Board of Directors:
 - in the definition of policies for the internal control system, so that the principal risks for the Company and its subsidiaries are correctly identified and adequately measures, managed and monitored, and also in the determination of criteria for the compatibility of these risks with healthy and correct management of the business;
 - in the identification of an executive director (normally a Managing Director) charged with supervising the operations of the internal control system;
 - in the evaluation, at least annually, of the adequacy, efficacy and effective operation of the internal control system;
 - in the description of the essential elements of the internal control system in the corporate governance report, expressing its evaluation of the system's overall adequacy;
- expresses an opinion on proposals to appoint, revoke or assign tasks relating to the internal control officer;
- evaluates the correct use of accounting principles and their homogeneous application inside the Group and for the purpose of drawing up the consolidated financial reports;
- at the request of the executive manager with specific responsibility (for risk management), expresses opinions on specific aspects of the identification of the main company risks and on the design, implementation and management of the internal control system;
- reviews the work plan prepared by the internal control officers, from whom it receives periodic reports;
- evaluates the proposals formulated by independent auditors in order to obtain the commission, as well as the audit plan and the results set out in the auditors' report and in the letter of suggestions, if produced;
- monitors the efficacy of the audit process;
- monitors the respect of the principles that the Company has formulated for execution of transactions with related parties;
- reports to the Board of Directors, normally in the first available meeting, on the activity carried out and in general on the adequacy on the internal control system when the annual and half-yearly financial reports are being approved;

³⁹ Also in line with the provisions of the Self Regulatory Code. Principle 8.P.4.

⁴⁰ Specifically, Mr. Bruni and Mr. Secchi.

⁴¹ Also in line with the provisions of the Self Regulatory Code, Criterion of application 5.C.1, lett. d).

- monitors the compliance with the rules of corporate governance and their periodic updating, and respect for any rules of conduct adopted by the Company and its subsidiaries. It is also responsible for proposing the methods for and times at which the Board of Directors should perform its annual self-evaluation;
- if an independent Director should be replaced, it proposes candidates for co-opting to the Board of Directors;
- it performs the further tasks assigned to it by the Board of Directors, also in relation to the monitoring of procedural correctness and of the substantial fairness of operations.

In line with the "Procedure for information flows to Directors and Auditors". The Committee has the right to consider, on a case by case basis, the following correlated parties:

- (i) companies in which the natural persons indicated in the procedure mentioned above hold strategic management roles, and the companies controlled by these companies;
- (ii) companies which share a majority of directors with Pirelli.

The Committee - which may also request the assistance of external consultants in fulfilling its mandate - meets whenever its Chairman deems it appropriate or a meeting has been requested by another member of the committee or by a Managing Director.

The Board of Statutory Auditors⁴² and, if deemed appropriate, other Company and/or Group representatives attend the meetings of the Committee.

The internal control officer (who is functionally answerable to the Committee for Internal Control and Corporate Governance) reports on his work and on the arrangements by which risk management and compliance with plans of defined content occur).

The internal control officer also reports, at least once a year, to the Board of Directors, either directly or through the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors.

The information and documents available and required for informed deliberation of the material submitted to the committee have always been circulated to all members reasonably in advance.

The Committee has adequate financial resources for the performance of its duties with independent expenses. In accordance with the provisions of the Self-Regulatory Code⁴³, the Committee also has the right to access company information and departments as necessary for the execution of the tasks assigned to it, making use of the support of the Secretary of the Board of Directors.

During 2008, the Committee for Internal Control and Corporate Governance met 4 times (with three of these meetings held after its renewal) and all members participated in these meetings. The average duration of the meetings was over two and a half hours.

The Committee proactively contributed to the process of implementing and updating the corporate governance tools of the Company, and, in particular, during the financial year it submitted the following interventions to the Board of Directors for approval⁴⁴:

- identification of the black-out periods applicable to subjects required to respect the insider dealing regulations;
- the adoption of a new "procedure for information flows to directors and auditors".

The Committee has also proposed some changes to the company bylaws, to change the period of time specified in article 154-ter of the FSA as notice for Shareholders' Meetings to be called, and to provide greater clarity, with more systematic and complete rules as well as changes to incorporate policies gradually developed in response to legislative initiatives. It also plans to include a mechanism to guarantee the presence of the minimum number of independent directors specified in the current law in the company bylaws.

The Company was informed about the adoption of the procedure⁴⁵ concerning article 36 of the Markets Regulation, which regulates the markets and conditions at which the shares of companies incorporated in non-European Union countries may be listed.

Also during 2008, the internal control officer of the Company (who is the head of the Internal Auditing Department) was able to report his actions to the Committee. The Committee also monitored the work done by the Internal Audit Department, specifically examining the result of work carried out as part of the Audit Plan approved by the Committee itself.

⁴² Also in accordance with the recommendations of the Self Regulatory Code: Criterion of application 8.C.4.

⁴³ Self Regulatory Code: Criterion of application 5.C.1, lett. e).

⁴⁴ Some of the initiatives to update the corporate governance tools were reported in the "Corporate Governance Report for the 2007 financial year".

⁴⁵ Refer to the section entitled "Adaptation of article 36 of Consob Regulation 16191/2007, concerning the regulation of markets" included in the interim report on operations at 30 September 2008, also available on the Company internet site.

The internal control officer also reported on his activity to the Committee: for information, please see the section entitled “Officer responsible for the preparation of the company accounting documents”.

Lastly, it is considered appropriate to provide an account of the development of the actions, legal and otherwise, that involved two ex-heads of Company Security that were reported in the corporate governance report for 2006 and 2007, and have been the subject of an investigation by the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors.

In particular, the Committee has been informed that, on 18 July 2008, the Company was informed that the investigations had been completed, and informed that an entry had been made in the register of investigations pursuant to legislative decree 231/2001 and that it was considered the victim of the offence of misappropriation with multiple aggravating circumstances. Subsequently, on 19 January 2009, the Company was notified that a preliminary hearing date had been set, and an indictment issued for violation of Legislative Decree 231/2001. The preliminary hearing was set for 30 March 2009.

At the date of approval of this Report the decisions to be taken in relation to the proceedings to improve the protection of the Company’s interests, were still being assessed, with the assistance of the Company’s lawyers.

With the assistance of highly qualified experts in the field, the Company has also separately examined the potential civil liabilities consequent on “intrusive activities” undertaken by ex-employees of the Company. After assessing the investigation made by the Committee, the Board of Directors, while considering and repeating the total non-involvement of the Company in the acts committed, which also damaged the Company itself - in coherence with the values of fairness and correctness that inform its action, and the importance of its human resources that Pirelli has always acknowledged, decided to offer an immediate financial contribution, the amount of which to be determined based on a fair evaluation, also supported by the experts mentioned above, to all the past or present employees of the Pirelli Group that were the object of “intrusive activities”, as an act of solidarity.

It should be noted that the Company is proceeding with the civil actions started against the security service suppliers involved in the investigations in order to be compensated for services that were not contractually fulfilled or were even illegal.

The Committee for Internal Control and Corporate Governance and the Board of Directors, taking into account the comments of the Board of Statutory Auditors, judged the internal control system of the Company and of its underlying Group to be adequate⁴⁶.

12. INTERNAL CONTROL SYSTEM

The internal control system of Pirelli & C. and the Group it heads is designed to ensure the provision of correct information and adequate cover of all the activities of the Group, with special reference to those areas that are considered to be potentially at risk.

It has developed as a process intended to achieve substantial and procedural fairness, transparency and accountability by ensuring: that transactions and, more generally, business related activities are efficient and can be known and verified, that financial information and accounting and operational data are accurate, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to prevent the perpetration of fraud against the Company and the financial markets.

The cardinal rules of the internal control system of the Company are:

- the separation of roles in the performance of the principal activities involved in each operating process;
- the traceability and constant visibility of decisions;
- the management of decision-making processes according to objective criteria.

⁴⁶ Cf. Paragraph headed “Internal control system and governance system” in the section entitled “Role of the Board of Directors”.

12.1. Executive director responsible for the internal control system

Responsibility for the internal control system lies with the Board of Directors, which lays down the guidelines for the system and periodically verifies that it is adequate and working effectively. To this end, the Board refers to the Committee for Internal Control and Corporate Governance, as well as to an Internal Control Officer, who is given an adequate level of independence and appropriate means in order to carry out this mandate, and who carries out typical audit functions to verify the adequacy and efficiency of this system; and, if anomalies are detected, who proposes the necessary corrective solutions.

After its renewal, the Board of Directors, in its meeting of 29 April 2008, identified the Chairman of the Board of Directors as the director charged with the internal control system to whom the following tasks have been assigned, in line with the recommendations of the Self-Regulatory Code⁴⁷:

- ensuring that the main company risks are identified, taking the characteristics of the activities performed by the issuer and its subsidiaries into account, and periodically submit them to the Board of Directors for examination;
- executing the policy lines defined by the Board of Directors, ensuring that the internal control system is planned, implemented and managed, and constantly ascertaining its overall adequacy, efficacy and efficiency;
- adapting the system to changes in business conditions and in the legal and regulatory frameworks;
- propose the appointment, revocation and remuneration of one or more internal control officers to the board.

12.2. Internal control officer

The internal control officer - the Board of Directors, after its renewal, with the approval of the Committee for Internal Control and Corporate Governance and in accordance with best practice, as proposed by the Executive Director charged with the internal control system, confirmed as the head of the Internal Audit Department (Dr. Maurizio Bonzi) reports his activities to the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors and is hierarchically answerable to the Chairman of the Board of Directors of Pirelli & C.

The Internal Audit Department assumes a role of great prominence in the internal control system and also, due to the activities it performs regarding subsidiaries, it has the principal task of assessing the adequacy and functionality of the control, risk management and corporate-governance processes throughout the entire Group by means of independent assurance and consultancy. The work of the Internal Audit Department is carried out in accordance with its mandate, and approved by the Committee for Internal Control and Corporate Governance, regarding the following aspects:

- mission;
- objectives and responsibilities (independence, complete access to information, activity framework, communication of results);
- improvement in the quality of internal audits; principles of professional ethics;
- professional reference standards.

The Company also has in place a planning and control system that focuses on individual sectors and work units, which produces a detailed monthly report for the General Managers, providing a useful tool for the supervision of specific activities. To pursue the strategies and guidelines adopted by the parent company, the Chief Operating Officer and appropriate senior executives for the sector sit on the Boards of Directors of the largest subsidiaries.

Finally, on the subject of the internal control system, it should be noted that the Company continues to apply the methodology (called "Project 262" within the company) to verify the adequacy of the administrative and accounting procedures to provide the delegated administrative bodies and the executive responsible for drawing up the company accounting documents with a system of controls for the preparation and validation of periodic accounting reports which allow these individuals to make the declarations regarding them required by the law.

⁴⁷ Also in line with the provisions of the Self Regulatory Code. Criterion of application 8.C.1, lett. b).

12.3. Organisational model ex Legislative Decree 231/2001

The internal control system described above has been further strengthened by the introduction of an organizational model that the Board of Directors approved on 31 July 2003 and which has been revised and modified according to updated regulations (most recently with a resolution of the Board of Directors on 9 March 2008). This organisational model, which is intended to ensure the development of a system that meets the specific requirements deriving from the entry into force of Legislative 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:

- a Group Code of Ethics, which enunciates the general principles (transparency, correctness and fairness) that inspire the conduct of business. It indicates the objectives and the values informing business activity in relation to the main stakeholders with which Pirelli & C. interacts on a daily basis: the shareholders, the financial market, customers, staff and the community;
- general principles of internal control, which qualify the Internal Control System, the field of application of which extends uniformly across the various levels of the organisation;
- lines of conduct which set out specific rules aiming to avoid the creation of environmental situations that favour criminal activity in general and, in particular, crimes pursuant to legislative decree 231/2001, and translate the principles expressed in the Code of Ethics into operational practice;
- internal control checklists, which set out the main phases of each high and medium risk process and, for instrumental processes, the specific checks to be made to reasonably prevent the risk of any criminal offence and the flows of information to the Supervisory Body to draw attention to situations of possible non-compliance with the procedures established in the organisational model.

The Organisational Model mentioned is available on the Company website www.pirelli.com.

A specific Self-Regulatory Body, with full economic independence, monitors the functioning of and the adherence to the organisational model. It is composed of Carlo Secchi, the Lead Independent Director and Chairman of the Committee for Internal Control and Corporate Governance, Statutory Auditor Paolo Domenico Sfameni, a member of the Board of Statutory Auditors, and Maurizio Bonzi, head of the Internal Audit Department and internal control officer.

This assures the full autonomy and independence of this Body, and the input of the different professional skills that contribute to the corporate management control.

The Supervisory Body is also charged with making ad hoc recommendations to the Board of Directors to adapt the organizational model to changes in the legal framework, and to changes in the nature of the business activities of the Company and the ways in which they are conducted. While the Supervisory Body reports to the Board of Directors, the Committee for Internal Control and Corporate Governance and the Board of Statutory Auditors on the checks it has performed and their outcomes.

Each member of the Self-Regulatory Body is paid a gross annual fee of 15,000 euros.

The mandate of the Self-Regulatory appointed by the Board of Directors on 29 April 2008 expires with that of the Board that appointed it.

With reference to the other Italian companies in the Group, the Self-Regulatory Body has been identified by seeking the technical and operational solution that, while respecting the mandate and the powers reserved to this body by law, is appropriate to the size and organizational context of each company. Lastly, a disciplinary system has been introduced to sanction non-compliance with the measures indicated in the organisational, operational and control systems.

Finally, it should be pointed out that the Internal Audit Department of Pirelli & C. provides, when requested by the self-regulatory bodies of Group companies, operative assistance in the management and analysis of information flows established pursuant to Art. 6, subsection 2, letter d), of Legislative Decree 231/2001, as well as in implementation of specific audits on the basis of data received through the aforementioned information flows.

During the year, the Self-Regulatory Body became involved in the court case that implicated two ex-heads of the Security Department of the Company, as detailed in the section entitled "Committee for Internal Control and Corporate Governance". In this respect, the Self-Regulatory Body has taken note of the circumstances reported in the aforementioned section.

12.4. External auditors

The audit of the company accounts is carried out by an auditing firm appointed by the Shareholders' Meeting and chosen from the firms listed in the appropriate register kept by Consob. The Shareholders' Meeting held on 29 April 2008 appointed Reconta Ernst&Young S.p.A. as external auditors of the statutory and consolidated financial statements and abbreviated half-yearly financial reports for the years 2008-2016. Pursuant to current law, the appointment was made at the reasoned proposal of the Board of Statutory Auditors after extensive in-depth technical-economic evaluation. This evaluation was performed taking into account a comparative overall analysis of the proposals received, with detailed comparison of (i) the costs and conditions of the mandate; (ii) the mix of personnel employed; (iii) the coverage of the territory and the skills and specific experience, and (iv) the fees proposed for work within the same perimeter. The Board of Statutory Auditors kept the Committee for Internal Control and Corporate Governance constantly informed on the progress of the selection process.

Reconta Ernst&Young S.p.A. is the Italian organisation of the Ernst&Young network, which through the organisations present in the various countries in which the Group operates, has also been appointed to audit the accounts of the principal Pirelli Group companies.

The fees paid to Reconta Ernst&Young (and to the other companies that are part of its network) are reported in detail in the notes to the consolidated financial statements of Pirelli & C. at 31 December 2008.

12.5. Officer responsible for preparing the company accounting documents

The Company bylaws⁴⁸ attribute the power to appoint the Responsible Officer to the Board of Directors, after having received the opinion of the Board of Statutory Auditors; they also establish that this appointment expires when the term of the Board of Directors making the appointment expires. The Responsible Officer must be an expert on administration and control matters, and possess the proper requisites, as established for directors.

After its renewal, the Board of Directors, with the favourable opinion of the Board of Statutory Auditors, confirmed Claudio De Conto, Chief Operating Officer of the Company, to whom all the administrative and tax structures of the Group report, as the Responsible Officer.

The Board of Directors, in compliance with the provisions of the FSA, has assigned the following duties to the Responsible Officer:

- a) to organise adequate administrative and accounting procedures for the formation of the company financial reports and consolidated financial statements and all other communications of a financial nature;
- b) to issue a written declaration attesting that the documents and communications of the Company disseminated to the market and the related financial reports, including mid-year reports, of the Company correspond to the documentary evidence, ledgers and accounting records;
- c) to attest, with a specific report drawn up according to the model established in the CONSOB regulations, attached to the financial reports, half-yearly report and consolidated financial statements:
 - the adequacy and effective application of the procedures specified in paragraph a) above during the period to which the documents refer;
 - that the documents are drawn up in compliance with the applicable international accounting standards recognised in the European Community pursuant to EC regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002;
 - that the documents correspond with the ledger entries and accounts;
 - that the documents are suitable to provide a true and correct representation of the economic, financial and equity situation of the Company and the set of business included in the consolidation;
 - for the statutory and consolidated financial reports, that the report on operations includes a reliable analysis of their progress and results, of the situation of the Company

⁴⁸ Article 11 of the company bylaws.

and the set of businesses included in the consolidation, together with descriptions of the principal risks and uncertainties to which they are exposed;

- for the abbreviated half-yearly report, that the half-yearly report on operations contains a reliable analysis of the information specified in subsection 4 of article 154 of the FSA.

The Board of Directors ensures that the Responsible Officer has adequate means and powers to perform the duties assigned to him, and monitors that the administrative and accounting procedures are effectively respected.

For this purpose the Responsible Officer reports, at least once a year, to the Board of Directors, either directly or through the Committee for Internal Control and Corporate Governance and to the Board of Statutory Auditors for those matters within its remit.

He promptly reports to the delegated administrative body, to the Board of Directors, also through the Committee for Internal Control and Corporate Governance, on any matters of significant relevance that he believes must be declared in the report specified in article 154-bis of the FSA unless corrected.

The Responsible Officer is invited to attend the meetings of the Board of Directors of the Company at which examination of the economic and financial data of the Company is on the agenda.

The Responsible Officer has direct access to all the information necessary for the production of the accounting data, without the need of any authorisation, shares the internal flows for accounting purposes, and approves all the company procedures that have an impact on the economic, financial and equity situation of the Company.

The Responsible Officer is granted all powers of an organisational and management nature needed to perform the tasks attributed to him by the current regulations, the Company bylaws and the Board of Directors.

To exercise the powers conferred to him he is granted full economic autonomy.

The Responsible Officer has attended all the meetings of the Board of Directors of the Company for which the examination of the economic-financial data of the Company was on the agenda, and has issued, after his appointment, the attestations and declarations specified in article 154-bis of the FSA.

The Responsible Officer reported to the Committee for Internal Control and Corporate Governance and, when the budget was being approved, to the Board of Directors, concerning the adequacy and suitability of the powers and means conferred by the Board of Directors of the Company, confirming that he had direct access to all the information necessary for the production of the accounting data, without need of any authorisation, shared the internal flows for accounting purposes and approved all of the company procedures that had an impact on the economic, financial and equity situation of the Company. During the financial year the Responsible Officer has issued the declarations and attestations specified in article 154-bis of the FSA.

13. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

The Company has also had rules of conduct for transactions with related parties, including intra-group business, in place since 2002. The purpose of these rules is to guarantee effective procedural and substantial correctness and transparency in transactions undertaken by Pirelli & C., directly or through subsidiaries, with parties related to Pirelli & C. itself.

On the basis of these rules, the Board is called on to approve transactions with related parties and infragroup transactions in advance, when the transactions are not typical or usual and concluded at standard conditions. To this end, the Board receives an adequate report on the nature of the relation, the ways in which the transaction is to be carried out, the conditions, including the economic conditions, for its execution, the evaluation procedure followed, and the underlying reasons and interest, as well as any risks for the company. If the relation is with a Director or with a related party through a Director, the Director concerned must - unless the Board decides otherwise - limit him or herself to supplying clarification, and does not participate in the Board Meeting that will deliberate the transaction. Depending on the nature, value or other characteristics of the transaction, the Board of Directors, to ensure that the transaction is not carried out at incongruous conditions, is assisted by one or more experts who express their opinion on the economic and/or legal and/or technical aspects of the transaction. The Committee for Internal Control and Corporate Governance monitors

the respect of the principles that the Company has formulated for execution of transactions with related parties.

Finally, please note that in order to identify what constitutes a related party, the Company - as also indicated by Consob - defines the concept of "related party" according to the IAS/IFRS principles (specifically IAS 24).

The text of the principles of conduct is printed at the end of this Report and is also available in the Governance section of the Company website, www.pirelli.com.

14. BOARD OF STATUTORY AUDITORS

According to the law and the Company bylaws, the Board of Statutory Auditors is entrusted with monitoring the following:

- compliance with the law and the bylaws;
- respect for the rules of correct administration;
- the adequacy of the organisational structure of the Company for the aspects within its competence, of the internal control and administration-accounting system, and of the reliability of the latter to correctly represent the operating results;
- the ways in which the corporate governance rules specified in the codes of conduct prepared by companies that manage regulated markets or professional associations, which the company declares to follow, are actually implemented;
- the adequacy of the instructions issued by the Company to its subsidiaries regarding the reporting of price sensitive information⁴⁹.

The Board of Statutory Auditors carries out its duties by exercising all of the powers conferred upon it by law and, since it can rely on a constant and analytical information flow from the Company, during and beyond the regular meetings of the Board of Directors and its Committees.

In fulfilling its functions, the Board of Statutory Auditors, besides participating in all the Board of Directors and Shareholders' Meetings, also takes part in the tasks of the Remuneration Committee and the Committee for Internal Control and Corporate Governance. Moreover, Paolo Domenico Sfameni, a Standing Auditor, became a member of the Supervisory Body in accordance with the legislative decree No. 231/2001.

15. APPOINTMENT OF AUDITORS

The Company bylaws provide that the Board of Statutory Auditors consists of three Standing Auditors and two Alternate Auditors. In order to allow minority shareholders to elect one Standing Auditor and one Alternate, the Company bylaws⁵⁰ specify that they are appointed using the so-called the slate system, meaning that one Standing Auditor and one Alternate Auditor are elected from the slate that obtains the second highest number of votes (the so-called the minority slate). The remaining members of the Board (i.e. two Standing Auditors and the other Alternate Auditor) are elected from the slate that obtains the highest number of votes (the majority slate).

Pursuant to the Company bylaws, shareholders who, alone or together with others, hold at least 2% of the share capital entitled to vote at the ordinary shareholders' meeting that is, the lowest percentage required by CONSOB⁵¹ may present slates.

Pursuant to the Issuer Regulations (article 144-quinquies and subsequent)⁵² the slates must be filed at the registered offices of the company at least 15 days before the date of the Shareholders' Meeting called to deliberate the matter. While the current regulations should be consulted for further details, it is pointed out that if a single slate is presented, or if the several slates presented by shareholders are found to be linked, then slates may be submitted up to five days

⁴⁹ Now referred to as "sensitive information" (article 114 of the FSA).

⁵⁰ Article 16 of the company bylaws.

⁵¹ CONSOB (Resolution no. 16779 of 27 January 2009) has determined the percentage shareholding required for presentation by the shareholders of the slates of candidates for election to the administration and control bodies of Pirelli & C for the 2009 financial year as 2% of the capital with voting rights in the ordinary shareholders' meeting.

⁵² In this respect it should be noted that CONSOB has issued Communication no. DEM/9017893 of 26-2-2009, containing some recommendations on the appointment of members of administration and control bodies.

after the expiry of the date for their presentation (15 days before the shareholders' meeting) and the thresholds for their presentation are reduced by half.

Each shareholder may present or participate in the presentation of only one slate.

The following must be accompanied by the following, also pursuant to the current regulations:

- information on the identity of the shareholders who presented the slates, indicating their percentage holdings and a certificate proving that they own such a holding;
- a declaration by shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting that there are no links;
- a professional curriculum vitae for each candidate and declarations in which the candidates individually accept their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and the bylaws.

Slates presented in violation of the above rule are considered null.

Subject to ineligibility, each candidate may only appear on one slate.

Slates must be divided into two sections: one for candidates for the position of Standing Auditors and the other for candidates for the position of Alternate Auditor. The first candidate in each section must be selected from among persons entered in the register of standing auditors who have worked on statutory audits for a period of not less than three years.

Each person entitled to vote may vote for only one slate.

The Standing Auditor at the top of the minority slate, if presented, is entitled to Chair the Board of Statutory Auditors.

In the event of death, resignation or disqualification of a Standing auditor, he (or she) is replaced by the Alternate Auditor from the same slate. If the Chairman of the Board of Statutory Auditors is to be replaced, the other Standing Auditor elected on the same slate takes the Chair; if it is not possible to proceed in the manner described above, a shareholders' meeting is called to fill the vacancy or vacancies on the Board of Statutory Auditors by means of a resolution approved by a relative majority of the votes cast.

When the Shareholders' Meeting must appoint the Standing and/or Alternate Auditors needed to complete the Board of Statutory Auditors, pursuant to the previous paragraph, or to the law, the following procedure must be used: if standing auditors elected from the majority slate are to be replaced, the appointment is made with the favourable votes of a relative majority without being tied to a slate; if, instead, standing auditors elected from the minority slate are to be replaced, the shareholders' meeting replaces them with the favourable votes of a relative majority, choosing where possible from among the candidates on the slate from which the standing auditor to be replaced was elected. The principle of necessary representation of minorities is respected, since the bylaws assure the right to participate in the appointment of the Board of Statutory Auditors, in case of the appointment of Auditors who have been candidates on the minority slate or slates other than those that obtained the highest number of votes in the procedure to appoint the Board of Statutory Auditors.

For the appointment of Auditors for any reason not appointed according to the procedure described above, then the shareholders decide with the legal majorities.

Outgoing Auditors may be re-elected.

Participation in meetings of the Board of Statutory Auditors may be - if the Chairman or his substitute verifies the necessity - by means of telecommunication techniques that permit participation in the discussion and equality of information for all those taking part.

16. AUDITORS

The Shareholders' Meeting held on 21 April 2006 resolved to renew the Board of Statutory Auditors for the 2006-2008 period, appointing Luigi Guatri, Enrico Laghi and Paolo Francesco Lazzati (the latter as replacement following the resignation of Paolo Domenico Sfameni) as Standing Auditors. Luigi Guerra and Franco Ghiringhelli were appointed alternate auditors.

The appointments were made with the slate system. The single slate was presented by members of the Pirelli & C. Block Shares Syndicate. The Company considers that the reason why no alternative slate was presented by the minorities is the authoritative and known character of the candidates proposed.

In the absence of members of the Board of Statutory Auditors from the minority slate, the Shareholders' Meeting decided to confirm the appointment of Luigi Guatri as Chairman of the Board of Statutory Auditors.

The Shareholders' Meeting also determined that the annual gross fee for each of the Statutory Auditors should be 41,500 euros, and that the gross annual fee of the Chairman of the Board of Statutory Auditors should be 62,000 euros.

It also determined that the Standing Auditor called on to become a member of the Supervisory Body in accordance with the legislative decree No. 231/2001 (Paolo Domenico Sfameni) should receive an additional gross annual fee of 15,000 euros.

The composition of the Board of Statutory Auditors at the date of approval of this Report is indicated below:

Nome	Office	Appointed on	Slate	Indep. Self. Reg. Code	Indep. Self. Reg. Code
Luigi Guatri	Chairman	21/04/2006	Maj.	X	100
Enrico Laghi	Standing Auditor	21/04/2006	Maj.	X	100
Paolo Domenico Sfameni	Standing Auditor	21/04/2008	*	X	100**
Luigi Guerra	Alternate Auditor	21/04/2006	Maj.	-	-
Franco Ghiringhelli	Alternate Auditor	21/04/2006	Maj.	-	-

LEGEND

* Appointed pursuant to the Company bylaws, without invoking use of the slate voting mechanism since the conditions to do so did not occur.

** Auditor Paolo Domenico Sfameni was appointed by the Shareholders' Meeting of 29 April 2008, and thus this percentage was calculated based on the number of those meetings held after his appointment that he attended.

Office: indicates whether the person is the chairman, a standing auditor, or an alternate auditor

Slate: Maj/Min according to whether the auditor was elected from the majority or minority slates (art. 144-decies of the Issuer Regulations)

Indep.: if checked indicates that the auditor may be considered independent according to the criteria contained in the Self Regulatory Code, specifying at the end of the table if these criteria have been supplemented or modified

% att. B.S.A.: indicates the percentage of meetings of the board of auditors attended by the auditor

The list of offices held by Auditors in public or private limited companies, and in partnerships limited by shares, is reported in the document attached to the report on supervisory activity drawn up pursuant to article 153 subsection 1 of the FSA contained in the financial report.

It should be noted that on the Date of approval of the Report, the Company had not been informed that any serving Auditor had exceeded the limit of accumulated administration and control offices specified in article 144 terdecies of the Issuer Regulations.

The Auditors who ceased to hold office during the year are listed below:

Name	Office	Served from / to	Slate	Indep. ex. Code	% att. B.S.A.
Paolo Lazzati	Standing Auditor	From 21/04/2006 to 29/04/2008	Maj.	X	100*

LEGEND

Refer to the legend for the two preceding tables.

* This percentage was calculated taking into account the number of those meetings of the Board of Statutory Auditors that he attended before ceasing to serve compared with respect to those meetings held in the year after his appointment ceased.

In line with the provisions of the Self Regulatory Code⁵³ and as expressly ascertained by the Board of Statutory Auditors, based on the information provided by the Auditors and the information available to the Board of Statutory Auditors, all Auditors may be defined as independent based on criteria contained in the Code regarding directors. Moreover, during the year the

⁵³ Self-Regulatory Code. Criterion of application 10.C0.2.

members of the Board of Statutory Auditors considered Consob communication no. 8067632 of 17 July 2008, and promptly confirmed to the Company that they continue to fulfil the requisites for independence also in the light of the content of said communication⁵⁴.

Pirelli & C. qualifies its Auditors as related parties for the Company, and thus if an Auditor has an interest in a specific transaction of the Company the “rules of conduct for transactions with related parties” described in the preceding section “Interests of Directors and transactions with related parties” become applicable. It follows that, in accordance with the provisions of the Self-Regulatory Code⁵⁵, the Board receives an adequate report on the nature of the relation and the ways in which the transaction will be executed.

During 2008 the Board of Statutory Auditors held 5 meetings attended by all members of the Board. However, it should be noted that the members of this Board also attended the Shareholders’ Meetings and the meetings of the Board of Directors, all of the meetings of the Committee for Internal Control and Corporate Governance and the Remuneration Committee held during the year, as required by the corporate governance rules adopted by the Company, which offer the Board of Statutory Auditors, in its own interest, the possibility of directly following the activities of the Committees and performing their control functions more efficaciously.

During the year, the Board of Statutory Auditors has monitored the observance of the law and the bylaws, the respect of the principles of correct administration and the adequacy of the organisational structure of the Company, the internal control system and administrative-accounting system, as well as the reliability of the latter to correctly represent the operating results.

It also monitored the ways in which the corporate governance rules specified in the codes of conduct prepared by companies that manage regulated markets or professional associations, which the company declares to follow, are actually implemented, and on the adequacy of the instructions given by the Company to its subsidiaries regarding the reporting of price sensitive information⁵⁶.

The Board of Statutory Auditors reported the activities it had carried out, and expressed its opinion on those aspects of the Directors’ proposal for the distribution of the 2008 dividend within its field of competence to the Shareholders’ Meeting held on 29 April 2008.

The Board of Statutory Auditors presented its reasoned proposal for the appointment of Reconta Ernst&Young S.p.A. as external auditors of the statutory and consolidated financial statements and abbreviated half-yearly financial reports for the years 2008-2016 to the Shareholders’ Meeting held on 29 April 2008. The Board of Statutory Auditors had previously undertaken an extensive in-depth technical-economic evaluation. This evaluation was performed taking into account a comparative overall analysis of the proposals received, with detailed comparison of (i) the costs and conditions of the mandate; (ii) the mix of personnel employed; (iii) the coverage of the territory and the skills and specific experience, and (iv) the fees proposed for work within the same perimeter. The Board of Statutory Auditors subsequently monitored⁵⁷ the independence of the external auditors, checking that the instructions in terms of both the nature and entity of the services other than accounts monitoring provided to Pirelli & C, and its subsidiaries by the external auditors and their network are respected.

The Board of Statutory Auditors has also checked that the criteria and ascertainment procedures adopted by the Board of Directors to assess the independence of its members are correctly applied.

The Board of Statutory Auditors⁵⁸ coordinated its activities with the Internal Audit department and, as stated, staff from the latter participated in all the meetings of the Committee for Internal Control and Corporate Governance.

It should be noted that the Shareholders’ Meeting called to approve the financial statements at 31 December 2008 will also be called on to deliberate the renewal of the Board of Statutory Auditors. On this matter, see the Directors’ Report, which will be made available on the company website www.pirelli.com, for greater detail.

⁵⁴ CONSOB communication no. DEM/DCL/DSG/8067632 of 17-7-2008 concerning situations of incompatibility for members of control organs pursuant to art. 148, subsection 3, lett. C) of the FSA.

⁵⁵ Self-Regulatory Code. Criterion of application 10.CO.4.

⁵⁶ Now referred to as “sensitive information” (article 114 of the FSA).

⁵⁷ Also in accordance with the recommendations of the Self-Regulatory Code: Criterion of application 10.C.5.

⁵⁸ Self-Regulatory Code: Criteria of application 10.C.6 and 10.C.7.

17. RELATIONS WITH SHAREHOLDERS

In line with its tradition of transparency and fairness, the Company actively promotes relations with shareholders, institutional and private investors and with financial analysts, with other market operators and with the financial community in general within the proper limits of their respective roles, and periodically organizes meetings with representatives from the Italian and international financial communities.

The Investor Relations division was founded in March 1999 to promote continuous dialogue with the financial markets; Valeria Leone was appointed to run this division in October 2008.

To enable open and immediate dialogue with all those needing information of a financial nature about Pirelli, there is a dedicated Investors section on the Company website (www.pirelli.com), where information for an initial evaluation of Pirelli is available: from the identifying characteristics of the Company to economic-financial data, on the drivers of the various businesses in which the Pirelli Group is engaged to the opinions of financial analysts, from all the documentation made available to meetings with the financial community to accounting and legal information.

To facilitate contact with the Company, Investor Relations has an e-mail address (investorrelations@pirelli.com) and guarantees to reply to all queries received within 24 hours, while the Investors-Contacts section shows the contact details for each member of the IR team, for specific requests from analysts and investors, both individual and institutional.

To facilitate understanding of the strategy and evolution of the business and results produced, the top management of Pirelli &C and Investor Relations use other tools of financial communications, such as roadshows, conference calls, one to one meetings and industry conferences for Group businesses. The Company also has a culture based on the combination of profitability and business sustainability, and takes part in many world indicators assessing the social responsibility of business, and has been acknowledged a leader in this field.

18. SHAREHOLDERS' MEETINGS

The Shareholders' meeting - that may be ordinary or extraordinary - has the competence, according to the law, for resolving upon a series of specified matters such as the approval of the financial statements, the election and the revocation of directors and statutory auditors, their fees and responsibilities, the purchase or sale of own shares, the modification of the Company bylaws, the issuance of convertible bonds, and, except for restricted cases, merger and division transactions. An ordinary Shareholders' Meeting - which may be held in Italy, not necessarily in the registered office - may be convened within 120 days after the end of the financial year.

In line with the calendar circulated by the Company, the date of first call of the Shareholders' Meeting is 20 April 2009, and in second call for 21 April 2009.

In addition to the law and the bylaws, Shareholders' Meetings are governed by the Rules of Proceedings (printed at the end of this Report and available in the Governance section of the Company website, www.pirelli.com), approved by the Shareholders' Meeting held on 11 May 2004 and subsequently modified by the Shareholders' Meeting held on 23 April 2007.

In particular, the Rules assign to the Chairman of the meeting the right to grant those shareholders who have requested it, pursuant to the law and the Company bylaws, a period of no longer than 15 minutes to illustrate proposals and explain the reasons for them to be added to the items to be discussed in the Shareholders' Meeting.

The Shareholders' Meeting is chaired, in the following order, by the Chairman of the Board of Directors, by a Deputy Chairman or a Managing Director; if there are two or more Deputy Chairmen or Managing Directors, they are chaired by the senior in age. In the absence of the aforementioned individuals, the Shareholders' Meeting is chaired by another person elected by the shareholders with the favourable vote of the majority of the capital represented at the meeting.

The Chairman of the shareholders' meeting - among other things - verifies that the meeting has been validly constituted, ascertains the identity of those present and their right to attend, including by way of proxies, ascertains the legal quorum and governs the proceedings, with the faculty to establish a different order for the discussion of the topics listed in the agenda indicated in the notice convening the meeting. The Chairman also takes appropriate action to

ensure orderly discussion and voting, establishing the procedures and verifying the results. The decisions of the meeting are recorded in minutes signed by the Chairman of the meeting and the Secretary or by the Notary public.

The minutes of extraordinary Shareholders' Meetings must be prepared by a Notary public appointed by the Chairman of the meeting.

Article 7 of the Company bylaws specifies that shareholders' interventions for which the communication specified in article 2370 subsection two of the Civil Code, within two days of the date of the particular shareholders' meeting, are legitimate.

The bylaws do not envisage the non-availability of the actions for which the communications mentioned in the aforementioned article 2370, subsection 2 of the Civil Code until the meeting has been held.

With reference to the right of each shareholder to speak on topics raised for discussion, it should be noted that the Rules for shareholders' meetings provide that the Chairman determines the period of time available to each speaker at the start of the meeting, taking the importance of the individual items on the agenda into account, but in any event no less than 15 minutes. Persons who wish to speak must ask the Chairman or the Secretary, indicating the topic to which the speech refers. The request may be presented up to the moment the Chairman has declared closed the discussion of the matter which the demand to speak refers. Participants may ask to speak a second time during the discussion, for a period of no more than five minutes, solely for the purpose of replying or formulating voting intentions.

As far as the meeting of holders of savings shares is concerned, this is called by the Common Representative of the savings shareholders of the Company or by the Board of Directors every time they believe it to be proper advisable or when its convening is required by the law.

The special meeting of savings shareholders is chaired by the Common Representative of the savings shareholders or, in his absence, by the person elected by a majority of the capital represented at the meeting.

Pursuant to the Company bylaws⁵⁹ the Company is responsible for the expenses of organising the special shareholders' meeting and for the remuneration of the Common Representative.

The savings shareholders' meeting took place on 28 January 2009 and proceeded to appoint a Common Representative, the mandate of the serving Common Representative having expired. The special shareholders' meeting confirmed Giovanni Pecorella as Common Representative for the years 2009-2011, determined his remuneration, and approved the creation of a fund for the expenses necessary for the protection of the common interests of the group. When renewing the Common Representative, the savings shareholders' voted separately on the appointment of the Common Representative and on the determination of his fee.

19. CHANGES AFTER THE CLOSURE OF THE FINANCIAL YEAR

The Report takes into account the changes that have occurred since the end of the financial year to the data of approval of the Report.

⁵⁹ Article 6 of the company bylaws.

ANNEX A

Name - Purpose - Registered Office - Term

Article 1

A joint-stock company has been incorporated under the name Pirelli & C. Società per Azioni or, in abbreviated form, Pirelli & C. S.p.A.

Article 2

The Company's purpose shall be:

- a) the acquisition of equity interests in other companies or corporations, both in Italy and abroad;
- b) the financing and the technical and financial coordination of the companies or corporations in which it holds interests;
- c) the sale and purchase, ownership, management and/or placement of both government and private securities;

The company may carry out all operations of any type whatsoever - excluding any activities reserved by law - connected to its corporate purpose.

Article 3

The registered office of the Company shall be in Milan.

Article 4

The duration of the company shall be until December 31, 2100.

The extension of the term of duration does not award the right of withdrawal to shareholders who do not take part in the approval of the relating resolution.

Share capital

Article 5

The Company shall have a subscribed and paid-in share capital of 1,556,692,865.28 euros (one-billionfivehundredandfiftysixmillions-sixhundredandninetytwothousands-heighthundred-sixtyfivepointtwentyeight) divided into no. 5,367,906,432 (fivebillions-threehundredsixtyseven-millions-ninehundredandsixthousands-fourhundredandthirtytwo) shares with a par value of 0.29 euros (twenty-nine cents) each, consisting of 5,233,142,003 (fivebillions-two hundredandthirty-threemillions-onehundredandfourtytwothousandsand three) ordinary shares and 134,764,429 (onehundredandthirtyfourmillions-sevenhundred-and-sixtyfourthousands-fourhundredandt-wentynine) savings shares.

With resolutions to increase the share capital by issuing shares against payment, pre-emption rights may be excluded for up to a maximum of ten percent of the previously existing capital, provided that the issue price corresponds to the market value of the shares and that this is confirmed in a specific report prepared by the firm appointed to audit the accounts.

If so resolved by the shareholders' meeting, the share capital may also be increased by means of contributions in kind or of receivables.

By resolution of the extraordinary shareholders' meeting held on May 7, 2003, the directors were authorised to issue, on one or more occasions within April 30, 2008, up to a maximum of 100,000,000 (one hundred million) ordinary shares, to be allocated to executive managers

and cadres employed by the Company, by its subsidiaries and by the subsidiaries of the latter, in Italy and abroad, in compliance with article 2441, paragraph 8, of the Italian Civil Code and article 134 of Legislative Decree no. 58/1998. On February 25, 2005 the Board of Directors resolved, in partial implementation of the authorisation granted to it by the extraordinary shareholders' meeting held on May 7, 2003, to increase the share capital by a maximum nominal amount of 15,725,496.50 euros by issuing up to 54,225,850 ordinary shares with a par value of 0.29 euros each, at a price of 0.996 euros per share, inclusive of a 0.706 euros share premium, to be reserved for subscription by executive managers and cadres employed by the Company, by its subsidiaries and by the latter's subsidiaries, in Italy and abroad.

By resolution of the extraordinary shareholders' meeting held on May 11, 2004, the directors were authorised to increase the share capital against payment, on one or more occasions and within May 10, 2009, by a total maximum nominal amount of 600 million euros, with or without a share premium, by issuing up to a maximum of 2,068,965,517 ordinary shares against payment, to be offered on option to shareholders and convertible bondholders, with the possibility of excluding pre-emption rights, in compliance with the combined provisions of article 2441, last paragraph, of the Italian Civil Code and article 134, paragraph 2, of Legislative Decree no. 58/1998, if the shares are offered for subscription by the employees of Pirelli & C. S.p.A. and/or its subsidiaries.

By resolution of the extraordinary shareholders' meeting held on May 11, 2004, the directors were authorised to issue, on one or more occasions within May 10, 2009, bonds that are convertible into ordinary and/or savings shares, or that carry warrants valid for the subscription of said shares, to be offered on option to shareholders and convertible bondholders, corresponding to a total maximum nominal amount of 1,000 million euros within the limits permitted each time under the laws in force, with the ensuing eventual increase of the share capital to back the conversion of the bonds and/or exercise of the warrants.

The resolutions passed by the Board of Directors to increase the share capital during the exercise of the rights allocated as described above shall set the share subscription price (inclusive of any share premium) as well as the specific term for the subscription of the shares: they may also provide that, if the capital increase resolved is not fully subscribed by the date set for this purpose, the capital shall be increased by an amount corresponding to the subscriptions received up to such date.

Article 6

The shares are divided into ordinary shares and savings shares.

Ordinary shares award the right to one vote per share; they may be either registered or bearer shares insofar as the law permits, and in this case may be converted from one type to the other, especially at the shareholder's request and expense.

Savings shares do not carry voting rights and, unless the law provides otherwise, are bearer shares.

They may be converted into registered shares on request and expense of the shareholder.

As well as any rights and privileges provided for by law and in other parts of these By-laws, savings shares shall have priority in the repayment of the capital up to their entire par value; in the event of a reduction of the share capital due to losses, the par value of saving shares will be reduced only by the amount of the loss that exceeds the total par value of the other shares.

Savings shares shall retain the rights and privileges contemplated by law and by these By-laws also in the event that the Company's ordinary and/or savings shares are delisted.

In the event of a share capital increase being carried out by issuing shares of only one class, such shares must be offered on option to the holders of all classes of shares.

In the event of both ordinary and savings shares being issued:

- a)** the holders of ordinary shares shall be entitled to receive an option on ordinary shares, and on savings shares to make up any difference;
- b)** the holders of savings shares shall be entitled to receive an option on savings shares, and on ordinary shares to make up any difference.

Any introduction or removal of restrictions on the circulation of shares does not award the right of withdrawal to shareholders who do not take part in the approval of the relating resolution.

The savings shareholders' organisation is governed by law and by these By-laws. The expenses

related to the organisation of the special savings shareholders meetings and the remuneration of the common representatives of savings shareholders shall be borne by the Company.

Shareholders' meetings

Article 7

The calling of shareholders' meetings, which may be held anywhere in Italy, including in a place other than the Company's registered office, the right to attend meetings and representation at same are all regulated by law and by these By-laws.

The notice of the call of an extraordinary shareholders' meeting may provide for it to be held on third call.

Shareholders for which the Company has received the documentation pursuant to art. 2370, paragraph 2, of the Italian Civil Code, at least two days prior to the date set for each meeting shall be entitled to attend shareholders' meetings.

The ordinary shareholders' meeting must be called within 120 days after the end of the Company's financial year.

Requests to add items to the agenda of the general meetings presented by shareholders in accordance with the law must be detailed, by the same shareholders, by a report to be filed in the Company's registered office in time to be made available to the other shareholders and at least 10 days prior to the date set for the meeting on the first call.

Special meetings of savings shareholders shall be convened by the common representative of savings shareholders or by the Board of Directors of the Company whenever they deem it necessary or in accordance with the law.

Article 8

The due constitution of shareholders' meetings and the validity of the resolutions adopted by same are governed by law.

The proceedings of shareholders meetings are governed by law, by these By-laws, and - solely for the ordinary and extraordinary general meetings - by the Rules of Proceeding approved by resolution of the Company's ordinary shareholders meeting.

Article 9

Ordinary and extraordinary shareholders' meetings shall be chaired by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order; whenever there are two or more Deputy Chairmen or Managing Directors, the meetings will be chaired by the elder of same respectively. In the absence of all of the aforementioned individuals, the meeting shall be chaired by another person elected with the favourable vote of the majority of the capital represented at the meeting.

The special meeting for savings shareholders shall be chaired by the common representative for savings shareholders or, in his absence, by the person appointed with the favourable vote of the majority of the capital represented at the meeting.

The Chairman shall be assisted by a Secretary who is to be appointed with the favourable vote of the majority of the capital represented at the meeting and need not be a shareholder; there is no need to appoint a Secretary when a notary public is designated to draw up the minutes of the meeting.

The Chairman of the shareholders' meeting shall chair the meeting and govern its proceedings in compliance with the law and these By-laws. To this end, the Chairman shall, amongst other things: verify that the meeting is duly constituted; ascertain the identity of those present and their right to attend, including by proxy; ascertain the legal quorum for passing resolutions; direct the business, including by establishing a different order for the discussion of the items listed on the agenda in the notice convening the meeting. The Chairman shall also take appro-

priate measures to ensure the orderly conduct of discussions and votes and shall establish the procedures and ascertain the results thereof.

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

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

Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman of the Board of Directors.

Administration of the Company

Article 10

The Company shall be managed by a Board of Directors composed of no less than seven and no more than twenty three members who shall remain in office for three financial years (unless the shareholders' meeting establishes a shorter term at the time of their appointment) and may be re-elected.

The shareholders' meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until said meeting resolves otherwise.

The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.

The slates presented by the shareholders, which must be undersigned by the parties submitting them, shall be filed at the Company's registered office, and be available to anyone on request, at least fifteen days before the date set for the shareholders' meeting to be held on first call.

Each shareholder may present or take part in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 2 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term of filing of the same slates. Together with each slate, and within the respective terms specified above, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the positions.

Together with such statements, a curriculum vitae must be filed for each candidate, setting out their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and specifying, where appropriate, the grounds on which they qualify as an independent candidate in accordance with the criteria established by law and the Company.

Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

Any slates submitted without complying with the foregoing provisions shall be disregarded.

Each person entitled to vote may vote for only one slate.

The Board of Directors shall be elected as specified below:

- a) four-fifths of the directors to be elected shall be chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded-down to the nearest whole number;
- b) the remaining directors shall be chosen from the other slates; to this end, the votes obtained by the various slates shall be divided by whole progressive numbers from one up to the number of directors to be elected.

The quotients thus obtained shall be assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates shall be ranked in a single list in decreasing order. Those who have obtained the highest quotient shall be elected.

If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected a director or that has elected the lowest number of directors shall be elected.

If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes shall be elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote shall be held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes shall be elected.

If the application of the slate voting system shall not ensure the appointment of the minimum number of independent Directors required by the law and/or regulation, the appointed non-independent candidate indicated with the higher progressive number in the slate which has obtained the higher number of votes shall be replaced by the non-appointed independent candidate included in the same slate on the basis of the progressive order of the presentation and so on, slate by slate, until the minimum number of independent Directors shall be appointed.

When appointing directors who, for whatsoever reason were not appointed under the procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law. If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed.

In the event a Director cease to comply with the independence requirements, this does not cause his/her ceasing to be a Director provided that the Directors in office complying with legal independence requirements are a number at least equal to the minimum number requested by laws and/or regulations.

The Board of Directors shall elect its own Chairman, if the shareholders' meeting has not already done so, and may also appoint one or more Deputy Chairmen.

In the absence of the Chairman, a Deputy Chairman or a Managing Director, in that order, shall act in his/her stead; should there be two or more Deputy Chairmen or Managing Directors, the Board shall be presided over by the elder of same respectively.

The Board of Directors shall appoint a Secretary, who need not be a director.

Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

Article 11

The Board of Directors shall conduct the management of the company and is accordingly vested with the broadest powers of administration, except for those remitted by law or by these By-laws to the authority of the shareholders' meeting.

Within the limits established by law, the Board of Directors shall be authorised to decide on the merger of companies in Pirelli & C. S.p.A. or de-merger in favour of Pirelli & C. S.p.A. of companies in which Pirelli & C. S.p.A. owns at least 90 percent of the shares or quotas, the reduction of the share capital in the event of the withdrawal of shareholders, the revision of the By-laws to conform with statutory provisions, the relocation of the Company's registered office within Italy, and the opening and closing of branch offices.

The Board of Directors and the Board of Statutory Auditors shall be kept informed, also by corporate bodies with delegated powers, on the activities carried out, the general performance of operations and their foreseeable development, and the transactions of greatest economic, financial and equity-related significance concluded by the Company or its subsidiaries; in particular, said corporate bodies with delegated powers shall report on transactions in which they have an interest, directly or on behalf of third parties, or that are influenced by the party that performs management and coordination activities, if any. Such reports shall be made promptly, on a quarterly basis at the least, in a written memorandum.

In accordance with the established times and procedures for disclosing information to the market, the representative of the holders of savings shares must be informed by the Board of Directors or by the persons delegated for such purpose about any corporate events that might affect the price of the shares in that class.

In the context of the management of the Company, the Board of Directors shall be authorised to delegate those powers which it deems appropriate to one or more of its members, possibly

with the title of Managing Director, and grant them the single or joint signature powers it decides appropriate to establish.

It may also delegate its powers to an Executive Committee composed of some of its own members, whose remuneration shall be established by the shareholders' meeting.

It may also establish one or more committees with consulting and propositional functions, also for purposes of adjusting the corporate governance structure in line with the recommendations issued from time to time by the pertinent authorities.

The Board of Directors shall appoint - with the consent of the Board of Statutory Auditors - the manager responsible for preparing the Company's financial reports. His office shall expire at the same time as that of the Board of Directors that appointed him/her, unless annulment for good cause, with the consent of the Board of Statutory Auditors.

The manager responsible for preparing the Company's financial reports must be an expert on administration, finances and auditing of companies and satisfy the integrity qualifications required to be a directors. Failing of such qualifications shall determine the termination of the office to be resolved by the Board of Directors within thirty days since the acknowledgement of the defect.

Lastly, the Board may appoint general managers, deputy general managers, managers and deputy managers and attorneys-in-fact to carry out certain operations or categories of operations, establishing their powers and functions. The appointment of managers, deputy managers and attorneys-in-fact to carry out certain operations or categories of operations may also be remitted by the Board to the Managing Directors and the General Managers.

Article 12

The Board shall meet, at the invitation of the Chairman or whoever acts in his/her stead, at the Company's registered office or at any other venue stated in the letter of convocation, whenever he/she deems it appropriate in the best interests of the Company or receives a written request to do so from one of the Managing Directors or one-fifth of the directors in office or at least two standing members of the Board of Statutory Auditors.

The meeting of the Board of Directors can also be convened by the Board of Statutory Auditors, or by a single Statutory auditor, subject to prior notice given to the Chairman of the Board of Directors.

The Chairman shall give advance notice of the matters to be discussed at Board meetings and arrange for adequate information on the questions to be examined to be provided to all the directors, taking account of the circumstances of each case.

Board meetings shall be called by letter, telegram, fax or e-mail, to be sent to each director and standing member of the Board of Statutory Auditors at least five days prior (or in urgent cases, with at least six hours' notice) to the date scheduled for the meeting.

Even when a Board meeting is not formally called, resolutions of the Board of Directors shall nevertheless be valid if adopted in the presence of all the Board members in office and all the standing members of the Board of Statutory Auditors.

Board meetings - and meetings of the Executive Committee, if established - may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

Meetings of the Board of Directors, and of the Executive Committee, if established, shall be considered held at the place in which the Chairman and the Secretary must be simultaneously located.

Resolutions of the Board of Directors shall only be valid if adopted in the presence of the majority of Board members and by majority vote. In the event of a tied vote, the Chairman shall hold the casting vote.

Resolutions of the Board of Directors, including those adopted at meetings held via telecommunications, must be recorded in a specific minutes book and signed by the Chairman and the Secretary of the meeting. Any copies of and extracts from minutes that have not been drawn up by a notary public shall be certified as true copies by the Chairman.

Article 13

The legal representation of the Company vis-à-vis third parties and in court proceedings shall pertain severally to the Chairman of the Board of Directors and, within the limits of the powers granted to them by the Board of Directors, to the Deputy Chairmen and the Managing Directors, if appointed.

Each of the aforementioned shall in any event be vested with all powers to bring legal actions and file petitions before any judicial authority and at all levels of jurisdiction, including in appeal and Supreme Court proceedings, to file statements and charges in criminal cases, to sue on behalf of the Company in criminal proceedings, to bring legal proceedings and file petitions before all administrative jurisdictions, to intervene and protect the Company's interests in any proceedings and claims concerning the Company and to grant the mandates and powers of attorney ad lites required for such purpose.

The Board of Directors and, within the limits of the powers granted to them by said Board, the Chairman of the Board and, if appointed, the Deputy Chairmen and the Managing Directors, shall be authorised to grant the power to represent the Company vis-à-vis third parties and in court proceedings to managers and staff in general and, when necessary, to third parties.

Article 14

In addition to the reimbursement of all expenses sustained by reason of their office, members of the Board of Directors shall be entitled to an annual emolument established by the shareholders' meeting.

The remuneration of directors vested with special office shall be established by the Board of Directors after obtaining the opinion of the Board of Statutory Auditors.

Article 15

If, due to resignations or for any other reason, more than half of the seats on the Board become vacant, the entire Board of Directors shall be deemed to have resigned and cease to hold office with effect as of the time of its reconstitution.

Board of statutory auditors

Article 16

The Board of Statutory Auditors shall be composed of three standing and two alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.

The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one standing auditor and one alternate auditor.

The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of the third-to-last paragraph of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.

Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

Shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, accord-

ing to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.

Each shareholder may present or take part in the presentation of only one slate.

The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office and be available to anyone on request, at least fifteen days prior to the date set for the shareholders' meeting to be held on first call except for those cases in which the law and/or the regulation provide an extension of the deadline.

Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum, mentioning also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must be enclosed with the slates together with statements in which the individual candidates agree to:

- their nomination;
- attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these By-laws and by regulation for the position.

Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

Any slates submitted without complying with the foregoing provisions shall be disregarded.

Each candidate may appear on only one slate, on pain of ineligibility.

The slates shall be divided into two sections: one for candidates for the position of standing auditor and one for candidates for the position of alternate auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years.

Each person entitled to vote may vote for only one slate.

The Board of Statutory Auditors shall be elected as specified below:

- a) two standing members and one alternate member shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;
- b) the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all the shareholders attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.

The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the alternate auditor chosen from the same slate as the former. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the candidate listed in the same slate of the former Chairman, following the order contained in the list; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By Laws ensure the right to take part to the appointment of the Board of Statutory Auditors.

The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in different slates other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.

In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors.

When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law. Outgoing members of the Board of Statutory Auditors may be re-elected to office.

Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

Financial statements - Allocation of profits

Article 17

The company's financial year shall close on December 31 of each year.

Article 18

Following the mandatory allocations to statutory reserves, the Company's net year-end profits shall be distributed as follows:

- a) savings shares shall be awarded a dividend of seven percent of their par value; if a dividend of less than seven percent of par value is awarded to savings shares in a given financial year, the difference shall be computed as an increase to be added to the preference dividend over the subsequent two financial years; any profits remaining following the award of the aforementioned dividend to savings shares shall be distributed amongst all the shares in such a way that savings shares shall receive an aggregate dividend which is higher, compared to the dividend awarded to ordinary shares, by an amount corresponding to two percent of their par value;
- b) without prejudice to the foregoing provisions regarding the aggregate higher dividends awarded to savings shares, ordinary shares shall be awarded a dividend corresponding to a maximum of five percent of their par value.

The remaining profits shall be distributed amongst all the shares, in addition to the allocations contemplated in the foregoing points a) and b), unless the shareholders' meeting, on the proposal of the Board of Directors, resolves to make special allocations to extraordinary reserves or for other uses, or decides to carry some of such profits forward to the next year.

Should reserves be distributed, savings shares shall be awarded the same rights as other shares. Interim dividends may be distributed in compliance with the law.

General provisions

Article 19

Insofar as their relations with the Company are concerned, the domicile of the shareholders is understood, for all legal purposes, to be that reported in the Shareholders' Register.

Article 20

All matters not specifically regulated in these By-laws shall be governed by the applicable provisions of the law.



ANNEX B - Main offices held by Director in other companies different of which of the Pirelli Group

Marco Tronchetti Provera	Marco Tronchetti Provera S.a.p.A.	Member of the Board of Managing
	Camfin S.p.A.	Chairman
	Gruppo Partecipazioni industriali S.p.A.	Chairman
	Mediobanca S.p.A.	Deputy Chairman
	F.C. Internazionale Milano S.p.A.	Director
Alberto Pirelli	Camfin S.p.A.	Director
	Gruppo Partecipazioni industriali S.p.A.	Deputy Chairman
	KME S.p.A.	Director
Carlo Alessandro Puri Negri	Camfin S.p.A.	Deputy Chairman
	Gruppo Partecipazioni industriali S.p.A.	Deputy Chairman
	AON Italia S.p.A.	Director
	Artemide Group S.p.A.	Director
	Eurostazioni S.p.A.	Director
	Fratelli Puri Negri S.p.A.	Chairman
Carlo Acutis	Vittoria Assicurazioni S.p.A.	Deputy Chairman
	Banca Passadore S.p.A.	Deputy Chairman
	Ergo Italia S.p.A.	Director
	Scor S.A.	Director
	IFI S.p.A.	Director
	Yura International B.V.	Director
Carlo Angelici	SACE BT S.p.A.	Director
Cristiano Antonelli		
Gilberto Benetton	Edizione S.r.l.	Chairman
	Atlantia S.p.A.	Director
	Autogrill S.p.A.	Chairman
	Benetton Group S.p.A.	Director
	Mediobanca S.p.A.	Director
	Allianz S.p.A.	Director
Alberto Bombassei	Brembo S.p.A.	Chairman
	Italcementi S.p.A.	Director
	Atlantia S.p.A.	Director
	Ciccolella S.p.A.	Director
	Nuovo Trasporto Viaggiatori S.p.A.	Director
	River S.p.A.	Chairman
Franco Bruni	Pioneer Global Asset Management S.p.A.	Director
	Unicredit Audit S.p.A.	Director
Luigi Campiglio	Allianz Bank Financial Advisor	Director
Enrico Tommaso Cucchiani	Allianz SE	Member of the Management Board
	Allianz S.p.A.	Chairman
	Unicredit S.p.A.	Director
	ACIF Allianz Compagnia Italiana	
	Finanziamenti S.p.A.	Chairman
	Lloyd Adriatico Holding S.p.A.	Director
Berardino Libonati	Illy Caffè S.p.A.	Director
	Unidroit-Institut International pour l'Unification du Droit Privé	Chairman

	Telecom Italia S.p.A.	Director
	Telecom Italia Media S.p.A.	Chairman
	RCS MediaGroup S.p.A.	Director
	Unicredit S.p.A.	Deputy Chairman
	ESI S.p.A. – Edizioni Scientifiche Italiane	Director
Giulia Maria Ligresti	Fondazione Fon-SAI	Chairman
	Premafin Finanziaria S.p.A.	Chairman and CEO
	Fondiar SAI S.p.A.	Deputy Chairman
	Gilli S.r.l.	Chairman
	SAI HOLDING S.p.A.	CEO
	SAIFIN S.p.A.	Chairman
Massimo Moratti	F.C. Internazionale Milano S.p.A.	Chairman
	SARINT S.A.	Chairman
	SARAS S.p.A. Raffinerie Sarde	CEO
	GUT Edizioni S.p.A.	Director
	Angelo Moratti di Gian Marco Moratti e Massimo Moratti & C. S.a.p.A.	Chairman
Renato Pagliaro	Mediobanca S.p.A.	General Manager
	SelmaBPM Leasing S.p.A.	Director
	Cofactor S.p.A.	Director
	Telecom Italia S.p.A.	Director
	RCS MediaGroup S.p.A.	Director
	Burgo Group S.p.A.	Director
Umberto Paolucci	Microsoft Italia S.r.l.	Chairman
	Geox S.p.A.	Director
	Datalogic S.p.A.	Director
	Aeffe S.p.A.	Director
	Coesia S.p.A.	Director
Giovanni Perissinotto	Assicurazioni Generali S.p.A.	CEO
	IntesaSanpaolo S.p.A.	Member of the Management Board
	Banca Generali S.p.A.	Chairman
	Alleanza Assicurazioni S.p.A.	Director
	Ina Assitalia S.p.A.	Director
	Toro Assicurazioni S.p.A.	Director
Giampiero Pesenti	Italcementi S.p.A.	Chairman
	Italmobiliare S.p.A.	Chairman
	Fincomid A.G.	Deputy Chairman
	Franco Tosi S.r.l.	Chairman
	Allianz S.p.A.	Director
	Mittel S.p.A.	Director
Luigi Roth	Terna S.p.A.	Chairman
	Ente Autonomo Fiera Internazionale di Milano	Chairman
	Avvenire Nuova Editoriale S.p.A.	Director
	Banca Popolare di Roma S.p.A.	Director
Carlo Secchi	Allianz S.p.A.	Director
	Italcementi S.p.A.	Director
	Mediaset S.p.A.	Director
	Parmalat S.p.A.	Director
	La Centrale Finanziaria Generale	Director
	TEM Tangenziali Esterne Milano	Director

ANNEX C - Abridged form of Pirelli & C. Società per Azioni Shareholders Agreement

1. Type and objective of the agreement

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

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

	Number of ordinary shares granted	% of all shares granted	% of the total n. of ordinary shares issued
Camfin S.p.A.	1,063,360,850	43.97	20.32
Mediobanca S.p.A.	241,144,264	9.97	4.61
Edizione S.r.l.	241,135,003	9.97	4.61
Fondiaria - SAI S.p.A.	231,355,374	9.57	4.42
Allianz S.p.A.	230,749,971	9.54	4.41
Assicurazione Generali S.p.A. (*)	230,749,965	9.54	4.41
Intesa Sanpaolo S.p.A.	84,519,252	3.49	1.62
Massimo Moratti (**)	62,407,310	2.58	1.19
Sinpar S.p.A.	33,168,521	1.37	0.63
Total	2,418,590,510	100	46.22

LEGEND

* Including n. 57,400,000 shares through Generali Vie S.A. and n. 82,779,265 shares through Ina Assitalia S.p.A.

** Including 37,420,339 shares through CMC S.p.A. and n. 13,435,544 shares fiduciary owned by Istifid S.p.A.

3. The party, if any, which, through the agreement, can exercise control over the company

There is no party which, through the agreement, can exercise control over Pirelli & C.

4. Restrictions on the sale of the shares transferred and on the subscription and the purchase of new shares

The sale of the shares to third parties (and option rights in the event of a capital increase) is prohibited. Shares can be sold freely and pre-emptively to subsidiaries, according to article 2359, paragraph 1, point 1 of the Italian Civil Code, and to the parent companies as well as other participants to the shareholders agreement.

Each participant may buy or sell additional shares for an amount not in excess of the higher of 20% of the shares already transferred by the participant itself and 2% of the ordinary share capital issued; purchases of greater amounts are permitted only with the intent of reaching a holding equal to 5% of the ordinary share capital issued, on condition that the amount in excess of the above limits came under the shareholders agreement.

CAMFIN S.p.A. is authorized to freely purchase additional Pirelli & C. shares; it can transfer shares to the shareholders agreement, but to the extent that, at any one time, the shares do not exceed 49.99% of total shares transferred by all the participants in the shareholders agreement. This has been decided so that a stable predominate position is not assumed in the shareholders agreement or a stable veto power is not exercised over common decisions. Except where the Pirelli & C. ordinary shares in the shareholders agreement correspond to the majority of the voting rights in the ordinary shareholders' meetings, each participant (also through parent companies and/or subsidiaries) intending to purchase shares of that category shall inform the President in writing beforehand and the President shall inform the participant if, taking into account the laws in force concerning tender offers, the participant can proceed, in whole or in part, with the proposed purchase, buy or sell the shares.

5. Availability of the shares

The shares transferred shall remain at disposal of the participants in the shareholders agreement.

6. *Bodies governing the agreement, composition, meetings and powers*

The Body governing the agreement is the Shareholders Agreement Executive Committee. The Shareholders Agreement Executive Committee shall consist of a president and vice-president, in the form of the president and the longest serving vice-president of Pirelli & C., and by a member representing each participant unless a participant has deposited more than 10% of ordinary share capital, in which case another member may be designated: for this purpose, in the event the shareholders agreement is composed of several companies related by a controlling relationship or belonging to the same parent company, their aggregate shall be considered for this purpose as one sole participant in the shareholders agreement. The Shareholders Agreement Executive Committee shall be convened to evaluate the proposals to be submitted to the shareholders' meetings, for the possible earlier termination of the agreement and for the admission of new participants. The Shareholders Agreement Executive Committee shall also meet at least twice a year to examine the semiannual performance, the annual results, the general guidelines for the company's development, the investment policy and proposed significant divestitures and more in general, all the relevant matters of discussion by both the ordinary and extraordinary sessions of the shareholders' meetings.

7. *Matters covered by the Agreement*

Those contemplated in points 4 and 6 above.

8. *Majorities needed to reach decisions regarding the issues governed by the Agreement*

The Shareholders Agreement Executive Committee approves its resolutions with the favourable vote of the majority of the shares transferred; the Shareholders Agreement Executive Committee can designate a trusted person to represent the shares in the shareholders agreement at the shareholders' meetings in order to vote according to its instructions. Whenever the decisions of the Shareholders Agreement Executive Committee are not voted unanimously, the dissenting participant shall have the right to freely vote at the shareholders' meeting.

9. *Term, renewal and cancellation of the agreement*

The agreement shall be valid until April 15, 2010 and shall be tacitly renewed for a period of three years except for withdrawal, which can be exercised between December 15 and January 15 prior to the expiration date. In case of withdrawal, the shares transferred by the withdrawing party shall be automatically offered pro quota to the other participants. The agreement shall remain in force, whenever it is possible, at every expiration date, to renew the agreement for a percentage of Pirelli & C.'s subscribed ordinary share capital of not less than 33%.

10. *Penalties for breach of the commitments contained in the agreement*

They are not envisaged by the agreement.

11. *Registration of the agreement at the Company Registry*

The agreement is registered at the office of the Milan Companies Registry.

Milan, 1 January 2009

ANNEX D - General Criteria set by the Board of Directors regarding the maximum number of offices considered compatible with an effective performance of a directors' duties

As a principle, it is not considered compatible with the role of Director of the Company to hold the office of director or statutory auditor in more than five companies, different from those subject to the direction and coordination of Pirelli & C. S.p.A. or that are affiliates of or are controlled by Pirelli & C. S.p.A., as far as it concerns (i) listed companies included in the S&P/MIB index (or in an equivalent foreign index), or (ii) in financial companies operating towards the public (registered in the registry set forth under article 107 of d.lgs. 1° September 1993, n. 385), or (iii) banks and insurance companies; no more than three executive offices may be held by the same director in the companies described under (i), (ii) and (iii) above.

The offices held in more companies belonging to the same group are considered as unique office with prevalence of the executive office over the non executive one.

The Board of Directors has the faculty to make a different evaluation, which will be made public and properly motivated in the annual report on Corporate Governance.

ANNEX E - General Criteria for the identification of the most important: strategic, economic, or financial capital transactions

Without prejudice to the responsibilities and powers reserved to the Board of Directors by the law, the bylaws, the overall powers and the internal procedures, it pertains to the Board's the prior approval of the following acts and no intragroup transactions when performed by Pirelli & C. S.p.A. (hereinafter also "Pirelli & C.") or even by foreign companies not listed and subject to the management and coordination of Pirelli & C.:

- a) the taking or granting of any loan or loans having an aggregate value in excess of euros 200 million and a duration in excess of 12 months;
- b) the issuing of any financial instruments intended to be listed in regulated European or extra-European markets (and their delisting) which have an aggregate value in excess of euros 100 million;
- c) the granting of any guarantees in favour of or on behalf of any third parties for an amount in excess of euros 100 million;
- d) the signing of derivatives contracts which (i) have a notional value in excess of euros 250 million and (ii) do not have as their exclusive purpose or effect the covering of risks assumed by the Company (such as, for example, covering interest rates, exchange rates or raw material costs);
- e) the acquisition or sale of controlling stakes in third parties for values in excess of euros 150 million that would allow the entry into (or the exit from) geographic and/or commodities markets;
- f) the acquisition or sale of any participations other than those mentioned in paragraph (e) above for amounts in excess of euros 250 million;
- g) the acquisition or sale of any companies or divisions having either a strategic significance or a value in excess of euros 150 million;
- h) the acquisition or sale of any assets or other activities that either have a strategic significance or an aggregate value in excess of euros 150 million.

Are subject to prior approval even those transactions which, although individually below the quantitative thresholds specified, are linked within the same strategic or executive program, and therefore, as a whole, exceed the relevant thresholds.

ANNEX F - Procedure for information flows to directors and auditors

1. Introduction

- 1.1 – The completeness of the available information to directors is essential for the proper fulfilment of their duties and responsibilities regarding the management, the direction and the monitoring of the business activities of Pirelli & C. S.p.A. (henceforth “Pirelli” or “the Company”) and of the Group.
- 1.2 – Similar appropriate information is due to the Board of Statutory Auditors.
- 1.3 – In compliance with the legal and the bylaws' provisions, non-executive Directors and Auditors are therefore the receivers of a permanent information flows from the Executive Directors, who are coordinated by the Chairman of the Board of Directors who, if necessary, can refer to the Secretary to the Board of Directors of the Company.
- 1.4 – The purpose of the current procedure is to regulate the above-mentioned information flows in order to:
 - guarantee the transparency of the management of the Company;
 - ensure good conditions for efficacious and effective actions of direction and monitoring of the Company activities and management by the Board of Directors;
 - supply the Board of Statutory Auditors with the requisite tools for an efficient fulfilment of its role.

2. Terms and procedures

- 2.1 – The information flows to Directors and Auditors is preferably provided with written documents, specifically:
 - notes, memoranda, presentations and reports drawn up by Company offices or consultants, including those prepared for Board of Directors meetings;
 - other documents, published and un-published, available to the Company;
 - documents of accounting period of the Company that are intended for publication;
 - quarterly financial reports including external information, drawn up according to specific guidelines.
- 2.2 – The above-mentioned documentation is timeless transmitted to non-executive Directors and Auditors and, in any case:
 - with a sufficient frequency in order to ensure that legal and bylaws data provisions are respected,
 - according to coherent deadlines with the scheduling of the single Board of Directors meeting.
- 2.3 – The information reproduced according to the procedures above are integrated (or, if necessary, omitted for reasons of privacy) with the comments made orally by the Chairman, the Executive Directors or by members of the management of the Group during Board of Directors meetings or specific informal meetings, open to Directors' or Auditors' participation, and organized in order to go into topics about the management of the Company.
- 2.4 – The transmission of documents and any other material to Directors and Auditors is coordinated by the Secretary to the Board of Directors of the Company, in agreement with the manager in charge of the preparation of the accounting documents of the Company, as per his competence.
- 2.5 – In any case, Directors and Auditors are the receivers of the information published by Pirelli as provided by legal provisions regarding Company reports (such as press releases and reports) and investment solicitation (reports that are denominated, anyhow).

3. Contents

- 3.1 – The information flow to Directors and Auditors - besides matters intended for the examination and/or the approval of the Board of Directors of the Company according to the law and the bylaws of the Company - includes:

- the general results of operations and their foreseeable development;
- the completed activity, with specific reference to transactions involving significant economic, financial and equity income, to transactions with related parties and to atypical or unusual transactions;
- the instructions given during the execution of direction and coordination activities;
- any further activities, transactions or events that are deemed appropriate to bring to the attention of Directors and Auditors.

4. General results and development of operations

- 4.1 – The corporate activities of the Group are the focus of background information about management.
- 4.2 – Information are considered in a strategic perspective of planning and direction, as well as in terms of the attainment of results and in comparison with industrial and budget forecasts.
- 4.3 – General results and development of operations are regularly examined by the Board of Directors of the Company when they approve the accounting period reports. The attained results are compared:
 - with historic figures (opportunistically reconstructed using pro forma figures in order to obtain homogeneous comparisons with previous periods);
 - with budget objectives, indicating the causes of possible variances, also in order to evaluate the effects of these variances on strategic or anticipatory objectives and/or on forecasts regarding following periods;
 - with the general trend of the sector and peers, in order to benchmark.

5. Business activity

- 5.1 – General information about the completed business activity concern executive businesses and developments of operations already decided by the Board of Directors, as well as activities performed by Executive Directors - also through units and subsidiaries of the Company - in the exercise of their duties.
- 5.2 – General information about the business activities are completed with a specific report of details regarding:
 - transactions involving significant economic, financial and equity income;
 - operations with related parties;
 - atypical or unusual transactions.

6. Significant transactions

- 6.1 – In the present procedure, the following - besides operations reserved to the Board of Directors according to the art. 2381 of the Italian Civil Code and the bylaws of the Company - are considered transactions involving significant economic, financial and equity income when Pirelli or subsidiaries carry out:
 - the issues of financial tools for a total value higher than 100 million euros;
 - the granting of personal and collateral securities in the interest of subsidiary companies (and in the interest of Pirelli regarding collateral securities) against bonds having a unit value higher than 25 million euros;
 - the granting of loans or securities in favour or in the interest of third parties for amounts higher than 10 million euros;
 - the granting of loans in favour of subsidiary companies and the investment or disinvestment transactions, also real estate transactions, transactions for the purchase and the assignment of share, of company and company branches, of assets and other activity, for amounts higher than 100 million euros;

— merger and division transactions, when at least one of the parties is a listed company or when subsidiary companies are involved if at least one of the parameters indicated below, in case of application, come out equal or higher than 15% of:

- the total assets of the merged company or of the activities submitted to division/the total assets of the Company (figures taken from the consolidated balance sheet, if reported);
- the pre-tax results and the extraordinary parts of the merged company, or of the activities to be divided/the pre-tax results and extraordinary parts of the Company (figures taken from consolidated balance sheet, if reported);
- the total equity capital of the merged company, or of the company branch submitted to division/the total equity capital of the Company (figures taken from consolidated balance sheet, if reported).

6.2 – Informative report on transactions involving significant economic, financial and equity income shall highlight the strategic aims, the budget and the industrial plan coherence, the executive procedures (including economic terms and conditions for their fulfilment), the business developments as well as the possible changes and implications for the activities of the Pirelli Group.

6.3 – Informative reports shall also be made for transactions that, even if they are individually smaller than the above-mentioned threshold value, are associated within the same strategic plan or executive programme and therefore, considered altogether, exceed the threshold value.

7. Operations with related parties

7.1 – The following definitions must be made regarding the current procedure relating to “related parties”; these are defined according to international accounting standards concerning financial statements for transactions with related parties, adopted in accordance with art. 6 of EC Regulation n. 1606/2002 as indicated in the “Data collection procedure”.

7.2 – The Company adopted this apposite procedure in order to ensure that the principle of fairness was respected in substance and form for all transactions made, directly or through subsidiaries, with related parties with Pirelli.

7.3 – Besides the transactions with related parties subject to the board approval according to the above-mentioned procedure (atypical, unusual or non-standard transactions), transactions with related infra-Group parties (i.e. companies owned by Pirelli or by the company that owns Pirelli) must be similarly reported to Directors and Auditors if they involve amounts higher than 50 million euros, and those with associated non infra-Group parties if they involve amounts higher than 500.000 euros. For each of these transactions, the following points must be indicated:

- object and amount;
- the date of targeting of the contract(s) below or those linked anyway with the transactions;
- the identities of the counterparties (specifying the nature of their relationship with Pirelli).

7.4 – As to every quarter of statement, an overall figure of the transactions concluded with the individual parties related to Pirelli must be supplied, separating the transactions directly carried out with Pirelli and the transactions achieved by subsidiary companies.

8. Atypical or unusual transactions

8.1 – Transactions that form part of the ordinary business of the Company are considered typical, i.e. essential to the production and the dealing cycle of the Company. On the contrary, transactions are considered usual when intended for the fulfilment of ordinary requirements, i.e. requirements that normally belong to the business of the Company.

8.2 – In any case, transactions may be called neither typical nor usual when they actually present particular elements of criticality due to their specific characteristics and/or to their intrinsic risks, to the nature of the counterparty or to the time of their fulfilment.

8.3 – Information about atypical or unusual transactions highlight the interest below and illustrate the executive procedures (including the economic terms and conditions of their fulfilment), with specific reference to the estimative procedures followed.

9. Direction and coordination activities

- 9.1 – Information about the execution of direction and coordination activities illustrate:
- the strategic aims, with specific reference to the entrepreneurial interest justifying them and the results that are followed;
 - the executive procedures (including the economic terms and conditions of their fulfilment), with specific reference to the estimative procedures followed;
 - the possible changes and implications on the execution of the company, also with reference to the budget and the industrial plan.
- 9.2 – Further updating on the affected transactions shall be supplied in order to estimate overall results of the direction and the coordination activities.

Data collection procedure

In order to allow an adequate information flow to non-executive Directors and to the Board of Statutory Auditors, information must be obtained by the Chairman and CEOs according to the procedure listed below.

1. Information about business activities, about transactions involving significant economic, financial and equity income, about infra-group transactions and atypical or unusual transactions.

Pirelli General Managers and the Heads of Business units/Central Functions/Business Operations that report directly to the Chairman and the CEOs (the so-called “Front Line”) through the General Manager and Chief Operating Officer transmit, on a quarterly basis, to the Chairman and the CEOs, with an apposite note, the activities that the competent structure carried out in the period, highlighting specifically the transactions involving significant economic, financial and equity income; the infra-Group transactions higher than 50 million euros; non-standard, atypical or unusual transactions; the executive businesses and developments of operations already decided by the Board of Directors; as well as the main business activities carried out within the duties attributed to Managing Directors, including the most important launched projects and the most significant undertaken initiatives.

Informative reports shall also be made for transactions that, even if they are individually smaller than the above-mentioned threshold value, are associated within the same strategic plan or executive programme and therefore, considered altogether, exceed the threshold value.

2. Information about operations with related parties different than intra-group transactions.

The purpose of the current procedure are the transactions with related parties carried out by Pirelli or by companies owned by Pirelli, with parties directly or indirectly related to Pirelli i.e.:

- a) the persons who, directly or indirectly, control Pirelli, also in virtue of shareholder agreement, individually or jointly with other persons included in these agreements;
- b) the persons who, directly or indirectly, exercise a significant influence over Pirelli. This influence is presumed in case of shareholdings equal to or higher than 10% of the authorized capital in the form of ordinary Pirelli shares;
- c) the members of the Board of Directors and Acting Auditors of Pirelli;
- d) the managers with strategic responsibilities in the Company, identified by the Board of Directors of Pirelli, or in its possible subsidiaries (i.e. “key managers”);
- e) close family members of the persons indicated above in letters a) to d), meaning spouses not legally separate and the dependents, as indicated in civic records the children, the children of domestic partner and other dependents of the concerned persons, independently of the family relationship and/or affinity and other relatives that the concerned person considers might influence or be influenced by him/her in their relationship with Pirelli;
- f) an associate of Pirelli;

- g) the companies upon which the persons indicated above in letters a) to e) exert control, directly or indirectly, also in virtue of shareholders agreement, individually or jointly with other persons included in these agreements;
- h) the companies on which the persons indicated above in letters a) to e) exert, directly or indirectly, significant influence, if they are physical persons. This influence is presumed in case of shareholdings equal to or higher than 10% (in the case of listed companies) or 20% (in the case of unlisted companies) of the authorized capital in the form of voting shares at the general meetings;
- i) the joint ventures in which Pirelli participates;
- j) the pension funds for the employees of Pirelli or of related parties;
- k) the Internal Control Committee of Pirelli may consider related party, on a case by case basis:
 - (i) the companies in which the persons indicated above in letters a) to e) hold strategic management roles and the companies controlled by these companies;
 - (ii) the companies that share a majority of their Directors with Pirelli.

With the same regularity as mentioned under point 1 above, General Operations Management collects and transmits to the Chairman and to the CEOs declarations from the persons mentioned under letters a) to d) above pointing out the transactions involving amounts higher than 500.000 euros, or those with lower amounts but non-standard, achieved directly by or through one of the persons indicated in letters g) to k) above, also through third parties, with Pirelli or its subsidiaries, by themselves or, in the case of physical persons, by spouses or dependents, as indicated in civic records.

Amongst these information, must be pointed out transactions that, even if they are individually smaller than the above-mentioned threshold value, are associated within the same relation and therefore, considered altogether, exceed the threshold value.

General Operations Management also collects the declarations whereby the persons in letters a) to d) above:

- (i) list the companies for which they perform the cases in letters g) to j) above, as well as companies in which they hold the role of directors;
- (ii) update this list.

General Operations Management transmits the list to the parties related to Pirelli as specified above to the General Managers and to the Front Line.

The Front Line communicates on a quarterly basis to the Chairman and the CEOs the transactions completed with Pirelli - or companies controlled by Pirelli - also through third parties or indirectly related parties as specified in the list given by the General Operations Management, involving amounts higher than 500,000 euros and, also if involving lower amounts, made under non-standard conditions.

ANNEX G - Rules of conduct for effecting transactions with related parties

1. Transactions with related parties, including intra-group transactions, except for typical or usual transactions concluded at arm's length conditions, must be approved in advance by the Board of Directors.
2. Typical or usual transactions shall be taken to mean those which, by their object or nature, are not extraneous to the normal course of business of the Company and those which do not involve particular critical factors due to their characteristics or to the risks related to the nature of the counterpart or to the time at which they are concluded. Transactions concluded at arm's length conditions means transactions concluded at the same conditions as those applied by the Company to whatsoever party.
3. The Board of Directors shall receive adequate information on the nature of the relationship, the manner of execution of the transaction, the economic and other terms and conditions governing it, the valuation procedure adopted, the underlying interest and motivations, and the possible risks for the Company. Where the relationship is with a Director or with a party related by means of a Director, the Director concerned shall limit himself to providing clarifications and shall leave the meeting of the Board when the decision is to be taken; the Board of Directors may also resolve in a different way.
4. Depending on the nature, value and other characteristics of the transaction, to guard against the transaction's being carried out at unsuitable conditions the Board of Directors shall be assisted by one or more experts, who shall express an opinion, according to the case, on the economic conditions and/or the legitimacy and/or the technical aspects of the transaction.
5. For transactions with related parties, including intra-group transactions, which are not submitted to the Board of Directors inasmuch as they are typical or usual concluded at arm's length, the Directors having delegated powers or the managers responsible for carrying out the transaction, without detriment to compliance with the specific procedure pursuant to Article 150.1 of the Consolidated Law on Financial Intermediation, shall collect and preserve, inter alia by type or group of transaction, adequate information on the nature of the relationship, the manner of execution of the transaction, the economic and other terms and conditions governing it, the valuation procedure adopted, the underlying interest and motivations, and the possible risks for the Company. For such transactions also, one or more experts may be appointed as provided above.
6. The experts are to be chosen from among persons of recognized professional experience and competence in the matters concerned. Their independence and absence of conflicts of interest will be carefully evaluated.

ANNEX H - Procedure for the management and public disclosure of inside information

Contents

1. Introduction
2. Purpose and scope
3. Persons subject to the procedure
4. Basis
5. Definitions
6. Requirements for inside information
7. Classification of market sensitive information
8. The Register
9. Confidentiality measures
 - Organizational security
 - Physical security
 - Logical security
10. Disclosure to the market of inside information – general rules
11. Disclosure to the market of inside information – special cases
 - Rumours and requests by the authorities
 - Profit warnings
12. Relations with third parties
 - Relations with the financial community
 - Relations with the media
 - Conferences, meetings, courses and conventions
13. Publications

Annexes

- A – Notices to be sent to persons entered in the register
- B – Register maintenance criteria and handling methods
- C – Confidentiality agreement template (in Italian and in English)

1. Introduction

- 1.1 – Information - in the sense of news about events, facts, figures or initiatives having a specific significance in relation to an entity's activity - is a strategic component of a company's assets and essential for its success. The appropriate and timely sharing of information is a necessary condition for the effective pursuit of business objectives, and underlies the most important corporate processes.
- 1.2 – Without prejudice to the provisions of applicable law concerning the protection and dissemination of particular categories of information, such as the personal and sensitive data referred to in the Code for the Protection of Personal Data (Legislative Decree 196/2003), the use of information must observe the general principles regarding the efficient exploitation and safeguarding of a company's resources, which can be expressed in the case in question as the "need to know". The use of information for purposes other than the activity of the business is to be considered an abuse and, on a general basis, all those who work to promote the interest of the Pirelli Group (hereinafter the "Group") are subject to confidentiality requirements concerning the information they acquire in or for the performance of their duties.
- 1.3 – However, the law imposes an obligation to disclose information not known to the public concerning a company and its subsidiaries which is of a precise nature and which, if it were made public, would be likely to have a significant effect on the price of that company's financial instruments (inside information). The law also requires informational equality to be restored if inside information is disclosed prematurely to third parties who are not subject to confidentiality requirements under laws, regulations, bylaws or agreements.
- 1.4 – This explains the great delicacy of the stage preceding the "perfection" of inside information in which not only is it necessary to impose a confidentiality regime on inside infor-

mation “in the making,” so as to avoid triggering the immediate disclosure obligation, but above all there is the fact that premature disclosure could be misleading for the market and/or harmful for the business.

- 1.5 – This procedure covers the handling - including the public disclosure - not only of inside information but also of information which could become such; it seeks to reconcile the fluidity of internal information processes with safeguarding information, especially as regards to the give and take between the disclosure of inside information and the need to keep it confidential while it is being perfected. In this respect the procedure ties in with the internal rules of general application concerning the classification and management of information from the standpoint of confidentiality.

2 – Purpose and scope

- 2.1 – This procedure (hereinafter the “Procedure”) establishes:
 - a) the requirements and responsibilities for the classification of inside information;
 - b) the manner of tracing access to inside information in the making, with special regard to the creation of the register referred to in Article 115-bis of Legislative Decree 58/1998 and Article 152-bis of Consob Regulation 11971 of 14 May 1999, as amended;
 - c) the instruments and rules for safeguarding inside information in the making;
 - d) the operational rules for the disclosure of inside information to the market and in general for public announcements and/or communications to analysts/investors.
- 2.2 – The Procedure is an essential component of the Pirelli Group’s system of internal control, also with reference as to what is provided for by Legislative Decree no. 231/2001 and by the Organizational Model 231 adopted by Pirelli & C. (hereinafter “Pirelli”). It directly regulates inside information concerning Pirelli, its unlisted subsidiaries and the Group’s listed securities and serves as a template for the similar measures that the other Group issuers of securities listed on regulated markets are independently required to adopt (including the companies that promote and manage shares of listed real estate investment funds).
- 2.3 – The seriousness of the consequences of failure to correctly apply the Procedure calls for rigorous and continuous checks on compliance and the immediate reporting of cases of inobservance to the Internal Control and Corporate Governance Committee by the person responsible for reporting.

3 – Persons subject to the Procedure

- 3.1 – The Procedure applies to all the members of the governing bodies of Group companies and those of their employees who have access to information that is likely to become inside information. In particular, all the senior managers are required to make a written declaration at the time of their appointment attesting that they have examined the Procedure and are aware of the responsibilities it entails for them.
- 3.2 – The conduct of persons external to the Group who, for any reason whatsoever, have similar access is governed by the rules laid down in the confidentiality agreement referred to below.
- 3.3 – The Procedure also serves as instructions to Pirelli’s subsidiaries to provide, without delay, all the information needed to permit the prompt fulfilment of the public disclosure obligations laid down in applicable laws and regulations and, exclusively as regards listed subsidiaries or subsidiaries with financial instruments listed on controlled Italian markets or that promote and manage shares of listed real estate investment funds, to adopt equivalent measures.

4 – Basis

- The EU Directives on Market Abuse (Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003, Commission Directive 2003/124/EC of 22 December 2003 and Commission Directive 2004/72/EC of 29 April 2004);
- Article 114 et seq. of Legislative Decree 58/1998 (the Consolidated Law on Finance);
- Law 262/2005;
- Consob Regulation 11971 of 14 May 1999, as amended;
- The Code of Ethics of the Pirelli Group and Organizational Model 231 of Pirelli;
- General principles of internal control;
- The Pirelli Group's policy "OP SE G" June 15, 2006 "Treatment of Corporate Information".

5 – Definitions

- "Inside information" - As provided for by law, inside information concerning Pirelli means information of a precise nature which has not been made public relating to the Company or to its subsidiaries and which, if it were made public would be likely to have a significant effect on the prices of securities they have issued. Once inside information has been perfected, there is a general obligation to disclose it immediately to the public in the manner laid down in the Procedure.
- "Market sensitive information" - For the purposes of the Procedure, market sensitive information means information that could become inside information, i.e. inside information in the making. The following are examples of market sensitive information as defined here: operational results or forecasts, commercial offers, projects, contracts, events, including those of an organizational nature, corporate actions and business decisions. Market sensitive information is subject to the confidentiality regime laid down in the Procedure. This does not exclude the possibility of the same information also being classified as confidential under the standard method of classification, governed by the relevant internal rules, in light of the potential harm to which its inappropriate circulation would expose the Group.
- "Informational context" means, with reference to an event, transaction or project, all the information concerning that event, transaction or project, including accessory information and all the relevant preparatory material. Similarly, certain activities and processes that are recurrent or continuous in the operation of the business constitute informational contexts.
- "Register" means the database, created pursuant to applicable law, with the names of the persons who through the exercise of their employment, profession or duties have access to market sensitive information.
- "Market Sensitivity Support Group" means the group providing technical support in determining the market sensitivity of information, made up of persons appointed by the heads of the competent functions within following divisions: Personnel, Industrial Legal Affairs, Corporate Legal Affairs, Administration and Control, Media Relations, Finance, Investor Relations, Human Resources and Organization functions and coordinated by the addressee of the information request as referred to in article 2.6.1 of the Rules of the organized Markets and managed by Borsa Italiana S.p.A. The Information Officer of the Company.

6 – Requirements for inside information

- 6.1 – In the first place inside information has to be precise. Accordingly, for information to be considered inside information, it must refer to:
 - an event which has occurred or may reasonably be expected to occur; or
 - a set of circumstances which exists or may reasonably be expected to come into existence;
 - and enable a conclusion to be drawn as to the possible effect of that event or set of circumstances on the prices of the securities of the Company and its subsidiaries.
- 6.2 – Inside information concerns actual and probable events and circumstances. For the purposes of the Procedure, studies, research and estimates developed from publicly available data are excluded.

6.3— Inside information must also relate to the Company or its subsidiaries. In this respect inside information can:

- have a “voluntary” origin (such as unilateral business decisions, extraordinary corporate actions and agreements); or
- derive from the verification of facts, events or circumstances of an objective nature capable of influencing the activity of the business and/or the price of the securities issued (such as periodic financial reports or the resignation of a top manager).

The extent to which information relates to the Company must be evaluated in terms of the legal imputability to the Company of the decision (inside information of “voluntary” origin) or of the act of verification (inside information of “external” origin).

6.4— Inside information of “voluntary” origin is perfected when the fact (transaction, unilateral decision or agreement) to which the information refers is defined in the manner provided for by the applicable principles of corporate governance, laid down in laws and regulations, bylaws or internal rules. In this case the disclosure of inside information follows the adoption of the decision by the body competent for the matter that is the subject of the information (the Board of Directors or a body with delegated powers).

6.5— As for agreements, the relevant moment is that of their substantial definition, in terms of content and legal bindingness, rather than that of their formal execution: the inside information is perfected as soon as there is a meeting of the wills of the parties with regard to the essential elements of the contract, with further negotiations not excluded. It remains necessary for the “will” of the Company (or its subsidiaries) to be expressed by a person authorized to commit the Company (or its subsidiaries), so as to ensure that the “will” - and hence the information - can be related to the Company (or its subsidiaries).

6.6— In the case of inside information of “external” origin, i.e. information consisting of the verification of facts, events or circumstances of an objective nature, if the fact is instantaneous (e.g. the notification of a sanction or the resignation of a top manager) and not open to interpretation, the time at which it is received by the competent organizational unit is when the information can be related to the Company (or its subsidiaries) and therefore when the inside information is perfected and the disclosure obligation consequently triggered.

6.7— More frequently, however, the verification of inside information of “external” origin is a process that unfolds over time and is divided into successive stages, serving at times to obtain figures (as for periodic financial reports) and at others to interpret a set of circumstances (as for a possible profit warning in light of the performance of the business). In such cases the time at which the inside information is perfected is governed by the corporate governance standards - laid down in laws and regulations, bylaws or internal rules - that determine the body competent to conclude the verification process.

7 – Classification of market sensitive information

7.1— In the case of inside information of “voluntary” origin, information may be classified as market sensitive by persons authorized to submit the event, transaction or process to the body competent to decide on it. Accordingly,

- in the case of initiatives of a strategic nature and those for which the Board of Directors is competent (e.g. extraordinary financial actions), information is classified as market sensitive by the Chairman of the Board of Directors, who may delegate the task to the Secretary of the Board of Directors, who may consult with the Managing Director and/or the General Directors;
- in the case of decisions entrusted to bodies with delegated powers (e.g. a commercial agreement or the launch of a new product), the decision on the market sensitive nature of information is taken by the senior manager directly under the managing director.

7.2— It is also possible for the classification to be made directly by the body competent to decide (i.e. by the Board of Directors or the bodies with delegated powers).

7.3— Once information has been classified as market sensitive, the competent person must activate the procedures to cordon off the relevant informational context, so as to prevent the inappropriate internal and, above all, external circulation of the information.

- 7.4 — In the case of inside information of “external” origin - apart from that concerning instantaneous events not open to interpretation, the mere reception of which triggers the disclosure obligation - information becomes market sensitive (and subject to the corresponding confidentiality regime):
- if the informational content is the subject of a process of verification or construction that has already been formalized (e.g. the calculation of data to be included in a financial report), starting from the stage of the process specified by the senior manager responsible for the process. The specification of this critical stage must reconcile the organizational need for elementary data to flow freely with the need to counter the risk of leakage in good time (through suitable instruments and conduct);
 - if the process of interpreting and evaluating the event or circumstance has not already been formalized (e.g. the notification of a sanction), starting from the time the event or circumstance becomes related to the company, with the act of the competent senior manager if and when he considers that the information in question may become inside information.
- 7.5 — Before information is classified as market sensitive, it is at a preliminary stage to which the Procedure does not apply. This obviously does not exclude the possibility of the information being classified as confidential under the Group’s policy for the classification and handling of information, which also continues to apply after information has been classified as market sensitive.
- 7.6 — In carrying out their evaluations, the persons charged with classifying information as market sensitive may have recourse to the technical support of the Market Sensitivity Support Group, which, for example, may also draw up lists of facts and circumstances that would normally be considered relevant, in light of their nature, characteristics and scale.

8 – The register

- 8.1 — The register consists of a computerized system whereby access to the individual market sensitive informational contexts can be traced, so as to permit checks to be made on the data entered and any subsequent updates. Each person entered in the register is charged with ensuring the traceability of the handling of market sensitive information deriving from his sphere of activity and responsibility.
- 8.2 — Without prejudice to compliance with the regime laid down in laws and regulations, entries are made in the Register for:
- recurrent and continuous significant activities and processes (e.g. the preparation of financial reports, budgets, and forecasts);
 - specific projects and events (e.g. extraordinary corporate actions, acquisitions and disposals, and significant external events).
- 8.3 — Individual names are entered in the Register in connection with each recurrent or continuous process or each project or event (with the possibility of multiple entries in relation to different informational contexts), with an indication of the time the market sensitive information became available and, where appropriate, of the time it ceased to be available (entry to/exit from the relevant informational context).
- 8.4 — Responsibility for creating a new informational context and entering the necessary data (with an indication of the role played by each person with access to the information) coincides with the responsibility for classifying the information as market sensitive and is therefore allocated to the persons authorized to perform the classification (the Board of Directors, the Chairman of the Board of Directors, the Secretary of the Board of Directors if authorized by the Chairman, the Managing Director and the senior managers). The person who creates an informational context has primary responsibility for it and accordingly also decides on the reclassification of its content.
- 8.5 — At the time a new name is entered in the Register and of subsequent updates to the entry (either by the person primarily responsible for the informational context to which the market sensitive information belongs or by another person authorized to that end), the system automatically generates a message to the interested party, together with a document setting out the obligations, prohibitions and responsibilities connected with access to market sensitive information, including a policy for tracing individual information flows (see the document in Annex A).

- 8.6— The definition of “roles” and the manner of keeping and updating the Register, the methods of retrieving data and the procedures for managing the database are in detail set out in Annex B.

9 – Confidentiality measures applied to market sensitive information

- 9.1— The Pirelli Group takes suitable measures to maintain the confidentiality of market sensitive information. In particular, without prejudice to the security measures laid down by the Group’s policy and the other safeguards suggested by experience and, in general, the prudence required to keep the risk of information leakage within reasonable limits, the organisational, physical and logical security measures set out below must be complied with.
- 9.2— It is understood that the above-mentioned measures also apply:
- to inside information that has already been perfected but for which a delay in disclosure has been duly requested, until the information is actually disclosed;
 - subsequent to disclosure, to all the relevant preparatory material, without prejudice to the possibility of its reclassification by the person with primary responsibility for the informational context to which it belongs.

Organisational security

- 9.3— The distribution of market sensitive information according to the guiding principle of the need to know is entrusted to the senior managers in Pirelli’s official organization chart, who are required to inform recipients of the importance of the information transmitted and to make the necessary entries in the Register without delay.
- 9.4— In the case of recurrent and continuous activities and processes, the identification of the persons authorized to have access to market sensitive information is a key aspect of the operational procedures governing such activities and processes. The Human Resources and Organization Function is responsible for updating the Register in line with developments in the internal organization.
- 9.5— In order to access market sensitive information, persons external to the Group must first sign a confidentiality agreement. It will be the responsibility of the employee that in accordance to his specific role should verify in advance and ensure the successful signing of the confidentiality agreement. The template for this agreement, elements of which may be omitted only with the express authorization of the Chairman of the Board of Directors, the Secretary of the Board if authorized by the Chairman, or a Managing Director, is set out in Annex C.

Physical security

- 9.6— The activity of producing material (including, but not limited to, the printing and photocopying of documents) containing market sensitive information must be overseen by personnel entered in the Register. The subsequent retention, distribution and management of such material are the responsibility of the persons possessing it, within the limits of such possession according to their entitlement in the Register. Each person is responsible for ensuring the traceability of the operations involved in the management of the material he has been entrusted with.
- 9.7— Material must be labelled “market sensitive” to permit the nature of the information contained to be recognized; to this end, the names of any files, regardless of their extension, must include the code of the informational context to which they belong.
- 9.8— Material containing market sensitive information must be kept in rooms with controlled physical access or placed in guarded or protected archives when no longer required and must never be left unguarded, especially when taken off the work premises.
- 9.9— The destruction of material containing market sensitive information must be undertaken by the persons possessing it, in the most suitable way to prevent the improper recovery of the data.

Logical security

- 9.10 — When market sensitive information is processed, transmitted or stored in electronic form, it must be (encrypted) treated as to ensure the confidentiality.
- 9.11 — The entry of data in the Register for a given informational context automatically results in corresponding entries being made in the database of authorizations to access the corresponding files, with the user profiles of the “roles” defined in the register, individually or by category.

10 - Disclosure of inside information to the market - general rules

- 10.1 — In the case of inside information of “voluntary” origin (i.e. inside information that is the subject of a process of verification), the person entitled to classify the informational context as market sensitive (i.e. the senior manager charged with the verification process) is responsible for promptly activating the preparation of the press release to be issued when the inside information is perfected.
- 10.2 — To this end, such person handles communications with the Media Relations Function (External Communication) and coordinates all the persons entered in the Register for the informational context in question who possess information that the Media Relations Function needs to prepare a draft press release. The Market Sensitivity Support Group checks the draft from the point of view of the congruence of the economic and financial data, its ability to meet the needs of investors and the financial community, its consistency with information already disclosed by the Company in financial reports or earlier press releases, and its compliance with applicable laws and regulations.
- 10.3 — The Information Officer decides whether to make ex ante checks with supervisory authorities (Borsa Italiana, Consob, etc.), where appropriate also with a view to submitting a duly formulated request to delay disclosure.
- 10.4 — The Media Relations Function then submits the draft press release resulting from the process described above for approval by top management (the Board of Directors as a whole if the Board is responsible for perfecting the inside information), incorporates any comments or changes and receives the competent director's authorization to make the disclosure. The Media Relations Function - after verifying the presence of the declaration by the Director and the manager responsible for preparing the Company's financial reports and corporate reports attesting the truthfulness of the press release if it contains information on the economic, equity, or financial conditions of the Group - issues the press release in accordance with applicable laws and regulations and immediately informs the Investor Relations Function and the Information Officer, so that they can perform the activities for which they are competent, as well as top management.
- 10.5 — After public disclosure, the Media Relations Function posts the press release without delay (and in any case before the market opens on the day following that on which it was issued) on the Company's website, with an indication of the date and time of the posting.
- 10.6 — In the case of inside information consisting of an instantaneous objective fact which is merely received, the process described above - mutatis mutandis - must be initiated by the member of the internal organization authorized to perform the necessary verification.

11 - Disclosure of inside information to the market - special cases

Rumours and requests by the Authorities

- 11.1 — When:
 - there is a significant variation in the price of listed financial instruments with respect to the last price of the previous day, coupled with the disclosure to the public, not in accordance with this Procedure, of information concerning the Company's or its subsidiaries' equity, economic, or financial conditions, possible extraordinary financial actions, significant acquisitions or disposals, or operating performance;

- with the markets closed or in the pre-opening phase, there is publicly available information which was not disclosed in accordance with this Procedure and which is likely to have a significant effect on the price of the Company's or its subsidiaries' financial instruments, or
 - a report is received from Borsa Italiana or Consob concerning the spread of market rumours, the Information Officer, with the assistance of the Market Sensitivity Support Group and the heads of the corporate functions involved, examines the situation to determine whether it is necessary and/or desirable to inform the public regarding the truthfulness of the publicly available information, supplementing and correcting it if need be, in order to restore conditions of informational equality and fairness, and, where appropriate, whether it is necessary to submit a duly formulated request to delay disclosure.
- 11.2 — Similarly, the Information Officer, with the assistance of the Market Sensitivity Support Group and the heads of the corporate functions involved, examines the situation to determine whether it is necessary and/or desirable to make a public disclosure (and, as above, to determine whether it is necessary to submit a duly formulated request to delay disclosure) if Borsa Italiana or Consob request information or a public disclosure, even in the absence of rumours.
- 11.3 — If public disclosure is found to be necessary or desirable, the Information Officer initiates the process of drafting an appropriate press release, in the manner described above.

Profit warnings

- 11.4 — In the case of earlier announcements of targets (including in the form of trend changes) and/or forecasts for the Company and/or its subsidiaries, the Investor Relations Function, together with the other Functions involved, are responsible for monitoring the consistency of the operating performance with what was announced and for monitoring the consensus of the market, so as to issue a profit warning in the event of a significant and lasting divergence between market expectations and the Company's own projections.
- 11.5 — If a press release is necessary, it is prepared by the Administration and Control Function in the manner described above.

12 - Relations with third parties

- 12.1 — The Company has structures charged with handling relations with the media and with the Italian and international financial community.

Relations with the financial community

- 12.2 — Relations with the financial community are handled by the Investor Relations Function.
- 12.3 — On the occasion of meetings with the financial community (road shows, conference calls, conventions, etc.), the Investor Relations Function gives advance notice of the place, date and purpose of the meeting to the Market Sensitivity Support Group for its assessment of the aspects for which it is competent. It also provides draft versions of any documents that are to be presented/distributed to participants. Copies of the final versions of such documents must be sent to the Information Officer, so that any disclosures necessary may be made before the material is presented/distributed in the meeting.
- 12.4 — If the preliminary examination of the material finds it contains inside information, a suitable press release is prepared and issued at the initiative of the Information Officer. An analogous procedure is followed if inside information is unintentionally disclosed in a meeting.

Relations with the media

- 12.5 — The Media Relations Function (External Communication) is responsible for relations with the press.
- 12.6 — Interviews and statements concerning the Company, and meetings with reporters, may be given or made by the Chairman of the Board of Directors, the Managing Director after consulting with the Chairman, and other persons authorized by the Chairman,

acting on a proposal from the Media Relations Function or otherwise. This Function clears the content of interviews and press conferences with the interested parties and keeps the Market Sensitivity Support Group constantly informed where appropriate so that it may assess the aspects for which it is competent.

- 12.7 — If the preliminary examination of the material finds that it contains inside information, a suitable press release is prepared and issued in the manner described above at the initiative of the Information Officer. An analogous Procedure is followed if inside information is unintentionally disclosed in an interview or at a press conference.

Conferences, meetings, courses and conventions

- 12.8 — When managers participate in conferences, meetings, courses and conventions, the organizational unit involved gives advance notice of the place, date and purpose of the meeting to the Media Relations Function - if the participation of the press is likely at such events – and to the Human Resources and Organization Function. It also provides the name of the Company representative(s) participating and draft versions of any documents that are to be presented/distributed to participants.
- 12.9 — Subsequent to a cursory preliminary examination, the Media Relations Function (and/or the Human Resources and Organization Function) and where appropriate initiates a check on the content of the material with the Market Sensitivity Support Group. If it is found to contain inside information, a suitable press release is prepared and issued in the manner described above at the initiative of the Information Officer.

13 - Publications

- 13.1 — The content of any document published by the Company (such as advertisements, advertising brochures, information booklets, company magazines, etc.) must be first checked by the External Communication, assisted by the Market Sensitivity Support Group, to ensure that the information is correct and consistent with the content of earlier publications and that it does not include inside information.
- 13.2 — If inside information is found during the above-mentioned check of the content of a document, a suitable press release is prepared and issued at the initiative of the Information Officer.
- 13.3 — Economic and financial information, corporate documents, presentations to the financial community and other documents concerning Pirelli are posted on the Company's website. Such posting, to be authorized by the heads of the competent Functions, may not take place until the Company has fulfilled the disclosure obligations imposed by applicable laws and regulations. For such purpose, the heads of the competent Functions sent such material to the Information Officer so that he may fulfil the obligations imposed by applicable laws and regulations.

ANNEX A

Notices to be sent to persons entered in the register

Pursuant to Article 115-bis of the Consolidated Law on Finance (Legislative Decree 58/1998, as amended, hereinafter the “CLF”), Pirelli & C S.p.A. has created a register of persons with access to information that is likely to become inside information as defined in Article 114 of the CLF (the “Information” and the “Register”).

Accordingly, this is to inform you, pursuant to Article 152-quinquies of Consob Regulation 11971/1999, as amended, that

[N.B.: depending on the reason for the notice being sent, it is necessary to insert one of the following texts]

- your name [or your company or professional association] has been entered in the Register as having access on a regular basis to Information in connection with the following recurrent activity: **[N.B.: notice of entry in connection with a recurrent activity]**
- your name [or your company or your professional association] has been entered in the Register as having access on an occasional basis to Information in connection with the following project or event: **[N.B.: notice of entry in connection with a project or event]**
- your entry in the Register has been updated to indicate that you no longer have access to Information in connection with the following project or event: **[N.B.: notice to be sent at the end of a project or event]**
- your [or your company's or your professional association's] entry in the Register has been updated to indicate that you [or your company or your professional association] no longer have [has] access to Information in connection with the following recurrent activity: **[N.B.: notice to be sent at the end of a person's entry as having access to Information “on a regular basis” in connection with a recurrent activity]**

To this end we inform you that, pursuant to Article 181 of the CLF, inside information means information of a precise nature which has not been made public relating, directly or indirectly, to Pirelli & C. S.p.A. (the “Company”), its securities or one of its subsidiaries and which, if it were made public would be likely to have a significant effect on the prices of the Company's securities. Pursuant to Article 114 of the CLF, the Company must disclose inside information concerning the Company or its subsidiaries without delay to the public; it may delay the disclosure of such information, under its own responsibility, only in the cases and under the conditions established by Consob, provided that the Company is able to ensure the confidentiality of the information.

If Information is divulged to a third party who is not subject to a confidentiality requirement, the Company must disclose it in full to the public, simultaneously when it is divulged intentionally and without delay when it is divulged unintentionally.

It is therefore essential that persons entered in the Register observe the confidentiality requirements applying to Information to which they have access.

It should be noted, moreover, that each person entered in the Register is required to ensure the traceability of actions involving Information and its confidentiality within his sphere of activity and responsibility, from the time when, by any means (i.e. in correspondence, meetings, etc.), he comes into possession of Information in connection with the recurrent activity or the project or event to which the relevant entry refers.

If a person entered in the Register, intentionally or unintentionally, divulges Information to persons not possessing it (even if entered in the Register for other reasons), he must immediately inform the officer responsible for the Register.

It should also be remembered that Title I-bis of the CLF provides for sanctions in the event of insider trading and market manipulation. In particular, Articles 184 and 187-bis provide respectively for penal and administrative sanctions to be imposed on any person who, possessing

inside information by virtue of his membership of the administrative, management or supervisory bodies of an issuer, his holding in the capital of an issuer or the exercise of his employment, profession, duties, including public duties, or position:

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

Penal sanctions, imposed by the courts, consist of imprisonment for between two and twelve years and a fine of between twenty thousand and three million euros; administrative sanctions, imposed by Consob with a reasoned decision, consist of a fine of between one hundred thousand and fifteen million euros.

The amounts of the pecuniary administrative sanctions referred to above may be increased up to three times or up to the larger amount of ten times the product of the offence or the profit therefrom when, in view of the personal situation of the guilty party, the magnitude of the product of the offence or the profit therefrom or the effects produced on the market, they appear inadequate even if the maximum amount is applied.

Without prejudice to the possibility of the Company seeking compensation for any losses and/or liability it may incur as a consequence of conduct in violation of the obligations referred to in this notice, it should be recognized that non-compliance may also result: (i) for employees, in the imposition of the disciplinary measures provided for by law and labour contracts; (ii) for external collaborators, in the termination, with or without notice, of the relationship; and (iii) for directors and members of the board of auditors, in the board of directors proposing their disqualification for good cause at the next shareholders' meeting.

The personal data necessary for entries in and updates of the register will be treated in accordance with Legislative Decree 196/2003 (the "Privacy Code").

Please examine the extract from the legislation referred to in this notice and the fact sheet issued pursuant to Article 13 of the Privacy Code by clicking on this Internet link: www.pirelli.com.

For any information or clarification you may need concerning this document and its application, please contact: inforegistro@pirelli.com.

(The officer responsible for the Register)

ANNEX B

Pirelli & C. S.p.A. Group

Register of persons with access to inside information

under Article 115-bis of Legislative Decree 58/1998, as amended (hereinafter, the "Register")

Keeping the register; criteria for data management and retrieval

Design of the Register

Whereas:

- Article 115-bis of Legislative Decree 58/1998, as amended (hereinafter the "CLF") provides for the creation of a register of persons who have access - on a regular or an occasional basis - to inside information "in the exercise of their employment, profession or duties";
 - Article 152-bis of Consob Regulation on issuers, as most recently amended by Resolution no. 15232 of 29 November 2005 (the "Regulation"), specifies the information to be entered in the Register, with reference exclusively to the persons entered therein;
- the Register of Pirelli & C. S.p.A. (hereinafter, "Pirelli & C." or the "Company") is organized on subjective basis it is designed to hold data on natural and legal persons, entities and professional associations. For each person, the Register contains the nature of the relationship with the issuer in virtue of which he possesses information that may become inside information as defined in Article 114 of the CLF ("market sensitive information"). Persons are entered in the Register in accordance with their "Roles" under the relationship, of which there are potentially a great many, including:
- a) members of the administrative, management and supervisory bodies of the Company or Group companies;
 - b) employees of the Company or Group companies, in relation to the specific position held;
 - c) advisors, external auditors;
 - d) shareholders who provide direction and coordination, if any.

When specifying the profile of each Role, on the basis of the encryption program used by the Company, authorizations are issued to access the files related to the individual informational contexts for which the entry in the Register is being made.

Without prejudice to the above, entries may be made:

- on a regular basis, for recurrent and continuous activities and processes, such as the preparation of financial reports, budgets and forecasts and meetings of the governing bodies ("Recurrent Activities");
- on an occasional basis, for specific projects and events, such as extraordinary corporate actions, acquisitions and disposals, and notifications of sanctions ("Projects/Events").

Some persons will be entered in the Register only for individual Projects/Events in connection with which they possess market sensitive information, with an indication of the date the initial entry is made in the Register and of that on which the person ceases to have access to the information, which coincide, respectively, with the time at which the person becomes involved in the Project/Event and the end of the period during which the Project/Event is associated with market sensitive information (e.g. with the issue of the press release with the price-sensitive information concerning the decision to go ahead with or abandon a transaction) or the earlier time at which, for any reason, the person ceases to have access to the market sensitive information. Other persons may be entered, for Recurrent Activities as well as for specific Projects/Events, as persons authorized to access - according to their functions in the Company or its subsidiaries - market sensitive information. The functions are described in the Register, with special reference to the normal calendars for the related flows of information, so as to circumscribe the "habitual" access of the persons with an interest in them. Such persons are first entered in the Register when they take up the function and their entries are updated, as described below, when they cease to hold the position or the function changes. As mentioned above, such persons may also be entered in connection with specific Projects/Events.

Keeping the Register

A) Projects/Events

At the start of a Project/Event which is an expression of the Company's will (i.e. which is of "voluntary" origin) the person charged with classifying the related information as market sensitive and with entering the possessors of such information in the Register (the "Registering Officer") is the person with responsibility for submitting it to the competent body for a decision on the Project/Event. Accordingly:

- if the decision is to be made by Pirelli & C.'s Board of Directors (e.g. in the case of extraordinary financial operations), the Registering Officer is the Chairman of the Board, who may delegate the task to the Secretary of the Board, who may consult with the Managing Director;
- if the decision is entrusted to a Pirelli & C. body with delegated powers (e.g. in the case of a commercial agreement), the Registering Officer is the senior manager. Entries may also be made in the Register for employees and members of the governing bodies of Pirelli & C.'s subsidiaries, which will not normally keep a register of their own. Any subsidiaries with securities listed on Italian regulated markets are an exception in this respect, since they are required to keep a register of their own under Article 115-bis of the CLF; these companies will therefore be entered in the Register as legal persons in accordance with Article 152-bis (2) (a) of the Regulation.

If instead a Project/Event is the consequence of the verification of facts or circumstances of an objective nature (i.e. of "external" origin), the Registering Officer is the senior manager under the Pirelli & C. managing director to whose sphere of activity the Project/Event is related who receives the information if the Project/Event is instantaneous and not subject to verification or the one who is responsible for the process of verification, if such process exists.

The persons indicated above will also be responsible for the subsequent reclassification of market sensitive information and consequently for the entry in the Register of the end or suspension of the Project/Event.

B) Recurrent Activities

At present the activities considered to be Recurrent Activities and as such to be entered in the Register are as follows:

- the preparation of periodic financial reports;
- the preparation of forecasts and the establishment of quantitative objectives;
- the preparation and holding of meetings of the governing bodies of the Company and its subsidiaries;
- the drafting of press releases pursuant to Article 114.1 of the CLF;
- relations with investors, analysts, and the media.

The analysis of the individual Recurrent Activities to identify the stage at which they must be entered in the Register is carried out by the Human Resources and Organisation Function with the assistance of the senior manager under the managing director competent for the activity in question. The Human Resources and Organisation Function is charged with the task of making and updating the entries in the Register, inter alia in line with developments in the internal Organisation.

The officer responsible for the Register, as defined below, may decide to add other Recurrent Activities, possibly acting on a proposal from the Human Resources and Organisation Function.

Officer responsible for the Register

The officer responsible for the Register is the Secretary of Pirelli & C.'s Board of Directors, who, in addition to the duties specified in other parts of this document

- performs the general supervision of the keeping of the Register and may access all the information it contains, with the right to retrieve data in any of the ways permitted by the system;
- handles relations with the judicial and supervisory authorities in the event of requests regarding the data contained in the Register;

- coordinates the Registering Officers and the settlement of any questions that may arise in the operation of the Register.

Data management and retrieval

The Register is electronic and can be accessed, with appropriate security systems, via the Internet and the Company's Intranet. Access is restricted to the officer responsible for the Register and to the Registering Officers. As mentioned above, the officer responsible for the Register can consult all of its content and carry out all the data entry and retrieval operations permitted by the system. By contrast, the Registering Officers are only authorized to call up, in addition to the data concerning Recurrent Activities, those which they entered themselves.

Natural persons are entered in the Register with their names, date and place of birth, residence or elected domicile, and e-mail address. For legal persons, entities and professional associations, their ID data are supplemented by the ID data of a natural person appointed to act as contact person.

For each entry in the Register (and therefore for each Project/Event and each Recurrent Activity), the system holds an indication of the person's "role" and date of entry, the date at which the person ceases to have access to the relevant market sensitive information, and the date of each update. Pursuant to applicable law, all these data are retained for at least five years from the time when the circumstances that gave rise to the entry or subsequent updates cease to exist.

In the case of Projects/Events the officer responsible for the Register receives, electronically and at the intervals he establishes, a report showing all the positions open (i.e. without a date corresponding to their termination or suspension), so as to be able to make the appropriate checks on their status.

The data contained in the Register can be searched using the following parameters:

- first name and family name;
- individual Projects/Events and Recurrent Activities;
- category of information (i.e. all the Projects/Events or all the Recurrent Activities);
- status (open, closed) of the Project/Event or Recurrent Activity.

The output generated can be displayed on screen, printed and downloaded.

In view of the necessity of informing persons of their entry in the Register, of subsequent updates of the data concerning them, of the obligations deriving from the possession of inside information and of the sanctions applicable in the event of violations, the application automatically e-mails employees the notifications required by law. For other types of registered persons, the system notifies the officer responsible for the Register and/or the Registering Officer who made the entries of the need to make the required notifications without delay.

ANNEX C

[on letter head of consultant or counterparty]

.....

STRICTLY PRIVATE AND CONFIDENTIAL

Pirelli & C. S.p.A.
Via G. Negri 10
20123 Milan
Italy
To the attention of:

Re: confidentiality agreement related to:

.....
.....
.....
..... (“Transaction”)

Dear Sirs,

Reference is made to our conversations regarding the Transaction and to your request that we assume certain confidentiality obligations, also on behalf of the Relevant Persons (as defined hereinafter).

We acknowledge that, as a consequence of our involvement with the Transaction, you may make available to us data and information, in written, electronic or oral form, relating to:

- (a) the Transaction, including its existence;
- (b) Pirelli & C. S.p.A. (the “**Company**”) and/or its controlled companies and/or companies on which the Company exercises, directly or indirectly, a significant influence, and
- (c) the persons that own, directly or indirectly, a stake in the share capital of the Company

(such data and information is collectively referred to as the “**Confidential Information**”)¹.

We hereby undertake to maintain the Confidential Information strictly private and confidential and not to disclose or disseminate the Confidential Information, without the prior written consent of the Company, to persons other than the following:

- (i) directors, managers or employees of [either] our company [or our affiliates (for the purposes hereof affiliates means the controlling companies or the companies controlled, also indirectly, by us and/or under common control, jointly the “**Affiliates**”)]²,
- (ii) legal counsels or other advisers or assistants or of either our company or the affiliates appointed with your prior written consent,
- (iii) partners, associates, advisers, employees or assistants of the undersigned firm and/or professional association³ which are directly involved in the Transaction and need to know the Confidential Information.

Furthermore, we undertake to use the Confidential Information only for the purposes of the Transaction and not to use any Confidential Information in a way that may be prejudicial to the Company, its affiliates or other persons that own, directly or indirectly, a stake in the share capital of the Company.

We represent that we have in place a system of security measures fully adequate to protect the Confidential Information in accordance with the provisions of this Agreement.

¹ Delete any paragraph which is not applicable and or insert any further paragraph if appropriate.

² Insert reference to Affiliates if appropriate.

³ Delete any paragraph which is not applicable and or insert any further paragraph if appropriate, e.g. “(•) counterparties to the Transaction”; “(•) legal counsels or other advisers or consultants of the Company”.

We further undertake to inform preliminarily and appropriately each of the persons mentioned in paragraphs (i) to (iii) above (collectively referred to as the **“Relevant Persons”**)⁴ of the confidentiality obligations under the Italian Legislative Decree no. 58 dated 24th February, 1998, as subsequently amended, and implemented by the relevant rules and regulations (the **“Decree”**), and to ensure that each of the Relevant Persons agrees and complies with the terms and conditions of this agreement as if they were a party to it. We agree that we shall be liable for any breach of this agreement by us and, pursuant to Article 1381 of the Italian Civil Code, by any of the Relevant Persons.

The information disclosed to the Relevant Persons shall not be deemed to be Confidential Information if such Confidential Information: (x) is in, or becomes part of, in the public domain other than as a result of an unauthorized communication or disclosure by us or any of the Relevant Persons; or (y) is, or becomes, available to us [or our Affiliates] by a third party which is not in breach of any duty of confidentiality (known to us) owed to the Company or other company within its group; (z) have been independently elaborated by us [or our Affiliates] without any kind of reliance or use, of any kind, of the Confidential Information.

Notwithstanding the foregoing, each of the persons subject to the confidentiality obligations set forth herein shall not be bound to fulfil any obligations hereunder in the event that the disclosure or communication of any part of the Confidential Information is required by law, regulation or order to which no opposition can be made. In such circumstances, we shall promptly notify you in writing and shall consult with you on the opportunity to take appropriate actions in order to obtain a waiver and/or communications is required, we undertake to cooperate with you, also in the event it appears necessary or appropriate to delay the timing of the disclosure and/or communication pursuant to Article 114, paragraph 3, of the Decree in order to obtain a protective order or undertakings required or advisable so as to ensure a private and confidential treatment for specific parts of the Confidential Information.

We hereby undertake to comply with the provisions of the applicable privacy laws and regulations. We further undertake to comply with the provisions set forth in the Decree, also taking into account that any of the Confidential Information may, pursuant to the Decree, become market sensitive information. In particular, we hereby represent:

- (i) to acknowledge any duties arising out the Decree; and
- (ii) to be aware of the sanctions set forth in the Decree also in the event of abuse of market sensitive information or market manipulation.

We further represent to be aware that you may deem it necessary to enter our names in the registry you keep pursuant to the provisions of the Decree, which records the list of persons having access to confidential information. Therefore, we undertake to provide you in writing with the names of the Relevant Persons having access to the Confidential Information and of those who will access your offices.

Furthermore, we acknowledge that the breach of the confidentiality obligations contemplated by this agreement could cause serious and unrecoverable damages to the Company, to its Affiliates and to its direct or indirect shareholders, as well as to their respective directors. Consequently, and without prejudice to any other legal remedies, including orders and injunctions, if a breach of the obligations hereunder by us or any of the Relevant Persons is ascertained and, in any event, upon enforcement of administrative or criminal sanctions pursuant to the Decree against us or any of the Relevant Persons, the Company:

- (a) may terminate the agreements or contracts executed with us⁵ and still in force, if any, and
 - (b) for a period of at least three years, will not enter into further agreements or contracts with us⁶.
- The period mentioned in letter (b) above shall run, respectively, from either the date on which the breach is ascertained or the date on which the Company becomes aware of the enforcement of the abovementioned sanctions.

⁴ Delete any paragraph from (i) to (iii) which is not applicable and or insert reference to any further paragraph which has been inserted, if appropriate.

⁵ Insert “and or our Affiliates” if appropriate.

⁶ Insert “and or our Affiliates” if appropriate.

[We acknowledge that all Confidential Information is, and will remain, the property of the Company and or its Affiliates. Upon request of the Company, all documentation containing Confidential Information, and all copies or excerpts thereof, shall be immediately returned to you and all and all electronic records of the Confidential Information shall be deleted or destroyed; we will give you written confirmation of such deletion or destruction as soon as it has occurred.

Without prejudice to any obligation under this agreement, we may keep a copy of the Confidential Information for recording purposes if expressly required by mandatory provisions of law, provided that we give you prior written communication.]⁷

All obligations under this agreement become effective from the date hereof and shall terminate upon the third (3rd) anniversary of the completion of the Transaction or its definitive interruption.

This agreement shall be governed by, and construed in accordance with, the laws of Italy.

We hereby agree that any dispute arising out in connection with the construction or implementation of this agreement shall be submitted to the exclusive jurisdiction of the Courts of Milan.

Yours faithfully,

Consultant/Counterparty

.....

By:.....

Title:.....

⁷ Insert this paragraph if appropriate.

ANNEX I - Insider dealing - Black-out periods

The Board of Directors of Pirelli & C S.p.A. has decided - as part of its self-regulatory system - to require “relevant persons” in the company (including its directors and statutory auditors) to abstain, in certain periods of the year (so-called black-out periods), from carrying out transactions - including through intermediaries - on the shares of the company or related financial instruments.

In particular, The Board of Directors decided that the relevant persons (“**Relevant Persons**”) (within the meaning specified in article 152-sexies, subsection 1, letters c.1 and c.3) of the Consob Regulation adopted in decision no. 11971/1999 and subsequent modifications⁸, as well as those identified - including purely for self-regulatory purposes - by the Board itself, and the physical and legal persons⁹ closely linked to the latter, shall abstain from carrying out transactions on Financial Instruments (as defined below) in the twenty days preceding the release of the economic and financial results of the period (definitive or preliminary)¹⁰.

The Board of Directors has also reserved the right to determine, in an extraordinary way, further periods during which the obligation to abstain described above shall apply or be suspended.

For the purposes of the above provisions, Financial Instruments shall be understood to mean:

- (i) financial instruments listed in the Italian and foreign regulated stock exchange market, issued by Pirelli & C. S.p.A. and its subsidiary companies, excluding non-convertible bonds;
- (ii) financial instruments, even unlisted, attributing the right to subscribe, purchase or sell the instruments at point (i), including certificates representing the instruments at point (i);
- (iii) derivative financial instruments, including *covered warrants*, having as related asset the financial instruments at point (i), including when they are exercised by means of payment of a cash difference. Financial Instruments as defined in point (i) also include shares in real estate investment funds listed, promoted and managed by investment management company subsidiaries of Pirelli & C. Real Estate S.p.A.

⁸ Article 152-sexies subsection 1 letters c.1 to c.3 of the Consob Regulation adopted with decision no. 11971/1999./

⁹ c.1) The members of the administrative and control bodies of a listed company

c.2) The persons who act as directors of a listed company and the managers who regularly access privileged information and have the power to take decisions which may impact on the evolution and future prospects of the listed company

c.3) The members of administration and control bodies, those persons who act as directors of a listed company and the managers who regularly access to privileged information and have the power to take decisions which may impact on the evolution and future prospects of a company directly or indirectly controlled by a listed company, if the book value of the stake in the above mentioned subsidiary company represents more than fifty percent of the equity asset of the listed company, as resulting from the last approved Annual Report.

⁹ This means all those physical and legal persons strictly linked to the Relevant Persons who may be considered to influence or be influenced by the latter (and thus legal persons who, while subsidiary according to the current legal and regulatory provisions, operate in conditions of operational independence, are excepted).

¹⁰ The terms are calculated taking as reference the calendar of the meetings of the board of directors for approval of the reports specified in article 154-ter subsections 1,2 and 5 of the CLF (Consolidated Law on Finance) announced by the Company to the market.

ANNEX J - Regulations for shareholders' meetings

Article 1

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

Article 2

- To ensure the regular conduct of shareholders' meetings, for matters not expressly governed by these Regulations, the Chairman of the meeting (hereinafter the "Chairman") shall adopt the measures and solutions deemed most appropriate, in compliance with the law and the bylaws.

Article 3

- Meetings may be attended, with the right to take part in the discussion and to vote, by persons entitled to do so pursuant to the applicable provisions (hereinafter the "Participants").
- Unless stated otherwise in the notice convening the meeting, personal identification and verification of the right to attend the meeting shall begin at the place where it is to be held at least one hour before the time fixed for it to start. When the Participants have been identified and their right to attend verified, under the supervision of the Chairman, the auxiliary staff provided by the Company shall issue badges that serve for control purposes and to exercise the right to vote.
- The Participants shall be able to follow the discussion, take the floor during the discussion and exercise their right to vote, in the technical manner specified on each occasion by the Chairman.
- Participants who, after being admitted to the meeting, intend for any reason to leave the premises where it is being held, must inform the auxiliary staff.

Article 4

- Directors, senior executive and employees of the Company and of Group companies may attend the meetings, following also the course of actions decided by the Chairman, as may other persons whose presence is deemed useful in relation to the matters to be discussed.
- With the agreement of the Chairman and following the course of action decided by him, the proceedings may be followed by professionals, consultants, experts, financial analysts and suitably qualified journalists, accredited for a single meeting, in areas which could specifically be set aside for that purpose.
- Persons accredited to follow the proceedings must report for identification by the Company's appointees at the entrance of the premises where the meeting is to be held and collect a special badge to be exhibited upon request.

Article 5

- In accordance with the law and the bylaws, it is up to the Chairman to direct the meeting and ensure the best conditions for its orderly and effective conduct.
- The Chairman may authorize the use of audio-visual recording and transmission equipment.

Article 6

- In the conduct of the meeting and in the preparation of the minutes the Chairman shall be assisted by a Secretary, in case a Notary public is not present. The Secretary or the Notary public may in turn arrange to be assisted by persons of their trust.
- For the purposes of conducting the voting procedures, the Chairman shall be assisted by scrutineers; he may use auxiliary staff to provide the necessary technical support and to maintain order.

Article 7

- When the quorum for duly constituting the shareholders' meeting is not reached, after an appropriate period of time the Participants shall be informed of the fact and the discussion of the matters on the agenda shall be understood to be deferred until the next call of the meeting, if any.
- During a meeting the Chairman may, if he deems it desirable and the majority of the capital represented at the meeting does not object, suspend the proceedings for up to three hours.

Article 8

- Opening the proceeding of the meetings, the Chairman shall summarize all the items of the agenda.
- The Chairman can grant to shareholders' who have required to add items to the agenda, according to the By-Laws and to the provisions of law, up to 15 minutes for describing the proposed resolutions to be taken and for explaining the reasons why they are proposed.

Article 9

- The Chairman shall establish the order in which the items on the agenda are to be discussed, which may differ from that indicated in the notice convening the meeting.
- He may provide for several items to be discussed together or for the discussion to proceed item by item.
- The Chairman and, at his invitation, persons attending the meeting pursuant to the Article 4, paragraph 1, shall explain the items on the agenda.

Article 10

- It is up to the Chairman to conduct and moderate the discussion, ensure its correctness and prevent disturbances of the regular course of the meeting.
- The Chairman, taking account of the subject matter and importance of the individual items on the agenda, may establish at the start of the meeting the time - not less than 15 minutes - available to each speaker.
- The Chairman shall call on Participants to comply with the time limits for speaking established in advance and to keep to the matters stated in the agenda. In the event of an overrun and/or an abuse, the Chairman shall interrupt the speaker.

Article 11

- Persons who intend to speak must apply to the Chairman or the Secretary, indicating the subject they will address. Such requests may be submitted until the Chairman closes the discussion on the subject to which they refer.
- Participants may ask to take the floor a second time during the same discussion, for not more than five minutes, exclusively in response to other speakers or to declare how they intend to vote.

Article 12

- The Board of Directors and the Participants may put forward, giving reasons, proposals for alternative or amended resolutions with respect to those originally put forward by the Board of Directors or by the Shareholders who have requested to add items to the agenda in accordance with the By-Laws and with the provisions of law.
- The Chairman shall evaluate the compatibility of such proposals in relation to the agenda of the meeting and to the applicable provisions.

Article 13

- The members of the Board of Directors and the Board of Statutory Auditors may intervene in the discussion; at the invitation of the Chairman, persons attending the meeting pursuant to the Article 4, paragraph 1, may also take the floor, inter alia to respond to requests for clarification.

Article 14

- The Chairman shall take appropriate measures to ensure the orderly conduct of voting and provide for the voting on an item to be held immediately after the close of the discussion thereof or at the end of the discussion of all the items on the agenda.
- The Chairman shall establish how each voting procedure is to be conducted and the procedures for identifying and counting the votes cast and shall be responsible for ascertaining the results.

Article 15

- Upon completion of the counting of the votes with the help of the scrutineers and the Secretary, the results of the voting shall be announced.





Sustainability report

“Sustainability as a fundamental choice based on vision and growth strategies, as an entrepreneurial and cultural value and as a responsible component of long-term development sums up the Pirelli Group's approach to business, which it continued to refine in 2008. Such an approach helps reduce economic, social and environmental risk. Internal cohesion grows in step with the overall vision needed to balance business activity as much as possible with the interests of different stakeholders, in view of compensating the impact of specific historic conditions through the pursuit of long-term stability, which a business must achieve at least in those areas where it can take the initiative. The current global economic crisis is forcing businesses to change, restructure and sacrifice. It is also forcing profound industrial and social changes, which Pirelli intends to address not only with appropriate short-term measures, but also and especially by continuing to focus on innovation, in the broadest sense of the term. This means focusing on the most advanced technologies but also research, training, the promotion and development of “talents”, especially younger people, growing occupational safety, multicultural experience and sensitivity to social implications in the communities with which it constantly interacts around the world. With these aims in mind, Pirelli launches its “green performance” strategy for environmentally sustainable growth. This strategy translates into new products and new production systems with reduced environmental impact, low energy consumption, quality and safety. This is what sustainability means to us. This is the approach and performance that will enable us to appear once again on the most prestigious rankings of international sustainability as world leader in the Dow Jones Auto Parts & Tyres Sector. We have been accorded this honour for the second year in row and will continue to uphold it with commitment and consistency.

Marco Tronchetti Provera

”

A note on methodology

This, the fourth edition of the Pirelli Group Sustainability Report, is a comprehensive expression of the Pirelli corporate culture. It does this by reporting the Group's economic choices together with its environmental and social choices, in line with the "triple bottom line" approach. For this reason, the details of our sustainable performance are included in the Annual Report, instead of being published separately.

The **perimeter** of this annual report is the same as the Group's consolidated report.

The report has been drawn up according to the *Sustainability Reporting Guidelines* issued by the Global Reporting Initiative (GRI). The analysis of sustainable performance is based on a set of "Key Performance Indicators" (KPI), developed in accordance with the **GRI** indicators (updated to the G3 standard) and the principles of the *Global Compact*, while also taking account of data periodically monitored by the leading rating agencies of sustainable finance. The sections on economic and social dimensions have also drawn on the Reporting Standards issued by the Italian Sustainability Report Study Group (**GBS** - Gruppo di Studio per il Bilancio Sociale).

In this report, we have concentrated on what we believe will be of most interest to the Group's wide variety of stakeholders, highlighting and explaining the progress made in 2008 in relation to the contents of the 2007 report.

Specific qualitative and/or quantitative objectives have been indicated in the sections dedicated to each one of the Group's stakeholders.

As regards **Corporate Identity** and **Group organisation**, please see the *Directors' Report* that precedes this section.

Beginning this year, an **outside, independent organisation** has audited both this report and the Pirelli & C. Real Estate SpA Sustainability Report, in order to certify the completeness and accuracy of the qualitative and quantitative information reported in it.

For detailed information on the Real Estate Sector, whose sustainability performance is addressed in this report, please consult the **Pirelli Real Estate SpA Sustainability Report**, which can be found on the website www.pirellire.com.

For further explanations and information on the contents of the report below, please refer to the "Contacts" published in the "Sustainability" section of the website www.pirelli.com. The "Sustainability" section dedicated to the external community also offers up-to-date information on sustainability News and Events directly involving Pirelli.

www.pirelli.com > Sustainability >
Report

www.pirellire.com > Corporate Social
Responsibility

www.pirelli.com > Sustainability >
Contacts

www.pirelli.com > Sustainability > News
& Events



Pirelli and sustainable development

Identification of Stakeholders and approach adopted

The term “stakeholder” means “holder of legitimate interests” in the company, i.e. those individuals or groups that have an interest in the company’s decisions, influence its success and/or are impacted by the organisation’s activities.

www.pirelli.com > Sustainability >
Stakeholders

Pirelli Group adopts a **multi-stakeholder approach**, which means that it pursues lasting and sustainable growth based as far as possible on the equitable reconciliation of the interests and expectations of all those who interact with the company. In particular, these are:

- Environment
- Shareholders
- Human Resources
- Customers
- Suppliers
- Institutions
- External Community

The Group encompasses different business areas, each with their own particular approach to the issues of sustainability. Consequently, relations with stakeholders are to a certain degree heterogeneous, which may be regarded as a beneficial diversity in Pirelli’s ways of listening to and involving stakeholders.

There are many and varied initiatives, activities, tools for dialogue and projects of specific interest to the categories listed above. These are addressed in detail in sections 2, 3 and 4 of this chapter, to which the reader is referred for further information.

Sustainable Governance

For Pirelli, sustainable governance means **integrating sustainability with the various aspects and precincts of company management**. Among other things, this translates into the mapping, control and sustainable management of all risks associated with the company's activities.

FUNDAMENTAL PRINCIPLES - MISSION, VISION, BRAND PROMISE

Over the course of 135 years of history marked by changes in business, markets, people, political, economic and social contexts, Pirelli's corporate identity has not changed. This identity is built around innovation, pursuit of excellence, internationalisation, social and environmental responsibility, and sustainable growth and creation of value.

The **Group Mission** is the following: *"...Developing cutting-edge products in terms of quality, safety and respect for environmental and social sustainability, capable of satisfying the needs of our customers and all other stakeholders through the Group's capacity for research and innovation and the skills of our human resources."*

The **Group Vision** considers in turn that *"quality and excellence are distinctive components that can render Pirelli products exclusive and make the Group a benchmark for performance in a continually evolving global context."*

Integration of sustainability in the very essence of Pirelli is expressed through the **Brand Promise**, which states: *"Our claim 'Power is nothing without control' is the essence of Pirelli's products and action: high performance, research and innovation are combined with responsibility, safety, respect for the environment and sustainability."*

The Group's Mission, Vision and Brand Promise are published in *Group* section of the Pirelli website (www.pirelli.com), which is accessible to the External Community.

GUIDING PRINCIPLES - MODEL

The United Nations **Global Compact** is a voluntary initiative, proposed on 31 January 1999 at Davos by the then Secretary General, Kofi Annan, in an appeal to the World Economic Forum. Specifically, the Global Compact asks businesses to implement and support, within their sphere of influence, **ten basic principles** in the areas of human rights, labour standards, the environment and the fight against corruption.

These involve universally shared values, as they derive from the *Universal Declaration of Human Rights*, the *Declaration on Fundamental Principles and Rights at Work*, the *Rio Declaration on Environment and Development* and the *United Nations Convention against Corruption*, to which Pirelli is firmly committed.

www.pirelli.com > Group > Company
Profile > Mission, Vision and Values

www.pirelli.com > Sustainability > Pirelli
and Sustainable Development > Global
Compact



www.unglobalcompact.org

In October 2004, in a letter addressed to the Secretary General, Kofi Annan, Pirelli Group formally declared its adherence to the Global Compact and its **commitment** to observe and support its Ten Principles.

This letter, which is published in the *Sustainability* section of the Pirelli website (www.pirelli.com), is available to the External Community.

SUSTAINABILITY DOCUMENTS

Values and Ethical Code of the Pirelli Group

To provide all the Group's affiliates with cogent and uniform guidelines for the professional practices to be followed by those who work for the company, the Board of Directors of Pirelli & C. S.p.A. approved the Values and Ethical Code of the Pirelli Group.

The document outlines the general principles (transparency, fairness and honesty) that inspire the way it does business. It also lists the objectives and values underpinning the company's activities that affect the main stakeholders with whom Pirelli regularly interacts.

Group suppliers are formally required to comply with the Group Ethical Code, by signing the "sustainability clauses" included in supply contracts and that are dealt with more extensively in a specific section elsewhere in this report.

The Ethical Code will be revised in 2009, to bring it into line with new market requirements involving sustainability and corporate governance. Consistently with the Group's sustainable approach to operations, full implementation of the Code will be ensured by tying it to whistleblowing procedures.

The document has been translated into the various languages spoken inside the Group, and then distributed to all employees. The contents of this document, published in the Sustainability section of the Pirelli website (www.pirelli.com), are available to the External Community.

Pirelli Group policy on "Health, Safety, Environment and Social Responsibility"

By publishing its "Health, Safety, Environment and Social Responsibility Policy (HSE & CSR Policy)," signed by the Chairman in June 2004, Pirelli has implemented and reinforced guarantee inside the company that a proper balance would be maintained between sustainability and industrial development. The HSE & CSR Policy brings together in a single document the previous corporate policies on the environment and occupational safety in view of integrated sustainable operation.

The contents of the Policy respond to the desire to translate into a brief but substantial text the Group's commitment to unwavering compliance with the principles set out in the "Universal Declaration of Human Rights," the "International Labour Organisation Declaration on Fundamental Principles and Rights at Work," and

www.pirelli.com > Sustainability > Pirelli
and Sustainable Development > Ethical
Code

www.pirelli.com > Sustainability > Pirelli
and Sustainable Development > HSE &
CSR Policy

the ILO Conventions on forced labour and child labour, freedom of association, equal opportunity and occupational health and safety.

This is also consistent with the commitments made upon acceptance of the principles set out in the United Nations Global Compact, which are reflected in turn in "The Values and Ethical Code of the Pirelli Group", and in the Group Equal Opportunities Statement and in the consequent operating activities.

The Policy begins by affirming support and respect for human rights, which offer the essential inspiration for the company's sustainable approach.

Group suppliers are formally required to comply with the Policy, by signing the "sustainability clauses" included in the supply contracts and that are dealt with in more detail in a specific section elsewhere in this report.

Like the Ethical Code of the Pirelli Group, the HSE&CSR Policy will be updated in 2009.

The document has been translated into the various languages spoken within the Group and distributed to all Pirelli employees.

The contents of HSE & CSR Policy, published in the *Sustainability* section of the Pirelli website (www.pirelli.com), are available to the External Community.

Pirelli Group Equal Opportunities Statement

Pirelli's commitment to equal opportunity in the workplace is clearly set out in its *Equal Opportunities Statement*, signed by the Chairman.

The document clearly illustrates the Group's approach to personal development in the management of diversity. Compliance with the principles and commitments set out in the Statement is guaranteed by local procedures for reporting and protection of equal opportunity in the workplace.

The Statement, which was distributed to all Group employees in their local languages at the end of 2006, has been published in the *Sustainability* section of the Pirelli website (www.pirelli.com), which is available to the External Community.

www.pirelli.com > Sustainability > Pirelli and Sustainable Development > Equal Opportunities

THE GROUP'S SUSTAINABILITY TOOLS

Corporate Governance

Pirelli assigns a key role to corporate governance, aware of its importance to value creation.

The Group is thus constantly committed to maintaining its corporate governance system in line with Italian and international best practices, and is always alert to implementing innovative solutions to add value to its own corporate governance system.

www.pirelli.com > Governance

Pirelli has adopted the traditional management and control system based on the central role of the Board of Directors. The company's governance model is based on fair practices for disclosure of the choices and processes followed in making business decisions; on an effective internal control system; on effective rules applicable to potential conflicts of interest and rigorous rules of conduct in carrying out transactions with related parties.

The other key features of the Pirelli governance system include:

- a high level of transparency in its Corporate Governance system, with extensive evidence and description of the governance structure, with evidence of bi-annual updates and integrations contemplated for the corporate governance compared with the content of the Annual Report;
- the presence in the board of a large number of Independent Directors, amounting to 55% of the Board of Directors and more than 65% of total non executive directors;
- the important role given to minorities, which in case of submission of the lists elect 20% of the Board of Directors (currently 4 out of 20);
- the establishment of a Committee for Internal Control and Corporate Governance and a Remuneration Committee solely made up of Independent Directors;
- designation of a Lead Independent Director, who is assigned an active and effective role in coordinating the requests and contributions of independent directors. This officer has always guaranteed his regular attendance at all Board of Directors and Shareholders' Meetings and at meetings of the Committee for Internal Control and Corporate Governance and the Organisational Model Supervisory Body, of which he is Chairman;
- the Directors' strong commitment to their mission, which is also reflected in their regular attendance of Board of Directors meetings;
- periodic meetings of the independent directors and directors without executive authority - in the second case with top management of the Group - in order to improve their familiarity with the company's actual operating conditions and facilitate their contribution to management;
- the Board of Directors' consolidated practice of reviewing its own performance, with the aid of an expert consulting firm.

For further details on the Pirelli Corporate Governance System, reference is made to the relevant section in the Annual Report.

The section dedicated to the company's Corporate Governance System can also be accessed through the homepage of the website www.pirelli.com.

Internal Control and Risk Management Systems

The Internal Control System is comprised by the procedures and tools designed to offer reasonable assurances that the objectives of operating efficiency and effectiveness, the reliability of financial and operating information, compliance with laws and regulations and protection of company assets against possible fraud or attempted corruption be realised.

The Pirelli Group Internal Control System is set up in such a way as to ensure fair disclosure and adequate control of all activities, particularly in areas that are considered potentially at risk. This is the operating translation of the principles set out in the Group Ethical Code, and represents a collegial process intended to pursue fundamental business ethics: fairness, transparency and honesty.

The fundamental principles of this system are the efficiency, cognizance and verifiability of company operations, the reliability of accounting and operating data, formal and also substantial compliance with laws and regulations, and conservation of company assets over time.

The Board of Directors is responsible for the Internal Control System, defining its guidelines and periodically auditing its adequacy and actual performance. It relies on the Internal Control committee and the Corporate Governance Committee, as well as the Internal Audit Department of Pirelli & C. S.p.A. to carry out these activities.

As part of its **risk management** activities, Pirelli identifies potential risks through the **Control Risk Self Assessment (CRSA)** process. Implementing the Management Plan, this process relies on methods of identifying and assessing risks by management at the individual affiliates located in different countries.

The CRSA method has been incorporated in the Planning and Control procedure as part of the Group's administrative processes, in view of developing the management of corporate risks within the framework of that procedure. The aim was to "automate" its application so that the company's various operating units can independently assess risks and adopt appropriate countermeasures together with elaboration of the annual Management Plan. This reflects the clearly high sensitivity to unknown factors tied to local operating and socioeconomic conditions.

All risks to company stability are monitored and assessed, such as meeting targets, protecting corporate assets, the reliability and integrity of information, corruption and the operating risks that are associated the specific company and/or the specific geographical location.

This activity takes a systematic approach in order to analyse existing controls and identify any improvements and reduce the risk profile.

Consequently, the CRSA activity is carried out in order to:

- increase management's attention, awareness and responsibility for risks;
- provide a systematic approach to identifying and measuring the risks that might have a negative impact on strategic objectives;
- prepare a profile that indicates how existing controls have reduced the current level of risk;
- establish how risk can be further reduced through greater controls;
- prepare realistic action plans to mitigate major risks;
- obtain a risk profile that, as a key tool in the decision-making process, is used for change management;
- provide a structured and disciplined risk assessment approach as part of the planning and control process.

Several tools are simultaneously used at the operating level for self-evaluation of risks and controls.

In an initial phase, the business unit managers and their direct subordinates identify the threats that can prejudice achievement of corporate objectives and the tangible and intangible resources that the risks can impact and their likelihood of occurring.

Subsequently, during a consolidation phase, redundancies are eliminated and classes of material risks that had not been initially identified are added.

Then a single list of risks is drafted and sent to management for assessment of the likelihood that the events occur and their impact on operations.

The **risk portfolio**, which is one of the principal outputs of the self-evaluation process, not only orients the formulation of strategies but also plays a major role in audits, both during definition of the annual plan and during audits themselves.

The identification of potential risks supports the internal control system in identifying realistic action plans for risk prevention. It likewise permits the analysis of shared **crisis management** operating strategies, by means of which insurance coverage is periodically adjusted as appropriate in accordance with specific internal policies.

Among the risks connected with individual geographic areas, the **human rights** assessment carried out at the corporate and sector levels merits special attention. This assessment is carried out for those countries where it is more likely that human rights be violated. These countries are the same as the “countries of concern” (according to the EIRIS classification for FTSE indices) where the Company has a presence.

This applies in particular to management of the chain of supply, which requires procedures, prevention and management that are addressed in a specific section elsewhere in this report.

Ad hoc assessments are also carried out before entering a specific market, in order to assess any political, financial and social risks, including those connected with respect of human rights. Once the Company sets up operations in such a market, this will enable it to better manage the gap between local practises and Company HR and social responsibility policies, which will be applied on a mandatory basis.

In order to monitor internal compliance with the human and labour rights set out in the SA8000® Standard (the benchmark tool used by Pirelli to manage social responsibility), the Group complements constant monitoring at the corporate level with **independent audits by external consultants**. Such audits enable the company to make complete and objective assessments of any departures from the principles set out in the standard.

In 2008 independent audits were carried out at Pirelli production plants and commercial locations in Turkey, Brazil, Venezuela, Argentina, Egypt, China, Romania, Colombia, Mexico and Chile (commercial offices only are located in the last three countries). Several plans for remedial measures were implemented in 2008 in consequence of these audits.

Organisational Structure

Governance of Sustainability is centred around the **Corporate Social Responsibility Steering Committee**. This high-level body was formed by the Chairman at the beginning of 2004 to guide the advancement of sustainability throughout Pirelli S.p.A. The CSR organisational structure is made up of a **Group HSE & CSR Director**, a **Group CSR Manager**, **Sector CSR Managers** (one for each sector of the Group) and **Company CSR Managers** (one for each Group affiliate).

In 2005, the Chairman appointed an **Equal Opportunities Steering Committee**, a high-level body to guide and supervise programmes for equal opportunities at the Company. At the same time, in order to steer the implementation of the Equal Opportunities Programme throughout the Company, and also to achieve greater organisational balance and to monitor the advancement of equal opportunities within all the affiliates, an **Equal Opportunities Manager** was appointed for the Group as a whole. Finally, each country has an Equal Opportunities Manager, who is responsible for guiding and supervising the advancement of equal opportunities at the local level.

Group Rules of Corporate Social Responsibility

The *Rules of Corporate Social Responsibility* (issued on 16 September 2006) set out and regulate the methods applied for internal management of activities associated with corporate social responsibility, with particular attention to the roles and responsibilities of the departments involved. These regulations also govern the planning and control processes, the process of drawing up this Sustainability Report and management of the dissemination of CSR information to the external community.

These rules specifically provide for the full integration of CSR in the Group's financial reporting structure: "...*The cycle of planning and control of CSR follows the Group's reporting and planning calendar.*"

Adopted management systems

To implement the first principle of the *Health, Safety, Environment and Social Responsibility* policy, Pirelli devotes significant resources to management systems. The Group utilises these tools to improve the quality, effectiveness and efficiency of its processes, in view of continuously reducing impact on the health of its employees, on safety conditions in the workplace and on the environment.

The adopted management systems for occupational health and safety (**OHSAS 18001**), environment (**ISO 14001**) and product quality (**ISO 9001**, **ISO/TS 16949**, **ISO/IEC 17025**) are extensively described in the specific sections dedicated to them elsewhere in this report.

The international **SA8000®** standard was adopted in 2004 as the benchmark for assessing the consistency of the Group's conduct with the Sustainability principles set out in the standard.

www.pirelli.com > Sustainability >
Certifications

In 2008 Pirelli commissioned **independent audits** at its plants and commercial locations in Turkey, Brazil, Venezuela, Argentina, Egypt, China, Romania, Colombia, Mexico and Chile (commercial offices only are located in the last three countries). Several plans for remedial measures were implemented in 2008 in consequence of these audits.

IT System for CSR information management

In 2008 Pirelli completed the “CSR-DM” (CSR Data Management) system. This is an IT system for the management of Group sustainability information. Created in 2007 to improve the efficiency of the process of contribution, validation, consolidation, analysis and management relating to sustainability, the system has been used to collect the data reported here.

STOCK MARKET INDICES AND ETHICAL FINANCE

Pirelli has received major recognition for its commitment and the results achieved in the field of sustainability through its inclusion in some of the most prestigious international stock exchange indices for sustainability.

Dow Jones Sustainability Indices

Launched in 1999, the Dow Jones Sustainability Indices are the first global indices to track the financial performance of leading companies in terms of sustainability. Compiled on the basis of cooperative efforts between Dow Jones, STOXX Limited and SAM Group, they provide reliable and objective information in the form of benchmarks for managers of sustainable fund portfolios. Pirelli was selected for the **Dow Jones Sustainability STOXX (DJSI STOXX)** index for the first time in 2002, and has also been included for many years in the **Dow Jones Sustainability World** index.

In January 2009 Pirelli was named world sustainability leader in the “Autoparts and Tyres” Sector and Gold Class Company for the second year in a row by Sustainability Asset Management Group (SAM). This recognition was published in the prestigious *Sustainability Yearbook 2009*, published by SAM in collaboration with PricewaterhouseCoopers.

The *Yearbook* is the most complete and authoritative global benchmarking tool for sustainable finance specialists. Only 15% of the companies listed in 57 business sectors are included, following assessment by SAM of more than one thousand multinational companies.

www.pirelli.com > Sustainability > SRI and related Indexes

www.pirelli.com > Sustainability > SRI and related Indexes > Dow Jones Sustainability Indexes



www.sam-group.com
www.sustainability-index.com

FTSE Indices

Pirelli has been included in the **FTSE Global and European STOXX** indices since 2002. FTSE is an independent company, owned by *The Financial Times* and the London Stock Exchange.

The **FTSE4Good Series** indices were created by FTSE to measure the performance of companies in terms of their observance of internationally recognised standards of social responsibility, and to facilitate investment in these companies.

www.pirelli.com > Sustainability > SRI and related Indexes > FTSE4Good Indexes



www.ftse.com
www.eiris.org

ASPI Index

Pirelli has been included since the beginning of 2005 in the **ASPI EUROZONE®** (Advanced Sustainable Performance Indices) index, which includes the 120 best-performing companies in terms of sustainability on the basis of CSR ratings issued by Vigeo, a social and environmental rating agency. The ASPI survey pool is comprised by the companies included in the DJ EURO STOXX SM index.

In an important Vigeo assessment, whose results were published in Italy in September 2008, the Company was recognised as a leader in its sector for its policies and practises, especially in the fields of “Human Rights,” “Environment,” and “Customers and Vendors” (which the Vigeo model considers to be some the areas with the greatest risks/opportunities), for which Pirelli received the highest score. Its score for human rights was far higher than the sector average. Vigeo has also given Pirelli high marks in the environment category, reflecting the Group’s environmental management systems. Appreciation was also expressed for the Group’s equal opportunities and product safety policies and transparency in regard to Board of Directors compensation.

www.pirelli.com > Sustainability > SRI and related Indexes > ASPI Index



www.vigeo.com

AXIA Indices

Pirelli has been included in the **Axia Ethical Index** since 2004 (the year when the index was created) and in the **Axia Csr Index** since 2005 (the year it was created). Pirelli is also included in the Axia Euro Ethical Index and Axia Euro Csr Index.

The Axia indices interact with the major international platforms for financial operators and encompass international best practices in corporate social responsibility for a range of companies selected from those with the highest capitalisation for the S&P MIB and Eurostoxx60 indices. Pirelli’s current rating is **A+++**, which is the highest obtainable in the “ethical class”.

www.pirelli.com > Sustainability > SRI and related Indexes > Axia Index



www.axia.org

KEMPEN Indices

Pirelli has held “Pass Status” since 2003 in the entire Kempen Capital Management “**SNS Socially Responsible Investing Universe**” with continually improving ratings. The investing universe includes companies listed in Europe that prove they have adopted the highest standards in terms of ethical, environmental, and human resource standards.



www.kempen.nl

Scs Consulting Accountability Rating

Scs Consulting, a management consultancy, presented its **Accountability Rating** for the first time in Italy in December 2008. This tool was designed to measure the capacity of firms to respond and their transparency to interlocutors on significant management aspects, particularly strategy, governance and management systems, capacity to engage stakeholders and the impact of their core business on the competitive environment.

Scs assessed the companies listed on the S&P/MIB index, which is the principal Italian stock market index, and its ranking put Pirelli in the top ten.

www.accountabilityrating.com
www.scsconsulting.it

PRINCIPAL INSTITUTIONAL COMMITMENTS

Pirelli's adherence to the United Nations **Global Compact** has already been mentioned above.

Membership in the European Alliance for CSR

Pirelli's participation in the European Alliance, formalised in 2007, is based on its full acceptance of the role of sustainability as a strategic and competitive way to manage a company. So far, Pirelli's participation in the initiative promoted by the European Commission to encourage the spread and exchange of the best sustainability practises amongst businesses, has been expressed through its active participation in the **Alliance's European Laboratories**, coordinated in Italy by the Sodalitas Foundation (where Pirelli has a seat on the Steering Committee).



www.ec.europa.eu/enterprise/csr/alliance.htm

The Equal Opportunities Workshop produced a toolkit entitled **"Practising Gender Equality in Careers"** prepared by Pirelli together with IBM Italia, L'Oreal, Telecom Italia, Poste Italiane, Roche Diagnostics and Indesit Company on occasion of the European Equal Opportunities Year (2007). This toolkit, presented in Brussels on 19 June 2008 at the CSR Europe General Meeting, took a year to complete and encompasses all the best practises for management of gender diversity. These practises are described in terms of key operating procedures and are aimed at businesses that have decided to draw inspiration from existing best practises.

Since 2008 Pirelli has also participated in the Italian Workshop on **"Managing Multiculturalism"** at work, which will produce a management manual in 2009 based on existing best practises for multicultural management.

Chairmanship of ETRMA - European Tyre and Rubber Manufacturers Association

Francesco Gori, CEO and General Manager of Pirelli Tyre, is serving his second consecutive term after being re-elected Chairman of ETRMA (European Tyre and Rubber Manufacturers' Association) in October 2008, promising continued focus on three priority themes - environmental protection, road safety and greater competitiveness.



www.etrma.org

While the Group confirms its institutional commitment to the Association, which has represented the continental tyre and rubber product industry before European Union institutions and other international organisations since 2006, the programme of activities to raise awareness for road safety continues. A year after the signing of the **European Road Safety Charter**, which represents a commitment to halve the number of highway accident deaths by 2010, ETRMA launched a European Safe Driving Campaign in 2008. It has offered an educational quiz for everyone, but especially an opportunity for drivers who want to measure their own knowledge of the "Golden Rules of Safety" that everyone should know and apply.



www.etrma.org > Activities

WBCSD - World Business Council for Sustainable Development

Pirelli actively participated in the WBCSD - World Business Council for Sustainable Development once again in 2008. Headquartered in Geneva, this is an association of about 200 international companies based in over 30 countries that have made a voluntary commitment to unite economic growth with sustainable development.



www.wbcsd.org > Tire Industry

Pirelli Tyre is a member of the **Tire Industry Project Group**, the project launched in 2006 to identify the potential impact on health and the environment of the materials associated with the manufacture and use of tyres. Sixteen months after research work began, the heads of leading world tyre manufacturers that belong to the group met in Tokyo on 12 June. This important event offered an update on programme progress and outlined major new approaches to study.

Participation in the Kyoto Club and the energy efficiency conference

Pirelli was one of five Italian companies invited to attend the roundtable on **Energy Efficiency, the Main Priority**, a conference held on 11 September by the Kyoto Club and hosted by the city of Milan. This roundtable was part of the programme for raising awareness and providing information and training in the fields of energy efficiency, use of renewable energy sources and sustainable mobility promoted by the Kyoto Club to achieve the greenhouse gas emission reduction targets set in the Kyoto Protocol. Formed in 1998, the Club is a non-profit organisation comprised by businesses, institutions, associations and local government authorities committed to stimulating proposals and policies for action in the energy and environmental sector.

www.kyotoclub.org

One of its members is Pirelli Ambiente Renewable Energy, the Pirelli Ambiente company that operates in the renewable energy source sector and, in particular, waste-to-energy activities through the production of quality fuel, developed and patented with the contribution of Pirelli Labs and Pirelli Real Estate.

Collaboration agreements with universities and public authorities for joint research projects

The Group signed a collaboration agreement with the **Region of Piedmont, Province Turin, City of Settimo Torinese and the Turin Polytechnic** for development of research and innovation programmes to develop the new Pirelli industrial centre in the territory of Settimo. In particular, this agreement calls for introducing cutting-edge technologies on which Pirelli is focusing its tyre research activities at the Settimo Torinese industrial centre. A major part of this project will be carried out in collaboration with the Turin Polytechnic. This will include the new generation MIRS, a substantial evolution in the robotised tyre manufacturing process that guarantees uniform product quality, TSM (Twin Screw Mixing), a new process of mixing materials at high standards of quality and reliability, and the Cyber Tyre, the future “smart tyre” equipped with sensors that can transmit useful information for driving and controlling vehicles.

The Pirelli Group and the **Milan Polytechnic** have signed an agreement to create a professor’s chair and fund five scholarships for doctoral degrees over the course of ten years on the *Chemical Foundations of Rubber and Compound Technology*. The new professor’s chair is intended to pursue study of innovative materials and the application of nanotechnology to development of new generation tyres.

The Fondazione Silvio Tronchetti Provera foundation and the **Shandong University in Jinan** (China) have signed a research agreement for the study of a new generation of “green tyres.” The university researchers will work with the Group’s R&D Department in China to create tyres with low rolling resistance, in order to reduce fuel consumption. This project is part of the research and development activities pursued by the Group for some time now to develop increasingly eco-compatible tyres.

Agreement with the Niguarda Ca’ Granda Hospital in Milan for a cooperation project with the Slatina Hospital

Intended to further the **continuing education** of Romanian physicians and nurses at the Milan hospital, the **three-year medical cooperation programme** between the Niguarda Ca’ Granda Hospital and the Slatina Hospital financed by the Pirelli Group engaged the participation of 25 Romanian physicians and nurses in its first year of activity. They received a total of 300 hours of training in the Emergency Medicine, Emergency Surgery, Intensive Care, Resuscitation and Emergency Gynaecology Departments at Niguarda.

The cooperation programme envisages engaging the participation of about 70 physicians and nurses from the Slatina Hospital over the course of three years, through participation at theoretical and practical courses on Emergency Medicine, Emergency Surgery, Intensive Care, Resuscitation, Gynaecology and Hospital Epidemiology.

The agreement is one of the social programmes undertaken by Pirelli in support of the community of Slatina, where the Group has built a large industrial centre dedicated to the production of high performance tyres for the Central and East European markets.

Participation in the 20th National Quality Campaign

This year Pirelli participated in the 20th edition of the National Quality Campaign, an annual initiative sponsored in Italy by the Galgano Group. It aims to promote the strategic role of quality in our national economic system.



Launched back in 1989 by the three big quality associations **Japanese Union of Scientists and Engineers (JUSE)**, **American Society for Quality Control**, now the **American Society for Quality (ASQ)** and the **European Organization for Quality (EOQ)**, since 1995 the National Campaign has been part of the European Quality Week, which the European Union launched by inviting Member States to hold a series of promotional initiatives during the month of November to spread awareness of the following issue: quality as focus on the customer, innovation and competitiveness, added value that permits the elimination of waste and improvement of productivity, and a strategic key to building success.

These were the themes in 2008. During this campaign, sponsored by the President of the Republic of Italy and key ministries, an ad has been published in leading Italian newspapers and a series of conferences are being organised in various Italian cities to emphasise the importance of quality and the development of a new quality-oriented culture.

PRINCIPAL AWARDS RECEIVED

In 2008, the Pirelli Group received numerous awards and expressions of preference by consumers around the world, thereby taking a leading position in surveys and comparative studies carried out by respected specialised magazines and prestigious companies specialising in brand analysis. The common denominator of these awards is the recognised reliability of the Pirelli Group and its products.

Research institutes also recognised the Group's technological innovations. Ratings of the Group prepared by the analysts of the most prestigious indices of sustainable finance at the global level kept climbing, as discussed in detail elsewhere in this chapter. In particular, the Group was recognised for its leadership in global sustainability in the "Autoparts and Tyres" Sector and as a Gold Class Company by Sustainability Asset Management Group (SAM) for the second year in a row.

Some of the principal forms of recognition received by the Group in 2008 are illustrated below. News for 2009 are also included here, as they are considered significant events occurring before publication of this report.

www.pirelli.com > Sustainability > News & Events

Pirelli one of the 100 most respected and reliable companies in the world

This is what was said in the 2008 edition of **The Global Pulse Project**, sponsored by the Reputation Institute of New York. The special ranking published in July considers more than a thousand companies in 27 countries according to a system that measures the public's degree of trust, admiration, esteem and respect. The annual survey is compiled from interviews of more than 30,000 consumers. The results of the study are published annually by Forbes.

www.reputationinstitute.com

Pirelli is one of the 10 most famous Italian brands in the world

This was announced by an Italian ranking prepared for the first time by **Interbrand**, the biggest brand consultancy firm that specialises in analytical, strategic and creative disciplines for brand creation, management and assessment in order to maximise a brand's economic value. In the midst of a market downturn, the Company has received this major international recognition, which not only confirms its investments in the brand, but also major prospects for growth in its core business and fashion.

www.interbrand.com

The scorecard for Pirelli says: "Strong focus by the Group on its core business of making tyres, characterised by a consistent message at the global level ("power is nothing without control"), the brand seems to be sustaining its price-mix growth policy with success. In a sector where environmental sustainability is now a requirement rather than a choice, Pirelli's challenge will be to capitalise on the branding of its investments in eco-tyres, without diluting its performance image".

Pirelli Tyre is the "Tire Maker of the Year," winning the "Tire Technology International Award 2009" for the creation of innovative materials and environmental benefits

The "Tire Technology Expo" was held on 18 February 2009 in Hamburg. This is the world's most important show and conference dedicated to the tyre industry, which hands out the prestigious "Tire Technology Awards for Innovation and Excellence" every year. The jury of international authorities on tyre manufacturing and research named Pirelli Tyre "Manufacturer of the Year".

This choice was justified by research as a key factor in Pirelli's activity in 2008, characterised by the creation of innovative materials, environmental benefits and the establishment of partnerships with research institutes like the Fondazione Silvio Tronchetti Provera and Shandong University in China.

Pirelli the best tyre maker of the year in China

In December 2008, Pirelli won the prize "**Best Tyre Maker of the Year**" at the **China Auto Service Golden Finger Awards**, winning the consensus of experts, technicians, journalists and web users. This recognised the Company's long commitment to top

quality tyres and high performance, which have become standard equipment on the world's best cars. Presented by *Auto Driving & Service Magazine* (one of the most authoritative car magazines in China) and Sohu Auto Channel, the China Auto Service Golden Finger Awards and Golden Wrench Awards are among the most influential and best-known awards in the car industry.

Pirelli best investor in the Gorj District, Romania

In December Pirelli & C. Eco Technology was elected “**Best Investor of the Year**” in the **Gorj District** of Romania. This was the decision of **Antena 1**, Romania's top national commercial television broadcaster, which created the prize in 2008 with other organisations.

Pirelli Eco Technology ended the year on a positive note. On 5 December this Group company, which is committed to reducing air pollution, celebrated **the first Feelpure particulate filter produced at the Bumbesti-Jiu plant**, in the historic region of Oltenia.

The winner is Pirelli Labs!

On 9 May 2008 the CNR (Consiglio Nazionale delle Ricerche - Italian National Research Council) awarded the Oscar Masi Prize for Industrial Innovation to Pirelli Labs. They won the 2007 competition, whose theme was the application of nanotechnologies, with the “**tunable laser**” one of the world's most innovative solutions for the creation of a universal source in long-distance fibre optic telecommunication systems, which is covered by 14 international patents.

www.cnr.it

The Swiss prefer Pirelli tyres

For the third year in a row, Pirelli won in the “Best Brand” tyre category, the most popular competition for readers of *Auto Illustrierte*, a prestigious independent car magazine published in Switzerland.

The “Best Tuning Cars & Best Brands 2008” prizes by the readers of *AI* were awarded in Basel on 13 November, as usual, during the most important and most visited German Swiss car show, the Auto Zürich Car Show.



American drivers recommend Pirelli

Pirelli received a score that was 22 points above average in the *Original Equipment Tire Customer Satisfaction Study 2008*, an annual survey conducted by the California research institute J.D. Power and Associates that measures car driver satisfaction on original equipment (OE) tyres during the first two years after car purchase. Satisfaction with the OE is measured on the basis of five basic factors: durability, traction, design, driving pleasure and handling. The survey compared the products of 14 manufacturers.

Customer satisfaction is the most important factor in deciding to buy the same brand when tyres have to be replaced, or recommending them to friends and relatives. Here again, while the industry average is 32%, Pirelli ranked 38%.

The Cinturato P6 tyre is ranged number 1 in France for safety

In the test organised by the French magazine *L'Auto-Journal* and published in its 11 September issue, four models of ecological tyres that were market leaders were ranked according to stopping distance at different speeds, within the speed limits imposed by motor vehicle codes. The Pirelli Cinturato P6 tyre beat its competitors with 22 points.

Pirelli is the favourite brand of SportAuto readers

Performance and emotions: for the readers of *SportAuto*, a leading German magazine in the sports car sector, Pirelli is the top brand for “sportsmanship and emotion”. This is what was reported in the survey that the specialised publication conducts every year amongst its readers to get their opinions and reward the brand that satisfied them the most.



In its comparison of the most important tyre makers, Pirelli stood out for safety and dynamic handling, distinguishing itself for its sure grip on curves, stability at high speed, safety in wet conditions and excellent performance while braking. The Pirelli brand received high scores in many areas, including its sporty look and the results of different evaluation tests. “The ‘**Best Brand**’ prize is a major incentive for the future for us. We are going to work hard to hold on to this title”, said Michael Borchert, Pirelli Marketing and Sales Executive in Germany.

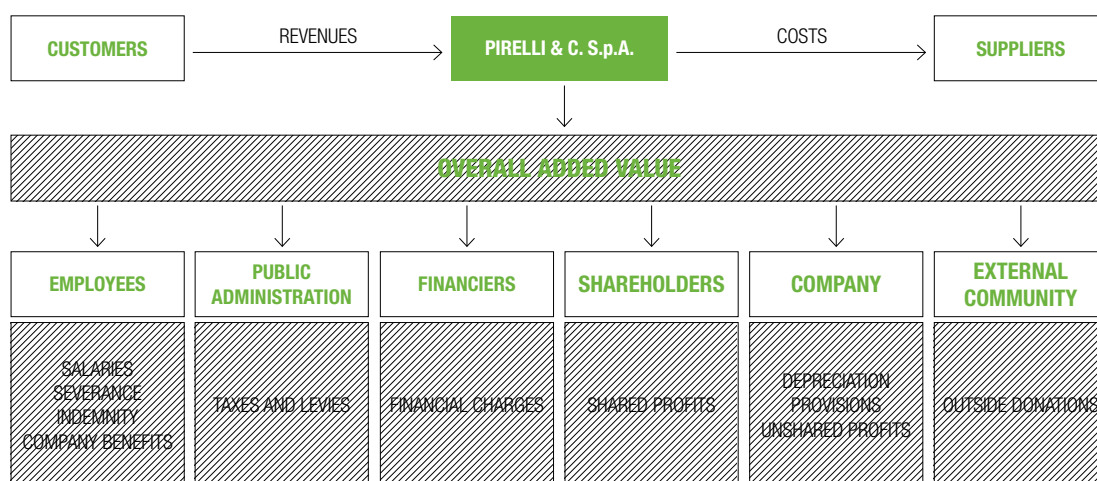
Other awards received from outside organisations for sustainable performance in 2008 are mentioned in the sections below, where they are discussed in the specific subsections.

Economic dimension

Pirelli Group companies are committed to contributing to the economic well-being and growth of the community in which they operate, by providing efficient and technologically advanced services. (Article 5 of the Ethical Code - Community).

Added value

Added value means the wealth created over a given reporting period, calculated as the difference between the revenues generated and the external costs sustained in the period. The distribution of added value between stakeholders enables the expression, in monetary terms, of the existing relations between Pirelli and the major stakeholders, thus shifting attention to the socio-economic system in which the Group operates (as shown in the diagram below).



The added value created by Pirelli & C. Group in 2008, 2007 and 2006 is broken down as follows:

ADDED VALUE (in thousands of Euro)

	2008		2007		2006*	
GROSS OVERALL ADDED VALUE	1,169,029		1,871,969		1,996,516	
Remuneration of personnel	(1,210,440)	103.5%	(1,156,170)	61.8%	(1,075,819)	53.9%
Remuneration of Public Administration	(78,335)	6.7%	(133,503)	7.1%	(127,849)	6.4%
Return on credit capital	(76,087)	6.5%	(36,288)	1.9%	(126,976)	6.4%
Return on venture capital	-	0.0%	(169,503)	9.1%	(78,299)	3.9%
Remuneration of the company	(200,866)	-17.2%	(368,132)	19.7%	(579,535)	29.0%
External donations	(5,033)	0.4%	(8,373)	0.4%	(8,038)	0.4%

* The gross overall added value for 2006 does not take into account non-recurring operations recorded in the period. Specifically, the disposal to third parties of 38.9% of Pirelli Tyre SpA and the entire holding in Capitalia (631 million Euro); the costs sustained for the IPO (13 million Euro) and the write-down of the affiliate company Olimpia (2,110 million Euro).

The changes in the items comprising gross overall added value as indicated above are adequately explained in the *Directors Report*, before the beginning of this chapter. Reference is made to that report for further details.

The table below shows the contributions and donations made by Pirelli & C. Group in the three-year period 2008, 2007 and 2006, broken down by category:

AREA OF INTERVENTION (in thousands of Euro)

	2008	2007	2006
Education	1,322	1,035	1,246
Culture	2,076	5,774	5,188
Sport	137	287	244
Research	615	483	339
Solidarity	880	656	739
Other	3	138	282
TOTAL	5,033	8,373	8,038

The current complexity associated with the economic situation has led to revaluation of what has been allocated to the different areas of intervention. The changes for 2008 shown in the table are indicative in this sense, which shows a significant reduction in the total amount of contributions and donations although, when the individual items are observed, there has been a substantial increase in resources allocated to research, training and solidarity, which are of fundamental social importance during hard economic times. Consequently, the social responsibility of Pirelli is demonstrably sustainable and adequate.

Reference is made to the *Social Dimension* section for a detailed description of the principal actions associated with these contributions and donations.

Finally, Group companies “do not contribute or confer advantages or other benefits upon political parties and trade union organisations or their representatives and candidates, without prejudice to compliance with the relevant prevailing legislation.” (from Article 5 of the *Ethical Code - Community*).

Shareholders

*“Group companies are committed to ensuring equal treatment for all categories of shareholders, avoiding any preferential treatment. The reciprocal benefits that derive from belonging to a group of companies are pursued in accordance with the relevant legislation and the autonomous interests of each Group Company as it seeks to create value” (Article 3 of the *Ethical Code - Shareholders*).*

Pirelli attributes great strategic importance to **financial communication**, considering it a key tool for building a trust-based relationship with the financial markets.

Through top management and the Investor Relations Department, the Group maintains an open and transparent dialogue with analysts and investors - both individuals and institutional investors - in view of promoting fair valuation of its assets. At the same time, Pirelli believes that constant dialogue with professionals in the financial sector represents a key tool to enhancing the value of Company assets by keeping up-to-date on changes in business trends affecting the Group and, more generally, macroeconomic trends.

Accuracy, timeliness, equality and transparency are the basic rules that Pirelli applies to its financial disclosures.

It uses typical communication tools and channels: from conference calls to present financial results to one-on-one meetings between top management and analysts and investors; presentation of the Company business plan during road-shows to leading financial markets; from the web to daily contact through the Investor Relations Department with financial analysts and investors.

In February 2009 Pirelli unveiled its Business Plan for the three-year period 2009-2011. Its basic goal is to transform the Group through intensification of restructuring, reorganisation and rationalisation of businesses aimed at the development of solutions that anticipate market demand. This applies in particular to the businesses connected with the development of “green” technologies and products that are compatible with new environmental standards.

The Business Plan is based on four guidelines:

- focus on core activity, then on tyres and the development of particulate filters;
- stimulus for the development of cutting-edge products and solutions in the “green economy”, in the areas of sustainable mobility, environmentally compatible building construction and renewable energy sources. The Group has set a target percentage of total revenues that must double from 20% in 2008 to 40% in 2011;
- accelerated reorganisation of Pirelli Real Estate to permit the evolution of strategic partnerships in property management in Italy and Germany;
- sale of some equity holdings to improve the Group’s financial flexibility to support growth in its core business.

www.pirelli.com > Investors

www.pirelli.com > Sustainability >
Stakeholders > Shareholders and the
Financial Community

During the current market phase - characterised by extreme volatility in stock prices and uncertainty over changes in the macroeconomic situation - Pirelli intends to intensify its dialogue with the financial community.

Consequently, investor relations activities in 2009 will be focused on promoting more frequent meetings with analysts and investors and enhancing the visibility of the Group's new Equity Story. Consistently with its strategic goal of becoming a "green performer" in the industrial sector, Pirelli has always dedicated special commitment and attention to interaction with rating companies that address sustainability issues.

In January 2009 Pirelli was named world sustainability leader in the "Autoparts and Tyres" Sector and Gold Class Company for the second year in a row by Sustainability Asset Management Group (SAM). This recognition was accorded in the prestigious *Sustainability Yearbook 2009*, published by SAM in collaboration with PricewaterhouseCoopers.

During the 2008 financial year, Pirelli also confirmed its position in the most prestigious rankings of ethical finance at the global level, with its scores improving markedly. This topic has been illustrated extensively in the introductory section of this report, to which reference is made for more details.

Information on the composition of Company shareholders and its share capital is provided in the *Corporate Governance Report* that is a part of this annual report, to which reference is made for more details. The cited information is also published in the Governance section of the Company website, www.pirelli.com.

The "Investors" section of the Company website www.pirelli.com, whose layout and organisation were revised at the end of 2008, provides a complete information tool for matters of interest to shareholders and the financial community. Reference is made to that section for further details.

www.sam-group.com/yearbook

Customers

TYPES OF GROUP CUSTOMERS

The types of customers vary greatly from one business unit to the next.

www.pirelli.com > Sustainability >
Stakeholders > Customers

The **Tyre Sector** serves the following categories of customer:

- "Original Equipment" which includes the leading international makers of cars, motorcycles, scooters, commercial vehicles (light, medium and heavy), buses and agricultural machinery;
- "Replacements" which includes a total of about 15 distribution channels (for car, truck and motorcycle tyres), and whose importance differs from country to country.



Milano Bicocca, Italy. Pirelli Information Systems.

The **Real Estate Sector** is comprised by:

- “Investment & Fund Management”, whose customers are funds and property holding companies and non-performing loans, in which Pirelli & C Real Estate generally has qualified minority shareholdings;
- “Service companies”, whose customer include, in addition to third parties, funds and property holding companies and non-performing loans managed by the Asset Management departments of Pirelli & C. Real Estate, which are also served by the franchising network.

Customers of **Pirelli Broadband Solutions** can be divided into the following categories:

- added value retails;
- system integrators;
- telecommunication operators;
- distributors.

The companies owned by **Pirelli & C. Ambiente** have the following categories of customer:

- Customers in the Renewable Energy sector, i.e. companies that convert solid urban waste to energy;
- Customers in the Site Remediation sector, i.e. companies - mainly in the Group and other closely affiliated companies - that assess, plan and manage the demolition and decontamination of buildings and/or lands;
- Customers in the Solar Utility sector, i.e. national electricity grid operator to which Solar Utility sells the electric power produced by photovoltaic plants.

Customers of **Pirelli Eco Technology**, i.e. companies that operate in public transport, freight transport, waste collection, the mining sector and construction. Pirelli Eco Technology also operates through partners that are licensees of its GecamTM technology and operate independently in Italy. In addition to receiving royalties on its licensee's sales, the company also indirectly performs the technical and marketing activities connected with the product.

The following table shows the **breakdown of Group sales by geographical area**:

BREAKDOWN OF SALES BY GEOGRAPHICAL AREA

% of total value of sales

NORTH AMERICA

2008	6%
2007	6%
2006	7%

ITALY

2008	18%
2007	24%
2006	27%

REST OF EUROPE

2008	34%
2007	34%
2006	33%

CENTRAL AND SOUTH AMERICA

2008	28%
2007	23%
2006	21%

AUSTRALIA-ASIA-AFRICA

2008	14%
2007	13%
2006	12%

GROUP POLICIES

Customer orientation - a key aspect of the *Values and Ethical Code of the Group* - presumes that Pirelli has a constant and on-going commitment in terms of:

- comprehension of the market context in which the Group operates;
- consideration of the impact of the Group's actions and behaviour on the customer;
- exploiting every opportunity in doing business to satisfy the customer's needs.

These principles are set out explicitly in Articles 2 and 4 of the Pirelli *Ethical Code*. The relevant excerpts are given as follows. "The Company:

- "pursues market excellence and competitiveness, offering customers a quality of service that effectively meets their requirements" (*Article 2 of the Ethical Code - Aims and Values*);
- "bases the excellence of the Group's products and services on customer service and the readiness to meet customer needs. The aim is to offer immediate, thoroughgoing and competent responses, tailored to the needs of customers, and in keeping with the spirit of legality, courtesy and cooperation" (*Article 4 of the Ethical Code - Customers*).

The Company's commitments to the customer described above are similarly made explicit in the **General Conditions of Supply** applied by Group companies.

FOCUS ON PIRELLI TYRE

The wide variety of Group customers entails many different methods for dialogue and interaction between the customers and the various businesses. As in 2007, we have decided to focus again in 2008 on relations between the Tyre Sector and its customers, partly so that a year-on-year comparison of performance can be made.

www.pirellityre.com > Company >
Sustainable Development

Dialogue and interaction

The relationship is managed principally through two channels:

- the local sales organisation, which has direct contact with customers and, by using the Sales Force Automation (SFA) information management system, can process and respond on-site to all customer information requirements;
- the Contact Centre, which handles provides both informational assistance or order management (inbound) and telemarketing (outbound).

The existing monitoring systems generate reports that can be used to evaluate efficiency, effectiveness and level of customer satisfaction:

1. **KPI Contact Centre** monthly reports: quantitative measurement of the principal customer service parameters to aid the analysis of offered service levels.
2. **WMT (Workflow Management Tool)**, which is an application that permits mapping of all requests originating from the marketing to obtain both quantitative (number of requests by subject area and requestor, response times, etc.) and qualitative (response method) analysis designed to improve service and enhance customer care.
3. **Dealer Satisfaction Surveys**, which are periodic surveys of satisfaction ranked on a scale of from one to five, conducted in the form of interviews with native language operators, anonymous surveys, and web based questionnaires.

The following table shows the results of the surveys for the last three years:

SATISFACTION LEVEL

	2008	2007	2006
Number of countries involved	11	11	13
Overall satisfaction level (1-5)	3.96	4	3.96

Numerous surveys have been conducted by important newspapers and specialised organisations to determine end customer preferences and satisfaction. Pirelli enjoyed particularly enviable results for 2008: in the *Original Equipment Tire Customer Satisfaction Study 2008*, an annual survey conducted by the California research institute J.D. Power and Associates that measures car driver satisfaction on original equipment tyres during the first two years after car purchase, Pirelli's score was more than 22 points above the sector average.

For the readers of *SportAuto*, a leading German magazine in the sports car sector, Pirelli is the top brand for “sportsmanship and emotion”. This is what was reported in the survey that the specialised publication conducts every year amongst its readers to get their opinions and reward the brand that satisfied them the most. For the third year in a row, Pirelli won in the “Best Brand” tyre category, the most popular competition for readers of *Auto Illustrierte*, a prestigious independent car magazine published in Switzerland.

Dialogue with the Company is assured by a **Contact** available to customers on the Pirelli Tyre website for any questions or requests they might have.

Focus on quality: certifications

The focus placed on quality by Pirelli Tyre, both as manufacturer and supplier, is demonstrated by the **certifications it has received**, which comply with international standard and address aspects regarding processes, products and services. In particular:

www.pirelli.com > Sustainability >
Certifications

ISO 9001

The Group **Quality Management System**, set up in 1970, has gradually been introduced to all the plants. The Pirelli quality system has been ISO 9001 certified since 1993. All of its factories are certified in accordance with the most recent version of this standard.

ISO/TS 16949

To meet the requirements of **car makers**, the Group obtained certification for its quality management system under the ISO/TS 16949 standard in 1999, and has since maintained its certification in compliance with the current version of that standard. All plants that supply car makers have obtained this certification.

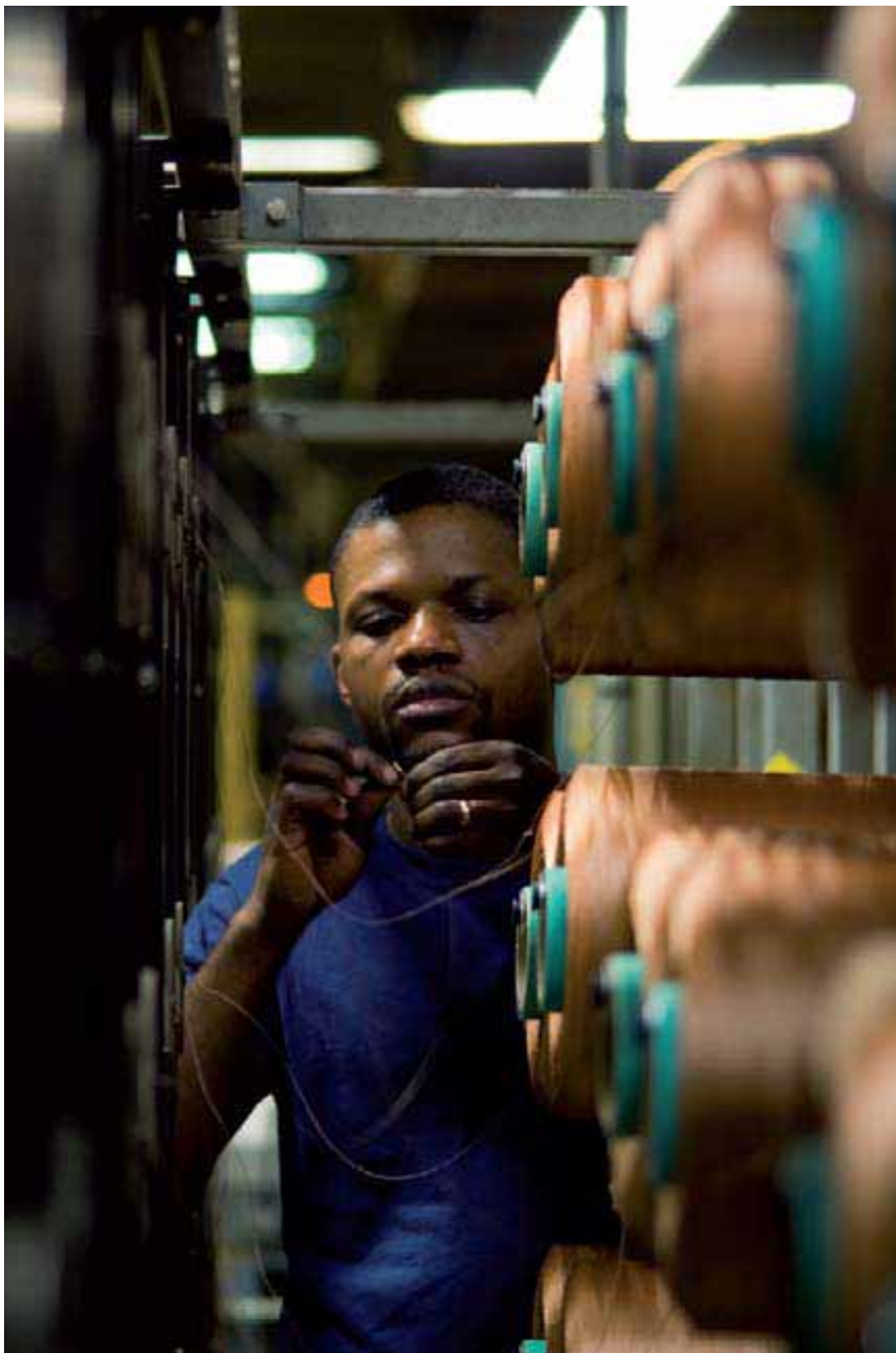
ISO/IEC 17025

In 1993 the Pirelli Group **Materials and Products and Outdoor Experimentation Lab** implemented a quality management system that is accredited under the ISO/IEC 17025 standard. This quality management system is maintained in accordance with the current standard.

Pirelli's car tyres are an excellent example of the Company's focus on quality, which is confirmed by its pre-eminence in a large number of product tests, and also ensured by the Company's close links with highly prestigious partners (famous car makers, specialist magazines, driving schools, etc.) for product development and experimentation.

European Regulation no. 1907/2006 (REACH)

In certification of the compliance of chemical products pursuant to European regulations to protect worker health and the environment, the Group has recently implemented all measures necessary to comply with REACH requirements. Pursuant to these requirements, Pirelli does not produce or does not directly import chemical substances from non-EU countries, constantly controls the chemical substance registration processes implemented by its suppliers, verifies their certification and requests continual updates in accordance as necessary to carry on its business.



Bollate Italy. Car Tyre Factory.

Product eco-sustainability: Green Performance Strategy

Over the next few years, the efforts of the Pirelli Tyre R&D Department will be increasingly focused on the development of innovative performance products capable of anticipating market demand, particularly in all businesses connected with the definition or development of technologies and **“green products”** that are compatible with the new environmental standards.

This will particularly involve **new ecological materials**, first and foremost **silica from rice chaff**, which offer both environmental and cost benefits. The development of “green performance” products is planned for various segments, reinforcing its current leadership especially in the premium segment. In particular the new Cinturato P7 tyre, which will be presented next April, represents the green revolution that adopts the tradition of performance.

Pirelli is increasingly focused on ecology and road safety, i.e. **sustainable mobility**. This process began some time ago and, not by accident, it has had solid roots in the Group’s passion for innovation for more than 130 years (when it became a benchmark for the automotive industry) and in a Research & Development Department that boasts five centres of excellence located around the world (in Italy, Germany, Brazil, United States and United Kingdom), about one thousand professionals and the highest annual investment as a percentage of sales in the entire tyre industry.

All of the Group’s efforts are being focused on green performance. It will soon be ready to introduce many innovations that will change the history of the entire industry, just as it did with the radial ply tyre in the 1950’s or the low-profile tyre in the 1970’s. These innovations reflect a global, integrated ecological approach: from ever-more ecological tyres in all segments to the use of new materials that are not derived from petroleum; from integrated solutions for the automotive industry to production processes that are less and less harmful to the environment (or more and more friendly to it). In other words: **ecology applied to the whole production chain, from tyre manufacturing solutions to the final product.**

Green performance in a tyre means reducing fuel consumption and harmful emissions, higher mileage, the use of environmentally compatible materials and improved performance under dry and wet conditions.

Exploiting its acquired know-how, Pirelli will continue developing cutting-edge products to realise green performance. At the end of the three-year period, the impact of the **“green”** component in Europe will represent more than two-thirds of all sales in the replacement and original equipment channels.

This means that at the end of the three-year period, the impact of the “green” component on Group revenues is expected to increase to **about 40%** of the total, compared with about 20% now.

The family of **Cinturato** tyres, launched last year in the P4 and P6 versions dedicated to small and mid-size cars, points in that direction. The Cinturato P7 tyre, developed for top-end cars, consolidates Pirelli's position on this path and puts it once again on the cutting edge with a tyre that exalts the characteristics of the P4 and P6 and launches a challenge that has never been attempted before in the automotive world: to simultaneously offer performance and environmental compatibility without sacrificing anything, from driving pleasure to safety, while reducing fuel consumption and harmful emissions.

Consumer safety: product innovation and institutional campaigns

The Group has always pursued product innovation to improve quality and safety for the end consumer. To achieve this, Pirelli Tyre relies in part on its close ties with the leading car makers in a segment that is particularly scrupulous and demanding in terms of safety: the ultra high performance market.

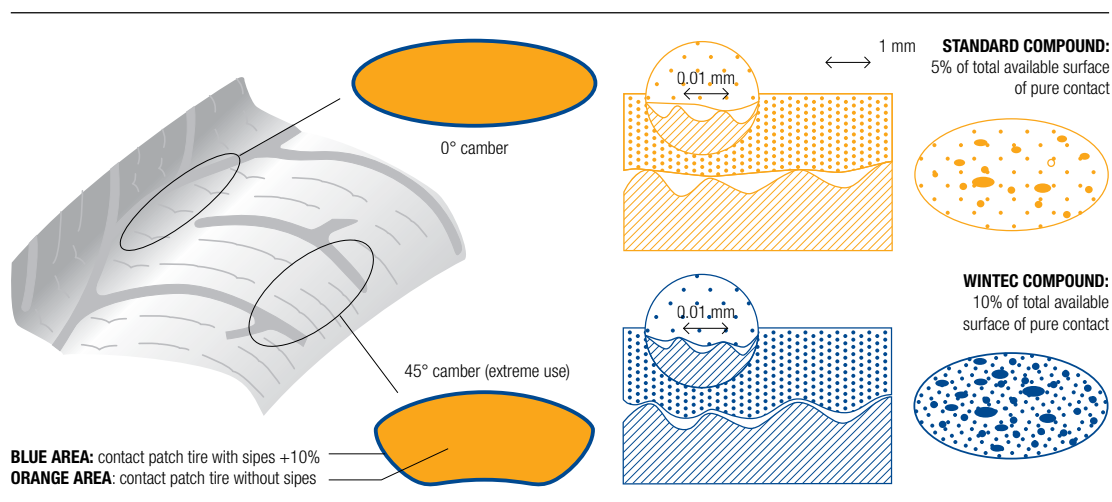
www.pirellityre.com > Car

To cite a few examples, customer safety is part of the DNA of the following products:

www.pirellityre.com > Cinturato

- **The New Pirelli Cinturato**, whose innovation combines driver safety and reduced environmental impact. The New Cinturato is discussed in detail in the section “Environmental Dimension,” to which the reader is referred for further information.
- **K-PRESSURE OPTIC™**, an innovative, intuitive and immediate safety device based on sensors installed in place of the tyre valve cap, capable of clearly showing whether tyre pressure is correct or below the danger level, without the need for additional devices. All you have to do is walk around the car and look at the colour of the valve cap: if pressure has been lost, the device immediately shuts the tyre valve and turns red. The sensor turns white again only after the tyre has been brought back to the right pressure.
- **Self-supporting or Run Flat tyres**, which provide greater vehicle control in emergency conditions and allow continued safe driving even during a rapid loss of tyre pressure. Mobility is guaranteed by the self-supporting fabrication process, which involves inserting elastomeric reinforcements in the sidewalls, thus rendering the structure self-supporting. In other words, when pressure is lost, it supports vertical loads and the horizontal and transversal stresses from the vehicle, allowing the driver to reach the nearest service station safely.
- New generation winter tyres like the new **Winter Sottozero Serie II introduced in June 2008**. This is the ideal tyre for safe driving in the most critical winter conditions, suitable for all sedans and high-performance supercars to offer maximum mobility during autumn and winter months.
- New concept tyres like the **Pzero** that, thanks to its special tread compound, offers the extreme performance of a warm tyre from a “cold” start. This permits immediate driving pleasure and raises the safety standards for limit, straight-line and corner braking, in wet and dry conditions, at all speeds achievable on the road and track.

- **WINTEC, the first winter tyre for motorcycles and scooters.** Wintec is an innovative technology developed to help motorcyclists deal with the problem of seasonal weather conditions. It embodies a new concept of mobility, by extending traditional demands of safety and road hold in cold and/or wet conditions. Starting from the classic limits of motorcycle and scooter use and working on the constraints imposed by seasonal weather, this tyre guarantees a higher level of safety and makes it possible to use motorcycles and scooters even during the winter. Wintec was created on the basis of a detailed analysis of the technical, economic and environmental context, while also exploiting synergies with other Company business units that had already developed similar products. The identified technical solution was applied to scooters so that they could be used any day of the year, even in severe weather conditions, with a significant improvement in safety margins. With the first cold tyre for motorcycles and scooters, Pirelli makes it possible to extend the usage season and helps solve the problem of safe mobility in large cities.



- **Cyber™Tyre Lean System**, the first TPMS (Tyre Pressure Monitoring System) device capable of measuring pressure, temperature, the average load on each wheel and the number of rotations of the tyre, and of sending the vehicle's data directly to the vehicle's onboard computer via radio. Cyber Tyre Lean is an ecological device that, thanks to a technology patented by Pirelli, is self-powered through the energy released by the tyre's mechanical vibrations as it rotates.
- **Cyber™Tyre System**, a truly "intelligent tyre" that can not only provide real time data about tyre pressure but also read the road and interface directly with the systems that control the wheel's dynamics, providing the other electronic systems installed on the car with additional information for safe driving. The tyre itself will function as an electronic "sensor", interacting with other devices like ABS and ESP, to provide real-time information such as the used and potential friction coefficient, the forces of contact between the tyre and the road, making it possible to maintain maximum, safe control of the car.

Finally, mention must be made of the Group's commitment to increasing driver attention to comparisons of tyres - and thus his or her own safety - through dedicated **institutional campaigns** like **"Tyre Life"**.

Tyre Life is an international initiative that rewards consumers who decide to buy Pirelli tyres, by offering them a series of important benefits. In case of tyre puncture caused by nails or other objects, damage caused by impact against a sidewalk or by fire, Tyre Life replaces the tyre without limits within 24 months after the date of purchase. Tyre Life also pays for the cost of installation and balancing for replacement of the damaged tyre. A customer who installs Pirelli tyres can relax: he or she will be contacted before the scheduled deadlines for free inspection of tyre condition, so that he can always travel in absolute safety. This programme is valid in Italy, Spain, Switzerland, Austria, Greece, Germany, Poland, Czech Republic, Turkey and Belgium.

Of particular note is the role played by Pirelli Tyre in **ETRMA**. Its Chairman is the General Manager and CEO of Pirelli Tyre, who was responsible for the signing of the **European Road Safety Charter**.

Quality, Safety, Eco-sustainability: Awards:

Pirelli Tyre won the "Tire Technology International Award 2009" for the "creation of innovative materials" and "innovative environmental benefits," and was elected "Tire Maker of the Year".

The Company was also recognised as the best producer of tyres of the year in China, at the China Auto Service Golden Finger Awards.

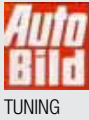
Pirelli's focus on quality is confirmed by its pre-eminence in a large number of product tests, and also ensured by the Company's close links with highly prestigious partners (car makers, specialist magazines, driving schools, etc.) for product development and experimentation.

The following charts illustrate the excellent results achieved by Pirelli in 2008 in numerous product tests on summer tyres, winter tyres and motorcycle tyres, performed by leading specialist magazines.

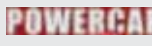
RESULTS ACHIEVED BY SUMMER TYRES

Magazine	Issue	Tested pattern	Size	Test vehicle	Final Result	Comments
	mar-2008	PZero	225/45 R 17 Y	VW Golf	TEST WINNER	Whether by wet conditions or by dry ground the Italian can't shock for nothing. Thanks to its high performance nearly in all fields it's a worthy winner
	apr-2008	PZero	F 235/35 ZR 19 (Y) R 295/30 ZR 19 (Y)	Porsche 911S Techart	TEST WINNER Very Recommendable	Very balanced handling performance on wet and dry ground. Very precise steering behaviour. Braking and aquaplaning performances at top level
	apr-2008	PZero	F 235/35ZR19 (Y) R 255/30ZR19 (Y)	Mercedes C63 AMG	TEST WINNER	The Pirelli PZERO (19 inch) is the Top Performer. Outclass Performance on dry ground and highest level on wet track
			F 235/40ZR18 (Y) R 255/35ZR18 (Y)		Very Recommendable 3rd position out of 8	The "little" Pirelli convinces on dry ground, weaknesses on wet lateral aquaplaning performances.
 "Tuning Spezial"	apr-2008	PZero	225/30 ZR 20 (Y)	Audi S5	TEST WINNER	Excellent handling and best braking performance on dry ground. Precise driving behaviour and a very high grip level also on wet
	lug-2008	PZero	225/40 R 18 Y	Mercedes C-Class	TEST WINNER	Top-quality tyre with sporty and dynamic handling-characteristics and convincing cornering grip; the shortest braking-distance on wet and dry ground.
	ago-2008	PZero	225/45 R 17 Y	VW Golf	TEST WINNER	What's required for a strong performance in the wet normally counts against a tyre in dry conditions, and viceversa, but the Pirelli bucks the trend and, unlike most of its competitors here, is superb whatever the weather.
	mar/apr-08	Cinturato P4	175/65 R 14 T	Ford Fiesta	TEST WINNER Very Recommendable	Very well balanced tyre; very good notes in the most relevant fields; the tyre with the best score on treadwear
	apr-2008	Cinturato P4	175/65 R 14 T	Ford Fiesta	TEST WINNER	-
  	mar/apr-08	Cinturato P4	175/65 R 14 T	Ford Fiesta	TEST WINNER Very Recommendable	-
		P6	195/65 R 15 V	VW Golf	Good 2th place out of 19	-
	mar-08	P6	195/65 R 15 V	VW Golf	TEST WINNER Very Recommendable	Very well balanced tyre; very good notes in the most relevant fields.

RESULTS ACHIEVED BY SUMMER TYRES

Magazine	Issue	Tested pattern	Size	Test vehicle	Final Result	Comments
	mar-2008	P7	205/55 R 16 V	VW Passat	TEST WINNER Very good	The best for the well balanced and comfortable performance absolving all the braking and handling requests. Good in aquaplaning and rolling resistance.
	apr-2008	PZero Nero	215/45 R 17 Y	Opel Corsa	Recommendable 3rd place out of 11	Balanced and safe driving behaviour on wet pist, short braking distance on wet and dry ground and good aquaplaning performance
	apr-2008	PZero Nero	215/45 R 17 Y	VW Polo	Exemplary 3rd position out of 10	-Convincing All-rounder with good steering precision and a dynamic driving behaviour on wet and dry, short braking distance on wet
	mar-2008	PZero Nero	225/45 R 17 Y	Mercedes C-Class	Good 5th place out of 17	-Dynamic - sportive driving behaviour with good lateral grip on wet ground, short braking distance on wet and dry ground and a silent behaviour
	mag-2008	Chrono Camper	215/70 R 15 CP/C	-	Good 5th place out of 8	-High steering precision, good behaviour by aquaplaning, low rolling resistance. Weaknesses on dry ground.
	ago-2008	P2500 4S	195/65 R 15 H	VW Golf	Satisfactory 7th place out of 8	Balanced and safe driving characteristics with a stable lateral grip and a safe driving on wet and dry ground. Limited performance by snowy ground with a moderate traction and a long braking distance by wet.
	mar-2008	P6/P7/ Cinturato P4/ PZero Nero/ P3000 Energy	155/70R13 T 165/70R14 T 175/65R14 T 185/60R14 H 195/65R15 V 205/55R16 V 225/45R17 Y	-	TEST WINNER 6 best buy's out of 7 test	The best brand together with Continental; 6 size best buy's out of 7; 4 times with a better score against the main competitor
	mar-2008	Scorpion Zero Asim-metrico	235/65 R 17 V	Land Rover Freelander	TEST WINNER	The best in wet and dry braking distance; excellent performance in handling and comfort behaviour
	nov-2008	Scorpion ATR	P265/70 R 17	Chevrolet Silverado	TEST WINNER	the best among all terrain tires, based primarily on impressive grip in dry and wet conditions*
	ago-08	Scorpion Zero Asim-metrico	255/55 R 18	Mercedes ML	Recommendable 6th place out of 7	Very good handling performances, good confort. Relativ long braking distance by dry conditions; moderate performance when aquaplaning, high rolling resistance.

RESULTS ACHIEVED BY WINTER TYRES

Magazine	Issue	Tested pattern	Size	Test vehicle	Final Result	Comments
	set-2008	Winter Sottozero Serie II	225/45R17 H	Mercedes C-Class	EXEMPLARY 3rd place out of 10	Convincing performance on snowy track, sporty dynamic driving characteristics in any atmospheric conditions. Slightly long braking distance.
	set-2008	Winter Sottozero Serie II	225/55R16 H	Mercedes C-Class	VERY RECOMMENDABLE 3rd place out of 10	Top driving behaviour, very good traction and the best braking performance by snow, good on wet track, low rolling resistance. Modest confort, noisy.
	ott-2008	Winter Sottozero Serie II	225/45R17 V	BMW 330i	VERY RECOMMENDABLE 3rd place out of 9	The best on wet ground, strong in dry conditions, only ordinary on snow
	nov-2008	Winter Sottozero Serie II	215/45R17 H/V	Opel Corsa	TEST WINNER Exemplary	Top winter tyre with exemplary driving characteristics and the best traction on snowy ground. Very good safety level when aquaplaning and a dynamic and safe handling behaviour on wet ground. Slightly high noise level.
	nov-2008	Winter Sottozero Serie II	245/40R18 V	Audi TT	RECOMMENDABLE 4th place out of 6	Extremely definite steering behaviour and a very good driving stability on dry. Very good traction on snow. Low grip level on wet ground and very difficult driving behaviour. Ordinary performance when aquaplaning.
	set-2008	Winter Snowcontrol	195/65R15 T	VW Golf	VERY RECOMMENDABLE 3rd place out of 19	Very well balanced tyre, good on wet and snowy ground, relativ low fuel consumption.
	set-2008	Winter Snowcontrol	175/65R14 T	Ford Fiesta	RECOMMENDABLE 8th place out of 21	Good on snowy ground, low fuel consumption. Slightly weak on wet ground.
	ott-2008	Winter Snowcontrol	185/60R14 T	Skoda Fabia	VERY RECOMMENDABLE 5th place out of 11	The very balanced and sporty performance gets to the Pirelli our recommendation.
	nov-2008	Scorpion Ice & Snow	255/55R18 T/V/W	VW Touareg	GOOD 4th place out of 8	Balanced sporty driving behaviour by dry conditions, very good on snowy ground.

RESULTS ACHIEVED BY MOTORCYCLE TYRES

Brand	Tested Pattern	Final Result	Competitors	Comment	Magazine	Issue
Pirelli	Diablo Rosso	Sport Tire Test Winner	Mich Pilot Power, Metzeler Sportec M3, Continental Sport Attack, Bridge BT016, Dun Qualifier	Impressed by the uniformity of this tire, very precise and not heavy feeling. Faired also the difference in braking, with no tendency to stand-up. Offers greater accuracy and improved power control.		May-08
Pirelli	Diablo Strada	1st Place - Sport Touring Tire	Mich Pilot Road 2, Metzeler Roadtec Z6, Dun Sportmax Roadsmart, Conti Road Attack, Bridge Battlax BT021, Avon Storm	Least abrasion in the test and has worked better in this test. Balanced and extremely handy Sport-tour tires with stability in all conditions. Presented good precision in the curves and no problem on wet roads.		Sept / Oct-08
Pirelli	Scorpion MX 454	4-out-of-4 Traction, Rigidity	Dunlop K739, Kenda K775, Kyoto, Vee Rubber VRM 229	Braking security, great angular feeling, and resistant to wear on hard surfaces		Jun-08
Pirelli	Diablo Strada	Sport Touring Tire Test Winner	Dun Roadsmart 3CT, Max Supermaxx M6029, Mich Pilot Road 2, Metz Roadtec Z6, Conti ContiRoad Attack, Bridge BT 021, Avon Storm ST	They feel like dedicated sportbike tyres....better than the bike will allow. There's loads of grip and turns quickly and accurately. On the brakes, midcorner stability, under acceleration and flat out – they perform perfectly. You can ride much harder, if you choose to, than any of the other tyres tested would allow. Outstanding sporting potential.		Jul-08
Pirelli	Diablo Rosso	Sportbike Tire Test Winner Summer	Dun Qualifier D109, Conti ContiSport Attack, Metz Sportec M3, Mich Pilot Road 2CT, Avon Viper Sport, Max Supermaxx Sport, Bridge BT 016	They hold the line when turning-in at whatever speed and even on the throttle with minimal movement from the rear. They were quick-steering, accurate, good on the brakes, stable midcorner. Like you have written with a pencil all week, then you sharpen it: they're just that bit sharper than the rest.		Jul-08
Pirelli	Diablo Strada	Sport Touring Tire Test Winner	Dun Roadsmart, Bridge BT021, Mich Pilot Road II, Pir Diablo Strada	The Diablo Strada underlines the broad area of application of high level, modern sport touring tyres. In lateral acceleration, braking and acceleration potential is above the competition. A superb tyre.		Apr-08
Pirelli	Diablo Rosso	Sportbike Tire Test Winner Winter	Dun Qualifier D209, Met Sportec M3, Bridge BT016, Avon Viper Sport, Conti ContiSport Attack	The winning Supersport tire is the Diablo Rosso, while costing more than most rivals, the confidence and feedback they give is worth the premium. They let you get on the power early and turn-in quickly with confidence.		Nov-08
Metzeler	MC6	4-out-of-4 Traction	Dun K739, Kenda K775, Kyoto, Vee Rubber VRM 229	Versatility on different terrains, ideal wear, good grip and endurance characteristics.		Jun-08
Metzeler	Sportec M3	Best Hyper-sport	Mich Pilot Power 2CT, Diablo Rosso, Conti Sport Attack, Bridge BT016, Dun Qualifier RR	Quickest and best performance on dry. Surgical precision and stability accelerating out of curves.		Jul-08
Metzeler	Sportec M3	Sport Tire Test Winner	Mich Pilot Power 2CT, Pir Diablo Rosso, Conti Sport Attack, Bridge BT016, Dun Qualifier RR	A true joy to ride on. Razor-sharp steering and blessed with very good cornering stability.		Dec-08
Metzeler	Roadtec Z6	Sport Touring Tire Test Winner	Dun Roadsmart, Bridge BT021, Mich Pilot Road II, Pir Diablo Strada	A good friend in testing sport touring tyres which consists of a lot of good competition. Unbelievable what is possible with sport touring tyres nowadays. In the everyday category the Z6 doesn't expose itself. Easy cornering with new tyres, gives trust in it's capabilities, not hectic at any time. Is always there when needed and it's very fast! Not only for a short time which leads to overheating, no it keeps going and going. Is it because of the microstructure in the compound or the multi radius contour? Doesn't matter, it works. Great tyre.		Apr-08

For more details on the principal awards and recognition received, please see the specific section in the chapter “Pirelli and Sustainable Development”.

Suppliers

GROUP POLICIES

The *Health, Safety, Environment and Social Responsibility* Policy expressly states the Company's commitment "to establish and actively maintain the procedures to evaluate and select suppliers and subcontractors based on their commitment in the field of social and environmental responsibility". Sustainability has been integrated into both the **General Conditions for Purchase of Goods and Services** applied by the Company to its suppliers, and the phases of **Vendor Approval and Rating**, described in more detail below.

The purchasing processes are described in the *Purchasing Manual*, which sets out guidelines and procedures aimed at ensuring both transparency in internal processes and honesty in business dealings, and also integrity and contractual impartiality in relations between the Company and suppliers.

For the most important suppliers, the purchasing policies allow for long-term contracts, partnership contracts and, in some cases, shared growth strategies.

SUSTAINABILITY CLAUSES OF CONTRACT

In 2008 the sustainability clauses of contract, which had previously been applied since 2006 as an integral part of the *General Conditions for Purchase of Goods and Services*, were amended so that they could be implemented whether or not the *General Conditions for Purchase* had been signed by the supplier. In this way, all possible contractual scenarios that might bind the Company to a Supplier of goods/services are covered.

More specifically, the sustainability clauses are introduced in contracts and purchase orders for goods and/or services and/or works, including acting as agent and/or on behalf of the Company, both with private suppliers and with the Public Administration (or entities/companies controlled by them), regardless of whether or not the *General Conditions for Purchase* format has been signed.

The clauses envisage implementation of the policies implemented in the ambit of sustainability: Ethical Code, Code of Conduct, and the "Health, Safety, Environment and Social Responsibility" Policy. Execution of the contract gives Pirelli the right to carry out audits of its suppliers to assess compliance with the principles and commitments agreed to by signing the clauses.

The sustainability clauses have been translated into 22 foreign languages. This guarantees maximum clarity and transparency towards the supplier in terms of his sustainability obligations under contract, which he assumes not only in his relations with Pirelli itself but also at his own facility and in relations with suppliers.

So that the clauses could be signed by all Group suppliers in an accurate and traceable way, and thus promote maximum operating effectiveness and efficiency, an **IT tool dedicated exclusively to signing of the sustainability clauses** by suppliers was created in 2008.

www.pirelli.com > Sustainability >
Stakeholders > Suppliers

This tool has been used on an experimental basis with all suppliers of raw materials and services to the Tyre Sector, sent by the Sector Purchasing Manager for online signing by means of a letter sent via e-mail to each one of them. An excerpt of this letter follows below:

Dear Supplier,

Pirelli Tyre, a leading global tyre maker, fully integrates Sustainability in its growth and competitive strategies. Our sustainable approach is formally recognised and appreciated at the international level, as well as by the world's most prestigious indices of ethical finance, including Dow Jones and The Financial Times.

We conduct our business in accordance with the Values and Principles set out in Pirelli Sustainability documents, such as the "Ethical Code of the Pirelli Group," the "Code of Conduct" and the Group "Health, Safety, Environment and Social Responsibility" Policy.

We are proactively committed to support for universally recognised Human Rights and Labour Rights, and to continuous improvement in the environmental impact of our processes and products, doing so in the ambit of activities and relations that we conduct every day at the highest standards of transparency and fairness.

We expect that our Suppliers, as fundamental Partners in developing the business of Pirelli Tyre, operate their own businesses in accordance with our Principles and Values, in view of jointly sustainable growth.

You will find the clauses to be signed by you in your preferred language on the Pirelli Tyre website: (<http://sustainability.pirellityre.com>). To access the site, please use the following log in: (XXXXX) and the following password: XXXXX

If you do not accept the foregoing clauses, Pirelli may lawfully decline to renew the procurement contract with your firm.

The letter and the clauses have been submitted to suppliers in their local language. If there are any questions, a system contact is guaranteed for dialogue with the supplier.

In 2009 the management system will be gradually extended to the **suppliers of all Group businesses**, with local operation and control by the Buyers and CSR Referents, supported by the departments with central responsibility.



Home page of the website "Supplier's Sustainability" of Pirelli Tyre.

DISTRIBUTION OF PURCHASED GOODS AND SERVICES BY GEOGRAPHICAL AREA AND TYPE

The following table illustrates the geographical breakdown of purchases made by the Group, which are distinguished as OECD and non-OECD countries, with the "weight" of the various areas on the total amount.

GEOGRAPHICAL BREAKDOWN OF GROUP PURCHASES

		% of number of suppliers			% of total value of purchases		
		FY 2008	FY 2007	FY 2006	FY 2008	FY 2007	FY 2006
OECD countries	Europe	51.6%	69.9%	73.1%	50.7%	67%	63%
	North America	1.4%	2.1%	4.0%	1.3%	3%	6%
	Others (1)	0.4%	0.2%	0.2%	0.4%	1%	2%
Non-OECD countries	Latin America	25.4%	19.0%	19.3%	25.0%	13%	15%
	Asia	19.4%	7.3%	1.6%	20.9%	15%	12%
	Africa	1.8%	1.5%	1.8%	1.8%	1%	2%

1 Australia, New Zealand, Japan, Korea

The following table instead shows the breakdown of purchases by type of goods and services. The table also shows the percentage weight of purchases made in each area over the total number of suppliers and over the total value of all purchases made.

BREAKDOWN BY TYPE OF GOODS AND SERVICES PURCHASED BY THE GROUP

	% of number of suppliers		% of total value of purchases	
	FY 2008	FY 2007	FY 2008	FY 2007
Raw materials	3%	6%	59%	48%
Consumables	6%	7%	5%	5%
Services	82%	80%	27%	39%
Plant and equipment	9%	7%	10%	8%

It should be emphasised that the goods and services purchased by the Tyre Sector represent 80% of all purchases by the Group. Therefore, this year was decided to dedicate focus on the relations between Pirelli Tyre and its suppliers, just as in the 2007 annual report.

FOCUS ON PIRELLI TYRE

The following table shows the distribution by type of goods and services purchased by Pirelli Tyre in 2007-2008. The table also gives the percentage weight of purchases made in each category over the total number of suppliers and over the total value of all purchases made.

www.pirellityre.com > Company >
Sustainable Development > Stakeholders
> Suppliers

BREAKDOWN BY TYPE OF GOODS AND SERVICES PURCHASED BY PIRELLI TYRE

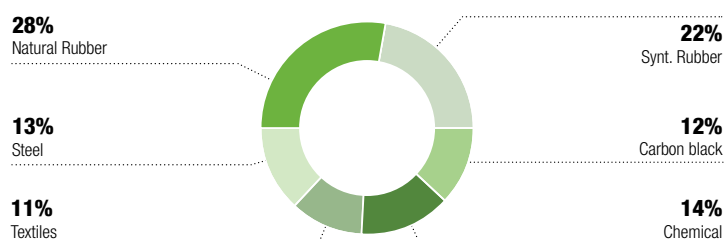
	% of number of suppliers			% of total value of purchases		
	FY 2008	FY 2007	FY 2006	FY 2008	FY 2007	FY 2006
Raw materials	3%	7%	7%	54%	53%	56%
Consumables	5%	5%	5%	6%	6%	4%
Services	83%	80%	80%	32%	32%	32%
Plant and equipment	9%	8%	8%	9%	9%	8%

Raw materials are selected in order to reduce as much as possible the use of substances that are harmful to humans and the environment. Accordingly, Pirelli **systematically evaluates the environmental and toxicological characteristics** of any new chemical before using it in production processes.

Pursuant to recent European classification, labelling and packaging rules for hazardous substances and preparations, Pirelli has updated the list of substances that cannot be used in production processes, or for which replacement programmes have been initiated.

The following graph illustrates the percentage composition of the mix of raw materials purchased by Pirelli Tyre in 2008:

RAW MATERIAL MIX



Interaction between Pirelli Tyre and its suppliers

Relations with suppliers are defined and enforced by specific Company processes. There are two fundamental underlying phases to supplier management:

- **Approval of new suppliers (or Vendor Approval)**, where the interdepartmental process based on specific quality standards lead to the addition of the approved material/vendor to the Vendor List. This is the Company's list of approved suppliers for each individual product. **The sustainability limits have been integrated in this phase** since 2007. This led to the signing of a sustainable development plan by a strategic supplier in 2008. The sustainable development plans can have the following targets: improvement of the environmental impact of the activities and/or relations with the internal/external community. In these situations, Pirelli know-how is provided to the supplier, in order to create a qualitatively adequate growth plan based on dialogue and in view of sustainable growth that is fully accepted in terms of values and operating procedures.
- **Vendor Rating**, assessed on the basis of the quality of the product supplied or service provided (monitored using the specialised CARMAC software), the quality of the commercial relationship, technical/scientific cooperation, performance in terms of occupational safety, environmental and social responsibility through on-site audits and periodic monitoring of the progress of the actions scheduled in any improvement plans that have been signed.

The Vendor Rating now covers all merchandise and geographical areas of purchase and is used as an integral component of commercial negotiations.



Yanzhou, China. Supplier Conference 2008.

These procedures are implemented by the entire sector and are supported by a special website available online through the Purchasing Portal. This website supports the Regulations (including the Purchasing Manual, General Conditions to be applied by suppliers), the Vendor List, surveys, Vendor Rating with feedback and the definition of support actions. This portal provides both an assurance of process uniformity and a guarantee of transparency, in addition to being a communications, ongoing training and knowledge sharing tool.

Dialogue

The processes of dialogue and interaction with suppliers are the object of continuous process improvement, in terms of both quality and tools. Specifically, the Vendor Rating results are regularly revised and commented on by the Sector Purchasing Department. This process involves **meetings organised with the suppliers**, aimed at identifying any corrective actions or measures to improve performance. Each purchase contract includes the name of the buyer contact, to provide the supplier with a company channel that is always available for any feedback.

In November 2008 the “**1st China Suppliers Conference**” was held at Pirelli Tyre China, located in Yanzhou, in order to introduce Pirelli Tyre in China and exchange questions, solutions, methods and strategies in view of development. This conference was attended by about 200 **production companies of raw materials, spare parts, services and industrial goods**, both locally based and large multinational groups, for a total of over 400 participants. Special emphasis was given to **sustainability** as a competitive advantage. Following a presentation on *Sustainability at Pirelli and in relations between Pirelli and its supplier*, the participants received a copy of the Pirelli sustainability clauses (which include the CSR Policy and the Ethical Code) to be signed in both Chinese and English. The initiative was a success and many of the suppliers that attended the event signed it.

Projects in 2008 and goals for 2009

Several new projects to improve the purchasing process and support relationships with suppliers were developed and implemented in 2008. In particular:

- a business intelligence project on raw materials, which permits monitoring and managing purchases for each merchandise category and individual supplier more efficiently;
- start-up of the project to create a data warehouse for equipment;
- development of the IT management system for signing sustainability clauses by suppliers, which permits tracking their signatures and managing their objections on a punctual basis;
- “One Supplier” Project, designed to maximise the traceability of and separation of roles in the purchase process for compliance with Law 262 and Legislative Decree 231.

The “Rubber Network Project” - developed in 2007 - which permits automation of the order/delivery/invoicing flow between Pirelli and its suppliers through WEB or HUB platforms, the use of Electronic Data Interchange (EDI) documents and scanning of documents continued in 2008 and reached North America with extension of the Order to Invoice project.

Specifically in regard to supplies of indirect production materials, an IT platform will be developed in 2009 for monitoring and managing expenditure in view of process efficiency.

In 2009, the “One Supplier” project is expected to be closed, and the supplier base to which the IT management system for signing sustainability clauses applies will be extended by involving buyers and local CSR contacts.

AUDIT of Supplier Sustainability

As part of its audits of supplier compliance with the sustainability clauses, Pirelli Tyre plans to subject its own Suppliers to sustainability audits in 2009 to address the following scope of activities:

- 50% of natural rubber purchases;
- 50% of the revenues of services purchased in countries of concern (according to the EIRIS classification of countries defined as highly at risk of corruption and/or violation of human rights).

“**S**tarting from an unprecedented crisis in the post-war era, we have to figure out what Pirelli will be like three years from now and beyond. Industrial processes are changing, and we have focused our whole plan on transforming the company with eco-compatible technologies that will enable us to compete on the market. This means focusing research more on the green component, and this applies to tyres, to particulate filters, to all our businesses.

Marco Tronchetti Provera

”



Environmental dimension

The Pirelli approach to the management of environmental issues

Group companies believe in sustainable international growth in the common interest of all stakeholders, both current and future. Their investment and business decisions therefore reflect respect for the environment and public health. Without prejudice to compliance with specific prevailing legislation, Group companies are aware of the importance of environmental issues when making choices, not least in the adoption of specific technologies and manufacturing methods (where this is technically feasible and economically viable) that allow for the reduction of the environmental impact of their operations, even beyond the minimum limits set down by regulatory requirements. (Article 7 of the Ethical Code - Environment).

www.pirelli.com > Sustainability >
Stakeholders > Environment

The above principles are discussed in detail in the Group policy “Health, Safety, Environment and Social Responsibility”, which has been discussed in detail in the first section of this report and whose text is available to the External Community in the “Sustainability” section of the website www.pirelli.com.

The Pirelli Group is comprised by a wide variety of businesses, as follows:

- the manufacture of car, industrial and commercial vehicle, bus, motorcycle tyres and steel cord, all produced by Pirelli Tyre S.p.A.;
- the Real Estate sector: Pirelli & C. Real Estate S.p.A.;
- environmental clean-up, waste-to-energy generation and environmental services: Pirelli & C. Ambiente S.p.A.;
- the development of sustainable mobility technologies (new fuels, innovative systems for exhaust gas reduction): Pirelli & C. Eco Technology S.p.A.;

- the development of innovative products for broadband access by residential and business customers: Pirelli Broadband Solutions S.p.A.;
- research and development in the fields of new materials and optoelectronic components: Pirelli Labs.

The common denominator in all areas of activity is environmentally sustainable management of processes, products and services, in view of developing **cutting-edge green solutions**.

The Group has implemented environmental management policies for years that pursue continual improvements in performance. **ISO14001 certification** is concentrated at Pirelli Tyre production units, which have the greatest potential impact on the environment. All the same, other Group companies, whether they are involved in design, research, logistics or services (including the Tyre Test Track at Vizzola Ticino) are preparing for or have already obtained this certification, which represents a common goal for all affiliates.

In parallel with the definition of specific common guidelines and procedures for drawing up and implementing management systems, the Pirelli company intranet contains a web-based management system for **“Health, Safety and Environment Data Management” (HSE DM)**, created and operated at the corporate level by the Health, Safety and Environment Department. This system permits the monitoring of environmental performance at every production plant in the Tyre Sector and the preparation of a wide variety of reports that are required for management and operational purposes.

Alongside the HSE-DM system, Pirelli has completed the “CSR-DM” (CSR Data Management), an **IT system** for managing Group sustainability information, which is used to consolidate the environmental performance of all Pirelli business units.

The following pages describe environmental performance and projects in 2008, with specific reference to the Group's various companies that own the various businesses mentioned above.

The specific environmental performance of tyre and steel cord production activities of Pirelli Tyre S.p.A. are analysed separately, being characterised by different products and, above all, different fabrication processes.

Pirelli Tyre S.p.A.

THE COMPANY

As measured by sales, Pirelli Tyre is the world's fifth largest tyre manufacturer, which has been the Group's core business for over a century, and commands a leadership position in the high performance segments.

Pirelli Tyre is active in two principal segments: Consumer, which produces tyres for cars, sport utility vehicles (SUV), light com-

www.pirellityre.com > Company >
Sustainable Development > Stakeholders
> Environment

mercial vehicles and motorcycles and scooters; and Industrial, which produces bus, truck and agricultural equipment tyres and steel cord, which is a key component used to reinforce radial tyres. These businesses are focused in turn on two different sales channels: original equipment, sold directly to car, truck and motorcycle makers, and replacement equipment, for replacing tyres on vehicles that are already on the road.

The Company is the Pirelli Group's main industrial division and has 24 production units, including 19 dedicated to the manufacture of tyres, while steel cord is produced at the remaining five, mainly for the fabrication of tyres.

The Company has 24 plants located in 12 countries (Argentina, Brazil, China, Egypt, Germany, England, Italy, Romania Turkey, Spain, United States and Venezuela) and a commercial network covering over 160 countries.

Principal Corporate Commitments in 2008

Pirelli Tyre's most significant corporate commitments in terms of environmental sustainability are:

Chairmanship of ETRMA (European Tyre and Rubber Manufacturers Association) - in October 2008 Francesco Gori, Chief Executive Officer and General Manager of Pirelli Tyre, was re-elected Chairman of ETRMA for his second consecutive three-year term, a sign of continuity for the priorities to be pursued: environmental protection, road safety and greater competitiveness.

WBCSD (World Business Council for Sustainable Development) - Pirelli actively participated in WBCSD again in 2008. Headquartered in Geneva, this is an association of about 200 international companies based in over 30 countries that have made a voluntary commitment to pursue economic growth with sustainable development.

Pirelli Tyre is a member of the Tire Industry Project Group, the project launched in 2006 to identify the potential impact on health and the environment of the materials associated with the manufacture and use of tyres. The heads of leading world tyre manufacturers that belong to the group met in Tokyo on 12 June, sixteen months after research work began. This important event offered an update on programme progress and outlined new approaches to study.

The Pirelli Group and the Milan Polytechnic have signed an agreement to create a **professor's chair**, which was funded together with five scholarships for doctoral degrees over the course of ten years on the "Chemical Foundations of Rubber and Compound Technology". It will organise the study of innovative materials and application of nanotechnology for the development of new generation, low environmental impact tyres.

The Silvio Tronchetti Provera Foundation and the Shandong University in Jinan (China) have signed a research agreement for the study of a new generation of "green tyres". The university researchers will work with the Pirelli Group's R&D Department

in China to create tyres with low resistance to rolling, in order to reduce vehicle fuel consumption.

The Company has always pursued the goal of disseminating and consolidating a **safety and energy efficiency culture**, aware of the tyre industry's role in daily life. In 2008 it spearheaded major actions to raise awareness in collaboration with public institutions, business associations and other industrial groups inside and outside Italy.

In particular, Pirelli Tyre participated in the **ENI "30PERCENTO - consumare meglio, guadagnarci tutti"** ("30 PER CENT - consume less, everyone wins") **energy efficiency campaign** with its **"Viaggia in Sicurezza" (Travel Safely)** initiative. The aim is to explain the importance of energy saving for environmental protection as well as the household budget, with the primary focus on consumers. Through "Viaggia in Sicurezza", which provided free tyre pressure checks at 400 outlets of the Driver network, Pirelli Tyre contributed to educating motorists in the proper maintenance of tyres, the first step towards ensuring energy efficiency, reducing harmful emissions and driving more safely.

It is committed to promoting the **sustainable mobility culture: the Progetto 10x10 of Quattroruote®** was initiated at the end of 2007 by this leading monthly car magazine, and commits ten big companies to reduce the carbon dioxide emissions of their company fleets by 10%. The choice of *Quattroruote*, which has long been committed to responsible and sustainable use of private vehicles, fell on CO₂ for several reasons:

- it is a greenhouse gas responsible for events like global warming and climate change;
- it is an easily measurable parameter, being ascertained upon certification of cars and indicated on their registration card;
- it is one of the principal environmental objectives of the European Union;
- a 10% reduction in overall carbon dioxide emissions represents a realistic goal that can be immediately pursued, in the expectation that industry develop new technologies to produce more eco-compatible cars.

Pirelli Tyre immediately joined the 10x10 project by adopting the objective to reduce the carbon dioxide emissions of its own Italian corporate car fleet by 10%. Most vehicles in this fleet are equipped with Cinturato tyres that, as previously mentioned, can reduce fuel consumption and harmful emissions by up to 4%, while guaranteeing high mileage (+30%).

In addition to taking steps to increase employee awareness on the issue of reducing air pollution and encouraging **eco-compatible driving courses**, it has introduced **corporate car pooling and intercompany shuttle services**. The decision to privilege video-conferences over traditional personal trips and the use of public transport is consistent with this strategy. Systems for enhancing more efficient organisation of trips to visit customers have been suggested to the sales force. In parallel with the 10x10 project, the Company has promoted an initiative to raise awareness on the issue of environmental impact by involving as wide a public as pos-



www.quattroruote.it > Eco10x10 >
L'iniziativa

sible, by engaging the participation of Pirelli tyre buyers to **contribute to reforestation** and protection of an area in the Parco del Ticino that can absorb at least 50,000 kg of CO₂ in a few years.

ISO 14001 CERTIFICATION AND THE ENVIRONMENTAL MANAGEMENT SYSTEM

The benchmark standard for certification of environmental management systems is ISO 14001. The Sector project to implement an environmental management system at its production units based on shared Group procedures and guidelines, led to it obtaining the first ISO 14001 certifications in 1998.

This is now a well-established process: at 31 December 2008, 23 out of 24 production units had an ISO 14001 certified system. The Tyre plant at Slatina, Romania will be ISO 14001 certified by the end of 2009.

The Company also has scientific test centres for tyre/vehicle performance, which conduct experiments and trials on tyres under different conditions of use, by means of subjective and controlled techniques. The test track located in the town of Vizzola Ticino (Varese, Italy) merits special mention. It was designed and built at the end of the 1960's near the Ticino River. The **ISO 14001 certification of the Centre**, obtained in 2005, assumes particular importance considering that its 26 hectares lie within the Parco Lombardo della Valle del Ticino (Lombardy Ticino Valley Park), an Italian nature preserve listed as a UNESCO MAB ("Man and Biosphere") area - one of 425 biosphere reserves in 95 countries worldwide.

The Vizzola site is used by various Group companies for experiments and tests, sports events, driving schools and motoring clubs, and is used by car manufacturers and trade magazines for joint tests and shows.

Implementing the environmental management system has made it possible to define and achieve waste management optimisation targets. Similarly, programmes spanning over several years have been set up and are currently underway to **rehabilitate and re-develop green areas with the planting of indigenous plant species, elimination of ozone depleting substances, and support for university programmes to develop low environmental impact vehicles**. Given its location within a protected area, the Track is in constant contact with the offices of the town of Vizzola and the Parco della Valle del Ticino. Through an agreement with the park administration, it contributes in economic terms to environmental improvement of the area outside the park. No spills or other significant environment-related incidents occurred in 2008. Consequently, no significant fines were imposed. However, several minor events did occur, which were promptly dealt with and resolved in accordance with the procedures set out in the implemented environmental management systems, and had no negative impact on health or the environment.

COMPREHENSIVE ECO-INNOVATION: FROM PROCESSES TO PRODUCTS

Full integration of environmental sustainability with competitive development strategies is the principal driver for the profound “green revolution” that is taking place throughout the Group, particularly in the tyre sector. This awareness translates into concrete planning of green improvement activities throughout the entire product life cycle, which involve production *processes* as well as the *products* themselves.

The commitment to **process** eco-innovation has been confirmed by a number of major achievements:

- planning of new low environmental impact production centres and modification of existing ones in compliance with internal “**green factory**” standards;
- realisation of new production technologies, such as **Next MIRS™**;
- streamlining of production efficiency, with the aim to **reduce the consumption of natural resources, energy and raw materials**, as represented by such advanced processes as **CCM** and **TSM**.

The eco-innovation commitment to **products** is confirmed by:

- the **new Cinturato**, introduced in 2008, which can reduce rolling resistance by 20%, fuel consumption and greenhouse gas emissions by 4%, and simultaneously increase total mileage by 30%;
- the research conducted by Pirelli Labs to recover material and energy from **used tyres**.

The details of these innovations are illustrated below.

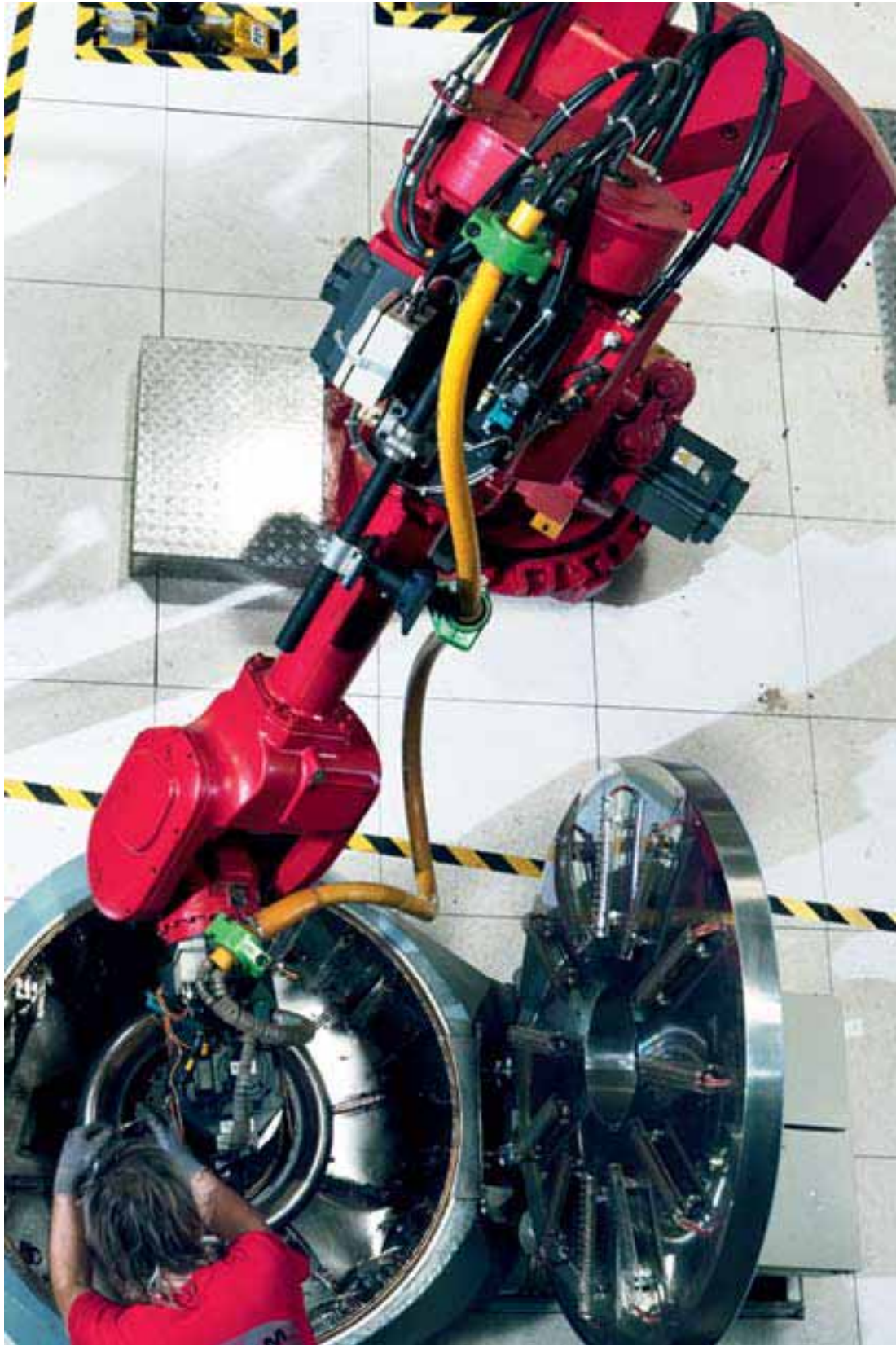
PROCESS ECO-SUSTAINABILITY

Green factory

Work on creation of the Technological and Production Centre at Settimo Torinese for production of *green* tyres continued in 2008, as part of the process to improve efficiency and productivity standards. This project is being carried out as part of a framework agreement between Pirelli Tyre and the Region of Piedmont, Province of Turin and the City of Settimo Torinese.

This will be a state-of-the-art industrial centre, the Group's most advanced in terms of technology and efficiency. The most advanced production technologies created by Pirelli research will be used and, perfectly in line with its sustainable development strategy, appropriate measures will be taken to **limit environmental impact and resource consumption as much as possible**. All of this will be done within the framework of eco-compatible architecture and design.

In this context, Pirelli Tyre and the Turin Polytechnic have signed an agreement to pursue joint research and technological innovation projects dedicated not only to minimising the impact of the new industrial site but especially further innovation of the most advanced processes and products of Pirelli Tyre research (such as Next MIRS™, CCM and the “smart” Cyber Tyre).



Breuberg, Germany. MIRS™ Process.

Next MIRST™

MIRST™ is an integrated, modular robotic system for making tyres. It has a very high degree of flexibility due to its ability to optimise modularity and logistics.

In the MIRST™ process, tyres are fabricated around a heated drum that is tailor-made for a particular tyre model. The drum is continuously rotated by a robot under an extrusion device that distributes rubber over the surface. The drum rotation and compound feeding movements are coordinated to provide the correct distribution of materials to create the specific tyre model.

Compared to traditional, large-scale tyre-building systems with their exceptionally high production rates, designed for customers in different geographic locations, the MIRS is a compact production “island,” flexible and easily programmable for extremely rapid adaptation to the production of new models. This system represents a real improvement, in terms of both technology and logistics, as it can be easily located near the manufacturing process that it serves.

The use of robotics in the production process makes it possible to realise extremely high product quality, due to the geometric distribution of the rubber fibres that is constant for each model.

The CCM process

The CCM process for producing compounds uses a 100% computer controlled pneumatic distribution system to transport the ingredients from their storage silos to the continuously operating twin-screw extruders.

The CCM technology was designed to manage the complexity of the process deriving from the large number of ingredients required to produce the compound. The computer controlled process improves the quality of the produced compound, and consequently the quality of the finished product.

By means of a specially designed powder capture and recycling system for solid materials, CCM technology has reduced dust levels in production areas to extremely low levels. The CCM process also saves energy, enabling a reduction of approximately 20% in energy consumption per unit of product.

The TSM process

TSM (Twin Screw Mixing) is the new process for preparation of compounds that offers high levels of quality, reliability and efficiency, developed specifically for the production of compounds used in the new Pirelli green tyres.

This technology makes it possible to realise major improvements in terms of compound uniformity, reduced dispersal of ingredients and a 30% reduction in energy consumption as compared with traditional techniques.

Energy efficiency

Pirelli is going to great lengths to realise energy efficiency, with positive results overall. Progress in realising energy savings is not linear and depends on the availability of technologies that are appropriate for industrial production in a specific context, including the economic cycle. In spite of constant improvements, **specific** energy consumption remained virtually unchanged between 2007 and 2008. This must be attributed to the concomitance of numerous factors associated with the current economic cycle. The general downturn in production volumes has caused the percentage impact of fixed consumption to rise, insofar as it is independent of production volumes. This stems from the fact that certain types of plants must remain active regardless of production volumes. Added to this is the impact of decommissioning and modifying certain production lines.

Current measures to realise energy efficiency consist in increasing the energy efficiency of production processes in technical, economic and environmental terms. Special attention is dedicated to the study of alternative energy sources, in order to increase diversification of energy on an eco-sustainable basis.

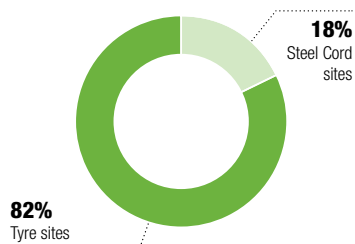
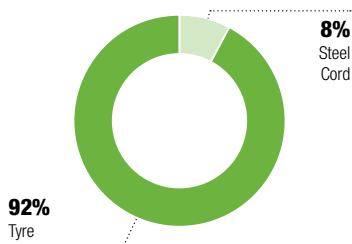
Energy efficiency levels are constantly monitored by means of specific gauges and indicators installed at all production units, where programmes to streamline and rationalise energy consumption have been implemented. A central organisation that is responsible for supervision and monitoring promotes energy saving measures. Their dissemination is tied both to informational and cultural aspects and to revision and streamlining the energy consumption of existing plant and equipment.

This has made it possible to achieve high levels of efficiency. The tyre production process has achieved a **9.2% reduction in its specific consumption of energy and 12.7% reduction in its water consumption over the last five years**, as illustrated in the table of environmental performance described elsewhere in this section.

In the following charts, it is interesting to observe the different weight of energy and water consumption by the tyre production business as compared with the steel cord production business.

CONSUMPTION

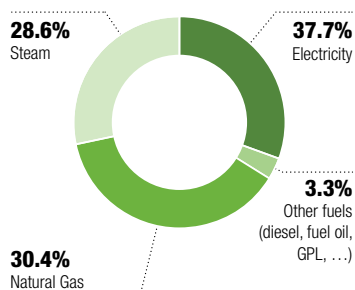
Energy 2008 (GJ/year)

Water 2008 (m³/year)

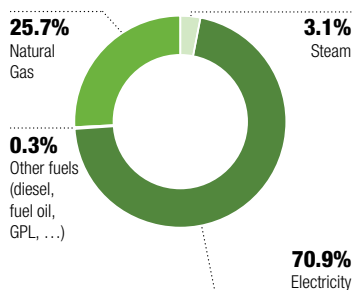
The following chart illustrates the mix of energy sources provided by the Tyre and steel cord factories.

ENERGY SOURCES

Tyre



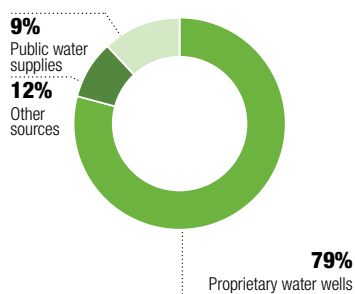
Steel cord



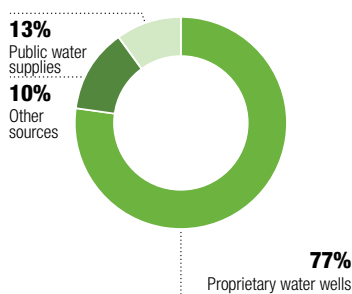
As for the water supply of Tyre and Steel Cord factories, the following chart illustrates that most water is taken from proprietary water wells as compared to what is obtained from the public water supply.

WATER SUPPLY SOURCES

Tyre



Steel cord



The Company is constantly engaged in conserving its use of natural resources. In particular, it will devote increasing focus on eco-compatible technologies in terms of integration with renewable sources, reduction of climate altering emissions and water consumption.



Yanzhou, China. Car tyre plant.

Investments to improve environmental performance

The investments made in 2008 to improve the environmental performance of Pirelli Tyre S.p.A. factories totalled 3.5 million Euro.

Environmental performance at production sites

As previously mentioned, the **specific** environmental performance of tyre and steel cord production activities of Pirelli Tyre S.p.A. is analysed separately below, being characterised by different products and, above all, fabrication processes.

Tyres

The following data consolidate the specific environmental performance of the Pirelli Tyre S.p.A. production units dedicated to the production of tyres. In line with the sustainability reports published over the past five years, the following factors and their environmental indicators are examined:

- water consumption (expressed in m³/tonne of finished product)
- energy consumption (expressed in GJ/tonne of finished product)
- solvent consumption (expressed in kg/tonne of finished product)
- waste production (expressed in kg/tonne of finished product) and the percentage of recycled waste
- equivalent emissions of CO₂ and NO_x (expressed in tonnes/tonne of finished product and kg/tonne of finished product)

As can be seen, most of the reported indicators have shown a substantial improvement in performance over the past five years, due to the Company's eco-sustainable strategy and commitment.

SUMMARY OF TYRE RESULTS

	2004	2008	Diff. 2008/2004 [%]
Water consumption [m ³ /tonne FP]	18.56	16.21	-12.7%
Energy consumption [GJ/tonne FP]	12.34	11.21	-9.2%
Solvent consumption [kg/tonne FP]	3.40	3.49	2.6%
Waste [kg/tonne FP]	102.28	102.00	-0.3%
Recycled waste as total of waste [%]	72.20	72.41	0.3%
CO ₂ emissions [tonnes/tonne FP]	1.01	0.92	-8.9%
NO _x emissions [kg/tonne FP]	1.88	1.60	-14.9%

Special mention should be made of the following points:

- Following revision of the method used to account for energy consumption, energy consumption and carbon dioxide and nitrous oxide emissions from 2004 to 2007 have been recalculated.
- Performance in 2008 was impacted by the current economic crisis and differs significantly from the trend for the last four years. The energy sector, including atmospheric emissions, was the most subject to external action since it does not depend in linear fashion on production. These emissions totalled about 910,000 tonnes.

- In 2008 76% of carbon dioxide (CO₂) was accounted for by indirect emissions (electricity and purchased steam).
- The volume of water discharges was 73% of the total uptake of water.
- Solid and liquid fossil fuels, which are characterised by their greater environmental impact than natural gas, represent about 3% of all energy sources used.
- In 2008 the quantity of non-hazardous waste was 93% of all waste produced.

Steel cord

The data reported below refer to the five production units of Pirelli Tyre S.p.A. that make steel cord. In line with previous Group environmental reports, the following performance and environmental indicators for the last five years were used and examined for this business unit as well:

- water consumption (expressed in m³/tonne of finished product)
- energy consumption (expressed in GJ/tonne of finished product)
- waste production (expressed in kg/tonne of finished product) and the percentage of recycled waste
- equivalent emissions of CO₂ and NO_x (expressed in tonnes/tonne of finished product and kg/tonne of finished product)

SUMMARY OF STEEL CORD

	2004	2008	% Diff. 2008/2004
Water consumption [m ³ /tonne FP]	11.12	9.40	-15.5%
Energy consumption [GJ/tonne FP]	11.28	11.76	4.3%
Waste [kg/tonne FP]	165.24	183.37	11.0%
Recycled waste as total of waste [%]	52.51	51.37	-2.2%
CO ₂ emissions [tonnes/tonne FP]	1.14	1.19	4.4%
NO _x emissions [kg/tonne FP]	2.41	2.37	-1.7%

The following should be noted in regard to the performance reported in the chart above:

1. Following revision of the method used to account for energy consumption, energy consumption and carbon dioxide and nitrous oxide emissions from 2004 to 2007 have been recalculated.
2. Performance in 2008 was impacted by the current economic crisis and differs significantly from the trend for the last four years. The energy sector, including atmospheric emissions, was the most subject to external action since it does not depend in linear fashion on production. These emissions totalled a little less than 195,000 tonnes.
3. In 2008, 85% of carbon dioxide (CO₂) was accounted for by indirect emissions (electricity and purchased steam).
4. Solid and liquid fossil fuels, which are characterised by their greater environmental impact than natural gas, represent about 0.3% of all energy sources used.
5. The volume of water discharges was 76% of the total uptake of water.
6. In 2008 the quantity of non-hazardous waste was 64% of all waste produced.

Finally, the dielectric oils containing PCBs and PCTs with concentrations higher than 50ppm totalled about 8 tonnes for the Tyre Sector, representing a **reduction of 48.8%** from 2004. There were about 8.4 tonnes of **ozone depleting gases**, used in Tyre Sector refrigeration plants, representing a **reduction of 14.7%** from 2004.

PRODUCT ECO-SUSTAINABILITY

In 2001 the study *Life Cycle Assessment of an average European car tyre* (Prè Consultants B.V. on behalf of BLIC, 2001) highlighted the substantial environmental impact of a common tyre during its useful life, which is far greater than its impact during the other two phases, production and end of life. According to this prestigious publication, about 90% of this impact is attributable to fuel consumption due to the friction between the tyre and the road surface, while the remaining part reflects the impact of the results of this friction (i.e. tyre debris). It has been estimated that during its life cycle, a tyre produces debris that represents between 10% and 14% of the tyre's weight.

The impact of these debris particles is still being studied at the international level.

The Pirelli Group is monitoring this issue through a continual exchange of information and experience with other tyre manufacturers, by participating on the specific working group set up by the World Business Council for Sustainable Development, as previously mentioned.

In order to minimise the environmental impact associated with tyre use, Pirelli is constantly engaged in the design and development of compounds and product lines that, by using new materials, innovative internal structures and different tread designs, can reduce rolling resistance while guaranteeing the same durability of the tyre.

Pirelli is actively developing and using a series of new, **increasingly ecological materials** for compounds. In 2009, **rice chaff** resulting from the processing of raw rice will be introduced as one of the components used to make tyres. The use of this natural product will enable further reductions in the use of synthetic substances, thereby helping to reduce the environmental impact of tyres.

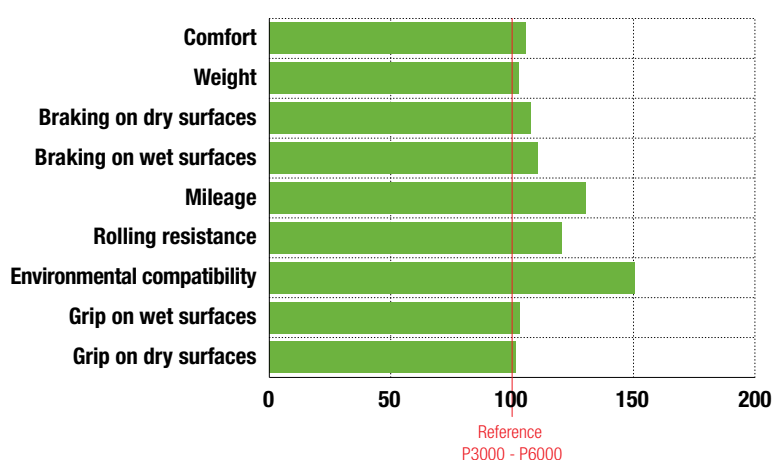
Green Product: the Pirelli Cinturato

Environmental friendliness, safety and performance are the key features of the new Cinturato, whose innovative compounds, structure and tread patterns ensure lower consumption and carbon dioxide emissions, greater durability and improved safety characteristics in both wet and dry conditions.

In particular, the new Cinturato, available in tread sizes P4, P6 and P7 (dedicated to the premium car segment) and featuring ECOIM-PACT on the sidewall, can reduce rolling resistance by 20% and energy consumption by 4%, while increasing overall mileage by 30%. The tread contains no aromatic oils, which is a critical element for the environment due to the abrasion that tyres undergo while rolling.

www.pirellityre.com > Cinturato

CINTURATO



The removal of aromatic oils from the tread compound anticipates the applicable European regulations that will come into force in January 2010. The tread pattern also offers improved acoustic comfort, by reducing tyre noise levels both inside and outside the vehicle. More details on the performance of the New Pirelli Cinturato are provided below:

Lower fuel consumption and CO₂ emissions

The new Cinturato cuts rolling resistance by 20%, thus providing savings of up to 4% in terms of fuel consumption and harmful emissions. Rolling resistance is the opposing force of the tyre to vehicle movement, i.e. energy dissipated while driving.

Together with mechanical resistance and air resistance, rolling resistance impacts fuel consumption and carbon dioxide emissions. Rolling resistance depends on factors both outside (vehicle speed and weight, type of road surface, air temperature and tyre pressure) and inside the tyre, such as structure, compounds and tread pattern. In designing the new Cinturato, Pirelli has made changes to these factors, introducing innovative solutions covered by Pirelli patents.

Better durability: thousands more miles

The tread compound of the new Cinturato has been reinforced with specific ingredients to extend the durability of the tyre without sacrificing grip characteristics. In addition, the tyre geometry has been completely redesigned, from sidewall to tread, in order to strike the right balance between rolling resistance, durability and safety. The average life of the new Cinturato in terms of distance has increased by 30%. This means that the average motorist will now replace his or her tyres every four years instead of every three.

Removal of harmful substances

Pirelli has eliminated aromatic oils from the new Cinturato's compounds, before the applicable European Directive comes into force. The impurities present in these types of oils consist of polycyclic aromatic hydrocarbons, which are potentially harmful to human health.

Enhanced safety and performance

This is achieved by improved braking on wet and dry surfaces. Safety, which along with high performance has always been the hallmark of Pirelli research and was already brought to maximum levels by the Cinturato back in the 1950's, is the other key parameter according to which the new model was designed. The Pirelli P4, P6 and P7 guarantee greater safety under all weather conditions. In particular, they offer improved road hold when cornering on wet surfaces and, most importantly, shorten braking distances. On wet surfaces, the stopping distance is reduced by 11%, while on dry surfaces the braking distance is also significantly reduced as compared with other tyres.



The "Ecoimpact" icons on the sidewall of the Pirelli Cinturato.

The new Cinturato will be manufactured at plants in Bollate (Italy), Izmit (Turkey), Manresa (Spain), Carlisle (UK), and several leading car manufacturers have already chosen it to fit it as standard equipment on their most popular models.

The website www.pirelli.it/cinturato is dedicated to its safety and eco-sustainability features, to which the reader is referred for more information.

Green product: K-PRESSURE™ Optic

Normal use of a car whose tyre pressure is 20% less than its nominal pressure can cause fuel consumption to increase by up to 3% (with a consequent increase in air pollution). Studies by the U.S. National Transportation Safety Board have shown that for every 0.2 bars of under inflation, there is an average increase in fuel consumption of 1%.

Furthermore, tyre pressure that is 20% below what it should be causes irregular wear on the tyre tread and consequently increases wear and tear by 25%, which translates into a 30% reduction in the lifetime of the tyre.

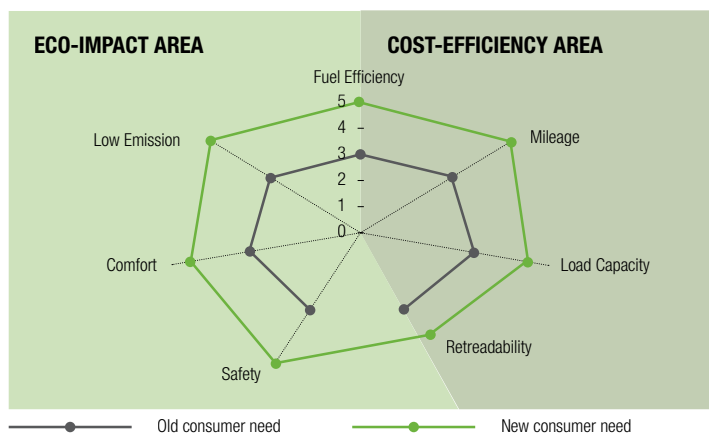
This is precisely why a tyre pressure monitoring system needs to be installed on the car.

Pirelli recently presented the new K-Pressure™Optic, a tyre pressure control system dedicated to the replacement part market. Consisting of a sensor installed in place of the normal valve cap, it can detect insufficient pressure, thereby assuring motorists' safety.

The simplest, surest and most economical way to **increase the life** of one's tyres, **reduce gasoline, diesel or gas consumption and reduce the pollution caused by particulates** released in the atmosphere is to inflate the tyres on one's car to their proper pressure (i.e. the pressure specified by the car maker, which is normally indicated in the relevant section of the vehicle user and maintenance manual) and constant, periodic controls.

Green product: Truck innovation

The following chart shows the innovative environmental performance of the Truck Series 01.



Key breakthroughs of 01 series

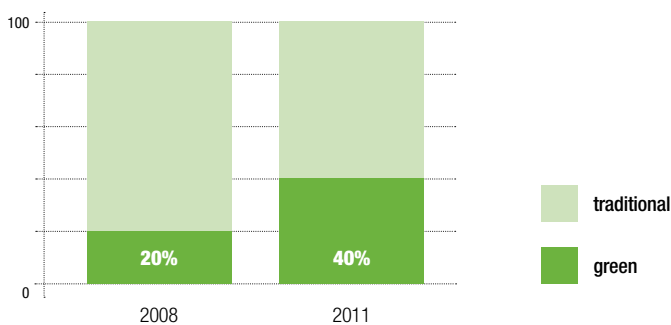
- **Mileage:** 350,000 km on highway
- **Retreadability:** 4 lives
- **Weight** reduction
- Overall stop-gain in **eco-performance**

GREEN TYRES: THE GOAL FOR THE PERIOD 2009-2011

The Company's goal is to have "green" tyres represent 40% of total tyre sales by 2011.

GREEN PRODUCTS

% of total sales



PIRELLI ECO-INNOVATION FOR END-OF-LIFE MANAGEMENT OF TYRES (ELT)

As previously mentioned, a tyre's end-of-life phase makes a small contribution to the overall environmental impact of the entire life-cycle of the tyre and has a decidedly lower impact than those stemming from the use and manufacturing phases. Among the various final disposal options, burial in a landfill is by far the least desirable in terms of environmental compatibility.

www.pirellilabs.com

Since 2003, European Union Directive 1999/31/EC prohibits disposal in landfills of entire end-of-life tyres (ELTs), and of fragmented ELTs since July 2006.

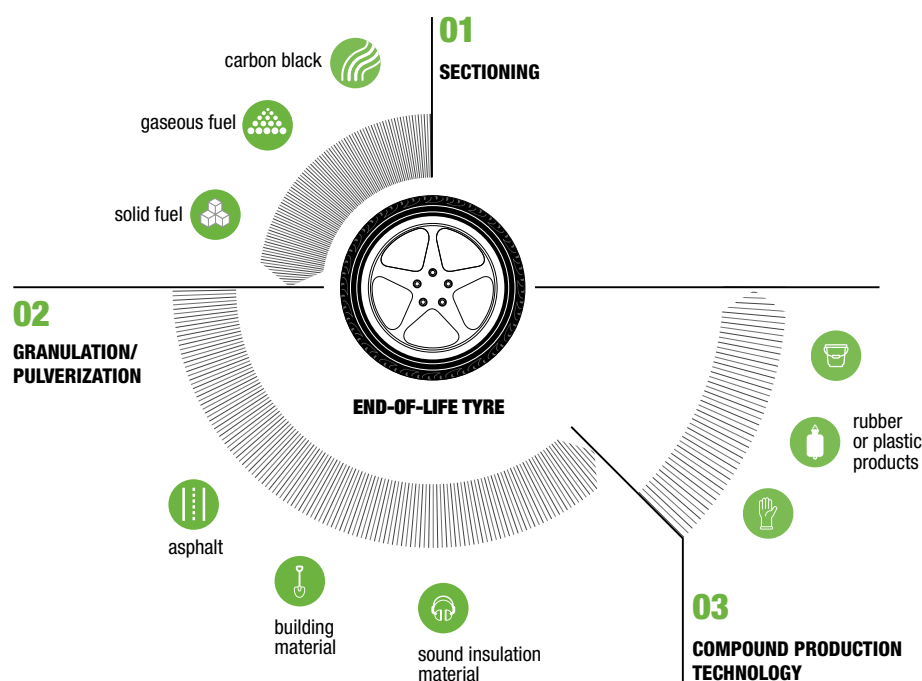
Pirelli has been dedicated for years to research on the management of ELTs, considering the major environmental benefits resulting from their recovery and recycling.

Through cooperation with **Pirelli Labs**, a number of possibilities have been developed for ELTs in terms of recovery of the raw materials that comprise them ("**material recycling**"), and recovery in the form of high-energy fuel ("**energy recovery**"), as a valid **alternative to the use of fossil fuels**.

This can include:

- the use of ELT granules in the production of sound insulation products (described in the section dedicated to Pirelli Labs);
- the production of powder to be used in the tyre production process (described in the section dedicated to Pirelli Labs);
- the use of ELTs to produce CDR-Q, a fuel derived from high quality waste (described in the section dedicated to Pirelli & C. Ambiente S.p.A.).

TYRE RECYCLING DIAGRAM



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

Pirelli RE addresses its environmental impact in three main ways:

- monitoring and reducing the environmental impact of company facilities;
- offering eco-innovative solutions to reduce the environmental impact of operating buildings;
- development of designs for new buildings that enhance the local area in terms of attractiveness, competitiveness on a wider scale and eco-sustainability.

www.pirellire.com

ECO-SUSTAINABLE DEVELOPMENT

In Europe, energy consumption (electricity, oil, gas and coal) for buildings represents 41% of total consumption. According to the European Commission, some of the greatest energy savings can be realised in the residential and service sectors, with an estimated potential savings of 27% and 30%, respectively (Action Plan for Energy Efficiency, 2006).

Eco-sustainability is now the future of property development due to several unequivocal drivers: statutory and regulatory changes that will progress from incentives to being mandatory, growing collective awareness for ecology, which is transforming into a major increase in demand for homes with superior “energy quality”, technological evolution that is driving consumers towards a new generation product with a high content of engineering and company reputation on the market, to attract not only private but also institutional investors through an integrated approach and sustainable development on the territory.

A recent Nomisma survey clearly shows that, among the various types of commercial properties, the ones that are withstanding the impact of the economic crisis and remaining more marketable are those that are characterised by higher standards and high energy efficiency. The survey also notes how “the users of business spaces are willing to pay rents that are 10% higher than the market average for a **green building**, since the reduced operating costs amply repays the higher cost of the rent”. Obviously, all of these facts must not remain a marketing exercise, as for many operators, but develop into a detailed and comprehensive programme in an operating and process model that guides all activities and transfers added value to the market, from design culture to the business plan, to commercial activities.

The Ecobuilding programme

Pirelli RE, precursor in the eco-sustainable building sector, is the first property operator to have launched an integrated programme in 2007 for the application of eco-sustainability criteria to the construction of new buildings (energy efficiency class, bio-architecture, technology) and to management of existing properties (increase in energy performance and living comfort), designing a new, multi-disciplinary approach to design.



www.ecobuilding.pirellire.com

The combination of solutions adopted by the **Ecobuilding** programme ensure the achievement of high standards of quality, eco-sustainability and energy saving. Significant environmental benefits include the reduction of CO₂ emissions, the lower amount of electricity required to meeting a building's needs and increasing use of renewable energy sources.

Some examples of **Ecobuilding** development projects are illustrated below, and are representative of all the projects that are developed or being realised by Pirelli RE.

Headquarter 2 (HQ2) Project

Project features:

- *pre-assessment* to obtain Environmental Certification from the iiSBE ITALIA organisation, which uses the GBC system;
- energy requirements that are fully below legal limits;
- reduction of consumption for lighting equal to about 30% as compared with a traditional building;
- limits on consumption of potable water through the use of rain water for compatible uses;
- materials from renewable sources (natural fibre insulation, linoleum for flooring);
- photo-catalytic wall covering materials to limit the presence of harmful substances;
- rooftop gardens to improve the microclimate and indoor comfort during the summer season;
- guarantee of adequate acoustic comfort conditions;
- photovoltaic panels on the building roof.

Winning design in the “Bicocca Centre” competition

Project features:

- residential development measuring 46,500 square metres of gross floor space and 5,000 square metres of commercial space;
- photovoltaic shutters to shade some of the windows on the south façades (which contribute to the production of electricity);
- natural night-time ventilation by means of special openings in the façade;
- centralised solar heating plant combined with gas boilers, sized to cover about 30% of total heating requirements with solar energy: inverter air conditioners for the production of cold water.

GERMANY - Hannover - 21st century living

Project features:

- a residential project with 135 apartments has been built on a 9083 square metre lot in the Kronsberg quarter of Hannover;
- centralised microclimate Environment.

POLAND - Szafarnia Project - Danzig

Project features:

- located in the historic centre of Danzig on the edge of the ship harbour: the choice of building materials and implemented technologies, and the technical design and construction solutions integrate ecological aspects for environmental protection.

ECO-SUSTAINABLE OPERATION OF PIRELLI REAL ESTATE OFFICES

Focus on the management of environmental impact at its own offices has led Pirelli RE to devote special attention to **energy saving** features.

District heating (centralised heating provided by a remote heating plant that produces hot and cold water distributed through underground pipes) has been adopted at the Milan headquarters. This solution is also planned to be implemented at HQ 2, which is currently under construction.

Another example of rational energy use is offered by the **cogeneration plant** located at the Ivrea office centre, where Pirelli RE companies and other companies (Vodafone, Wind, Olivetti, Olivetti MS, etc.) operate.

The tables below show the performance of Pirelli RE's principal facilities in 2008, compared with 2007 consumption figures, measured as part of the Company's **monitoring of environmental impact**.

ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE OFFICES - TOTAL CONSUMPTION

	Milan HQ		U7 Tower Milan		Rome Office		Naples Office		Total		Main German offices (*)	
	08	07	08	07	08	07	08	07	08 IT	07	08	07
Water (m ³)	7,741 ^(*)	17,539	2,500 ^(*)	6,083	5,863	6,169	1,882	1,323	17,986	31,114	3,693	-
Electricity (MWh)	1,875 ^(*)	3,320	1,200	1,218	834	847	181	196	4,090	5,581	923	-
Fuel oil (kg)	^(*)	^(*)	^(*)	^(*)	^(*)	^(*)	^(*)	^(*)	not appl.	not appl.	not pres.	-
Heat (MWh)	2,650 ^(*)	1,961	438 ^(*)	350	not pres.	not pres.	not pres.	not pres.	3,088	2,311	846	-

(*) The data provide an estimate of average consumption at the Hamburg, Hannover and Kiel facilities, since the allocation of spaces/persons at the various locations was changed in 2008 following acquisition of BBC.

ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE OFFICES - SPECIFIC CONSUMPTION

	Milan HQ		U7 Tower Milan		Rome Office		Naples Office		Total		Main German offices (*)	
	08	07	08	07	08	07	08	07	08 IT	07	08	07
Water (m ³)	12	25	10	22	17	17	23	14	13	21	10	-
Electricity (MWh)	3	5	5	4	2	2	2	2	3	4	2	-
Heat (MWh)	4	3	2	1	not pres.	not pres.	not pres.	not pres.	2	2	2	-

(*) The data provide an estimate of average consumption at the Hamburg, Hannover and Kiel facilities, since the allocation of spaces/persons at the various locations was changed in 2008 following acquisition of BBC.

Note: the figures for consumption at the Warsaw office (in 2008) are unavailable due to local methods of supplying and billing utilities.

Changes in trend:

1. Milan HQ: the reduction in water consumption from 2007 is due to a series of conservation measures, such as elimination of the fountain in the entrance area, and modification of a number of situations, such as interruption of the water hook-up for the HQ2 construction site and lower average number of personnel at the Milan HQ.
2. U7 Tower: the lower consumption stems from interruption of the utility hook-up with the water cooling devices installed in leased spaces.
3. Milan HQ: the lower consumption stems from several energy saving measures introduced for lighting (earlier switch off of office and hallway lights), reduced use of the cooling plant during the three summer months as compared with 2007, and interruption of the HQ2 construction site hook-up.
4. District heating plant present.
5. The consumption figures are unknown because heat is provided directly by the building owner, which bills the heating costs as part of the rent.
6. The higher consumption is due to worse weather conditions, with low outdoor temperatures from the beginning of the winter season.

The above is also accompanied by the monitoring of the quantity/type of special waste produced by the main offices of Pirelli RE in 2008. The results are shown in the following table (with the comparative figures for 2007):

ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE OFFICES - SPECIAL WASTE

	Milan HQ		U7 Tower Milan		Rome Office		Naples Office		Total		Main German offices (*)	
	08	07	08	07	08	07	08	07	08	07	08	07
Non hazardous (Kg)	9,485 ⁽¹⁾	2,136	310	7,828	434	517	1,217	1,716	11,446	12,197	N.A.	-
Hazardous (Kg)	888	226	0	73	9,860 ⁽²⁾	-	1,020 ⁽³⁾	1	11,768	300	N.A.	-

(*) The data provide an estimate of average consumption at the Hamburg, Hannover and Kiel facilities, since the allocation of spaces/persons at the various locations was changed in 2008 following acquisition of BBC.

(1) Milan HQ: the increase of non hazardous special waste is due to the presence of mixed packaging amounting to 5.110 kg as a result of internal displacement and relocation, not present in 2007.

(2) Rome Office: the increase of hazardous special waste is due to the disposal of hardware and outdated equipment as a result of offices reorganization during 2008 (not present the previous year).

(3) Naples office: the increase of hazardous special waste is due to the disposal of greater quantities of hardware and outdated equipment (not present the previous year).

In 2008, **recycling** of paper for the Milan Headquarters and Rome totalled the following amounts: 36,210 kg in Milan and 5,250 kg in Rome.

Pirelli Eco Technology S.p.A. Technologies for Sustainable Development

In metropolitan areas, it is becoming increasingly urgent to find effective solutions for the **reduction of air** pollution, especially **particulates** - i.e. all those solid and liquid substances that are suspended in the air.

www.pirelliecotecnology.com

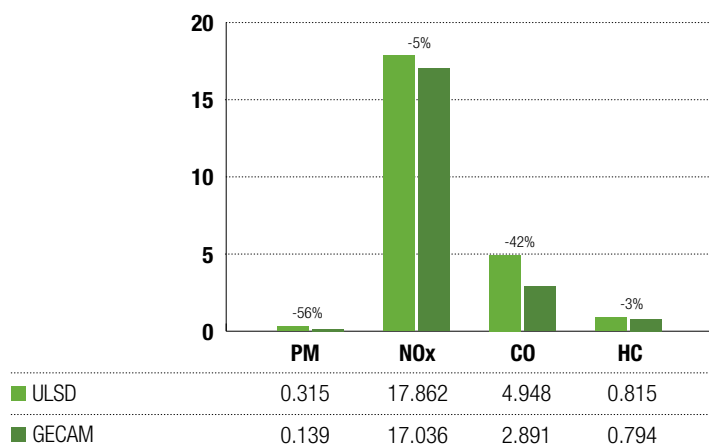
In urban areas, one of the principal sources of particulate are heating plants or combustion in the endothermic engines of vehicles. Direct action on these sources represents the most effective and immediate solution for improving urban air quality. **Pirelli Eco Technology** is focused on providing concrete, sustainable solutions to the problem of reducing particulate emissions. Pirelli Eco Technology offers the following products: **GECAM**, the **white diesel™**, “**reduced particulate emission**” fuel oil, and **Feelpure™**, a particulate filtering system.

GECAM, THE WHITE DIESEL™

GECAM™ - patented by the Group - is an emulsion of water (10%) and diesel for vehicle use and heating that **permits reduction of particulate emissions by 50%**. This result was achieved by using emulsified water, which can improve the combustion of diesel and reduce the production of nitrous oxides, one of the principal pollutants typically found in urban areas. **GECAM™** has been tested by various national and international research institutes. In the vehicle fuel segment, Eni Tecnologie Laboratories have found reductions of more than 50% in particulate emissions, **5-6% of nitrous oxides and over 30% of carbon monoxide**.

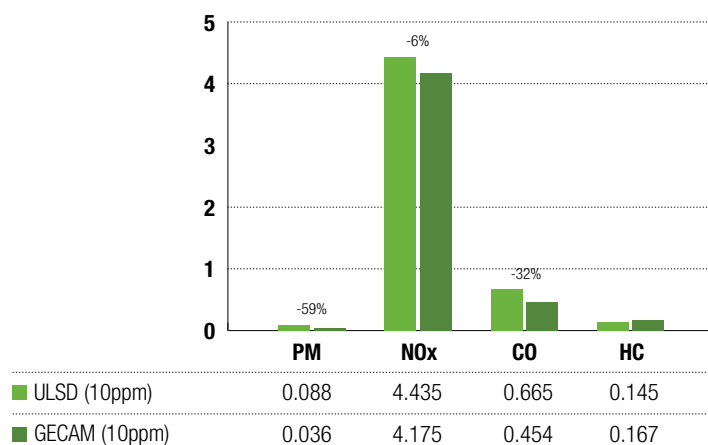


Source: Eni Tecnologie - test conducted on a Euro 2 compliant city bus Engine: IVECO 8360 used on the ATM Milano Line 61 route - ULSD: Ultra Low Sulphur Diesel (in g/km)



The tests conducted at the European Commission Joint Research Centre in Ispra on an **Engine: IVECO-Cursor Euro 3. Cycle: stationary ESC** pursuant to Directive 88/77 EEC -DIR 2001/77EC (ESC stationary cycle), show that the GECAM™ emulsified diesel can significantly reduce particulate and heavy duty vehicle emissions.

Source: JRC in Ispra - test conducted on a IVECO-Cursor Euro 3 Engine on Cycle: stationary ESC (in g/km)



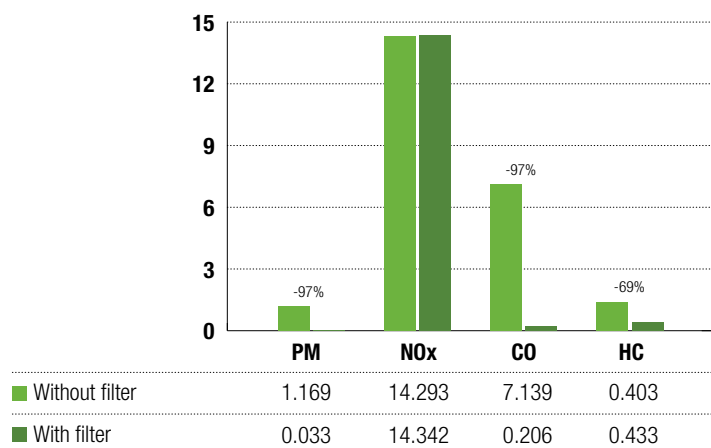
Sales of **GECAM™** in 2008 were concentrated in the public transport, heavy duty transport, waste collection and earth moving segments.

FEELPURE™

Pirelli has been producing and developing **Feelpure™ filtering systems** since 2004 as mufflers to substitute the original equipment mufflers on diesel engines. The Feelpure™ filtering system **reduces particulate emissions by over 95%** on light commercial vehicles, trucks, buses, construction equipment and boats and ships powered by diesel engines and on all engines rated from EURO 0 to EURO 3. This performance is clearly illustrated in the tests carried out at Eni Tecnologie Laboratories:



Source: Eni Tecnologie - test conducted on a Euro 2 compliant city bus Engine:
IVECO 8360 used on the ATM Milano Line 61 route (g/km)



The Pirelli Feelpure™ system combines the **particulate filter** (also known as FAP or DPF) with a regeneration technology based on the use of a **specific catalysing additive** (called CAM FBC). This is the most widespread and reliable technology available today.

Feelpure™ is comprised by three components:

1. a **particulate filter** in porous silicon carbide (SiC), fitted in a stainless steel can inside the muffler;
2. an **additive** to be added to ordinary fuel, which permits complete combustion of the carbonaceous particulate previously trapped by the filter (regeneration process);
3. a **control unit** that monitors the entire system, which detects counterpressure at the exhaust and the exceeding of alarm thresholds. It doses the additive to be added to the fuel on vehicles with this feature.

Recent tests, conducted by Eni Tecnologie Laboratories, the European Commission Joint Research Centre in Ispra and the University of Biel under the VERT programme, have shown reductions of over 90% in mass particulate and 99% in finer particulate, over 90% in carbon monoxide and up to 69% of unburned hydrocarbons.

CERTIFICATIONS AND RECOGNITION

Pirelli operates in compliance with the **most rigorous standards imposed by various countries to limit harmful emissions** and has received the **most rigorous certifications** at the international level. In Italy, Pirelli Eco Technology was the first to win approval, pursuant to Transport Ministry Decree no. 39 of 25 January 2008, for particulate filters for light and heavy duty commercial vehicles.

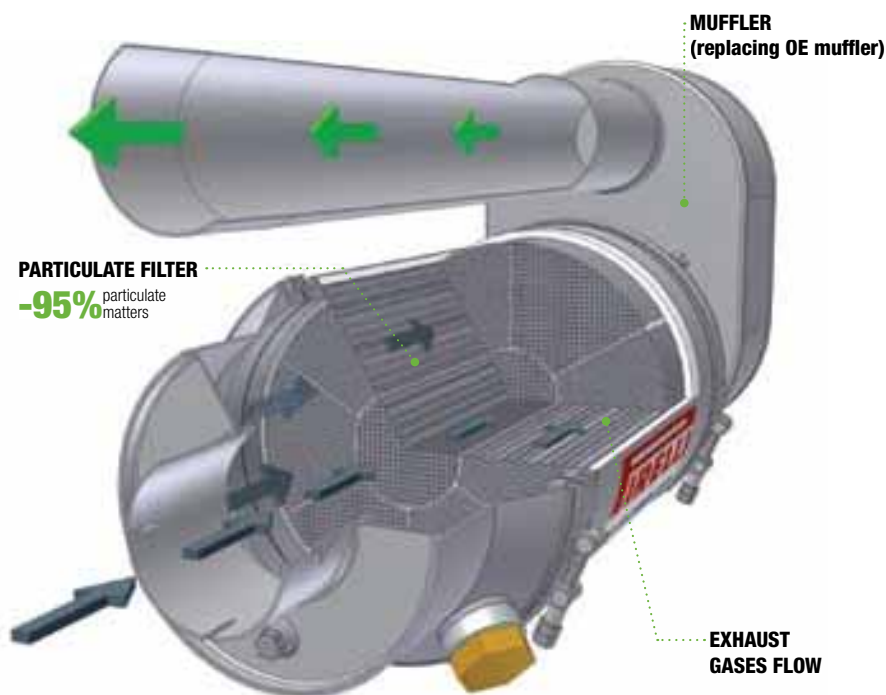


Bumbesti-Jiu, Romania, Pirelli Eco Technology.

Pirelli filters have also received some of the most important European certifications: they have been tested by the European Joint Research Centre in Ispra, obtained the VERT and BAFU certificates in Switzerland, received RDW approval on the Dutch market and LEC certifications for the Low Emission Zone in London.

Approval in key markets like **Germany** and **China** is expected in the first half of 2009.

PARTICULATE FILTER - OPERATING DIAGRAM



AREAS OF ACTIVITY

With its production facilities in the Milan area and the new plant in Romania, Pirelli Eco Technology aims to become one of the leading producers of particulate filters on the market, **both as original equipment (new vehicles) and retrofit systems for vehicles already in use**, with solutions that are applicable to all EURO0-EURO5 diesel engines and all transmission configurations. Pirelli Eco Technology is based in Italy with commercial offices in major European countries.

One of its principal customers in Italy is the GTT consortium, the operator of public transport in Turin and the Region of Piedmont.

The **new production plant** for silicon carbide filters was opened at Bumbesti-Jiu, Gorj County, **Romania** in 2008. When it reaches full operating capacity, it will employ 500 workers and produce about 1100 tonnes annually.

It is expected to receive ISO-TS certification in 2009.

The product line has been expanded and the company has started to expand abroad: in England, where it participated at the presentation of the filters in the Low Emission Zone in London, while it reached an agreement with SITA (SUEZ ENVIRONMENT) in The Netherlands for the supply of about 300 Feelpure systems. New products with a higher concentration of cells (CPSI) are being developed, which will permit better filtering performance and consolidation of its presence on the most interesting markets.

Pirelli Eco Technology began an experimental project in **Beijing** in 2008 that envisages installation of retrofit filtering systems on certain heavy duty vehicles owned by the city. This project, realised in collaboration with the Ministry of Environment for Protection of Italian Territory and Seas and with the Environmental Protection Bureau of the city of Beijing, is part of a vast Cooperation Programme between Italy and China for environmental protection (begun in 2000) that has realised over 80 projects for the development and experimentation of advanced technological solutions for sustainable development in the Asian country. In preparation for the 2008 Olympic Games in Beijing, the Italian Minister of Environment reinforced cooperation with the City of Beijing and supported the city in the "Green Olympics" programme through numerous projects in the field of mobility and sustainable urban planning and monitoring and control of air and water pollution and environmental education.

In December 2008 Pirelli & C. Eco Technology was elected "**Best Investor of the Year**" in the **Gorj District** of Romania. This was the decision of **Antena 1**, Romania's top national commercial television broadcaster, which created the prize in 2008 with other organisations.

Pirelli & C. Ambiente S.p.A.

Pirelli & C. Ambiente S.p.A., a Pirelli Group company founded in early 2005, specialises in sustainable development technology and solutions, and is active in the renewable energy source, environmental clean-up and energy efficiency sectors.

Thanks to its synergies with Pirelli Labs - the Group's advanced research centre - Pirelli Ambiente is able to offer the market a vast range of low environmental impact and high technology products.

www.pirelliambiente.com

CONVERSION OF URBAN SOLID WASTE TO ENERGY

Pirelli & C. Ambiente has been operating for over five years in the field of renewable energy sources, particularly in the conversion of urban solid waste (USW) and biomass to energy.

The company is also committed to the technical standardisation of waste-derived fuels, and contributes to the development and validation of technical specifications and analysis methods for solid recovered fuels, which were made official by the European Union in 2007 through a special series of Technical Standards.

At the international level, it is also promoting industrial projects for eco-sustainable management of urban waste.

In 2008 Pirelli & C. Ambiente set up a joint-venture with Acea S.p.A. for the planning, realisation and joint management of initiatives in the waste management sector in the Italian Regions of Lazio, Tuscany, Liguria, Umbria and Campania.

It also operates in the energy efficiency sector through Serenergy, an energy service company (E.S.Co.) that is 50-50 owned with Buzzi Unicem. Serenergy develops projects for saving fossil fuels and electricity through the use of WDF-Q, receiving energy efficiency certificates that it then trades on the market operated by the GME (Italian national grid operator).

Pirelli & C. Ambiente Renewable Energy, which was merged with Pirelli & C. Ambiente S.p.A. in 2008, has developed and patented - in cooperation with Pirelli Labs - a **WDF-Q** (Quality Waste-Derived Fuel), whose uniqueness lies not only in its composition but also in how it is produced and used.

PIRELLI WDF-Q

Pirelli WDF-Q is obtained by enhancing the dry portion of USW, through a sequence of sorting, chopping, drying and mixing operations with a number of components with high calorific content, such as non-chlorinated plastics from tyre scrap and recycling.

It can be used as a partial replacement for fossil fuels in existing, non-specialist plants, such as cement works and thermoelectric power stations, with significant environmental benefits (lower emissions, particularly CO₂, NO_x and SOX₂ from fossil fuels) and economic benefits (lower waste disposal costs) for the population.

WDF-Q differs from normal quality WDF and other “waste-derived fuels” because it guarantees greater stability over time and better standards of quality in terms of calorific content, lower concentrations of pollutants and certainty of the biodegradable biomass content.

WDF-Q has many eco-sustainable benefits.

The first of these is its biomass content, recognised in industrialised countries as a renewable energy source, of around 50%. Moreover, this biomass is “non-virgin”, i.e. originating from other production processes, thus avoiding the use of “virgin” biomass, obtained for example from wood harvested in existing forests. Also, since the WDF-Q is used in co-combustion in electric power plants and cement works, its use does not entail the building of new combustion plants, and at the same time reduces the use of fossil fuels. In **Italy**, the integrated system promoted by Pirelli Ambiente has been operating successfully since 2003 in the Province of Cuneo, which is the home of **Idea Granda**, a mixed public-private ownership company that is owned by Pirelli (49%) and the municipal company ACSR (51%). Since this system was implemented, the percentage of energy recovered from local waste has risen to 32%, which is both higher than the average for all of Italy (7%) and, above all, Europe (27%). The quantity of enhanced waste and WDF-Q produced by Idea Granda over the last three years is summarised in the following table.

MATERIAL

		2008	2007	2006
Incoming dry portion	ton	19,031	19,589	18,464
Non-chlorinated incoming recycled plastic waste	ton	2,452	4,479	3,961
Incoming rubber scrap	ton	2,290	2,263	2,267
Outgoing WDF-Q	ton	18,616	20,913	19,673
Avoided CO ₂ emissions	ton	32,500	36,600	34,400

At the Robilante cement works, the use of WDF-Q over the past year has reduced atmospheric emissions of CO₂ by over 32,000 tonnes. Each tonne of WDF-Q used in co-combustion saves 1.75 tonnes of CO₂ and reduces NO_x by 20%, thus making a significant contribution to achievement of the targets adopted by Italy under the Kyoto Protocol.

The plant operating license of Idea Granda has been renewed until 31 May 2017. It has also increased the annual quantity of the authorised, incoming dry portion to 24,000 tonnes. In order to saturate this volume, it has signed agreements with another two consortia in the Province of Cuneo for supply of the dry portion of USW to be used as WDF-Q in 2009.

Idea Granda has been ISO 9001 and ISO 14001 certified since 2007, which apply to its quality management and environmental management systems, respectively.

PIRELLI & C AMBIENTE SITE REMEDIATION S.P.A. - ENVIRONMENTAL CLEAN-UP AND ENERGY CERTIFICATION

Pirelli & C. Ambiente Site Remediation S.p.a. has been operating successfully since the 1990's in the remediation, redevelopment and enhancement of brownfield industrial sites. Over the years, the Company has increased its expertise by providing support to other companies in the Pirelli Group in the management of industrial areas throughout Italy, and also to Pirelli & C. RE in the acquisition and environmental remediation of new brownfield areas and/or property assets.

The scope of operations of Pirelli & C Ambiente Site Remediation ranges from the preliminary assessment of environmental liabilities (environmental due diligence) of property assets and/or sites that might require property brokering services, to the development of the necessary engineering activities and management of relations with the relevant authorities, to complete remediation and redevelopment of the areas, while safeguarding the environment and meeting any time constraints or specific requirements of the customer.

In 2008, several major engagements were received from external customers, including TAMOIL, CEMENTIR, VALDADIGE COSTRUZIONI, CAMFIN and BNP PARIBAS.

www.pirelliambiente.com > Site Remediation

The following table summarises the extent of the work carried out by Pirelli & C. Ambiente Site Remediation S.p.A. between 1998 and 2008:

PIRELLI & C. AMBIENTE SITE REMEDIATION ACTIVITIES

Total surface area redeveloped or undergoing redevelopment	approximately 3,400,000 m ²
Buildings demolished	approximately 4,000,000 m ³
Environmental due diligence of areas	approximately 6,700,000 m ²
Environmental due diligence of properties	approximately 7,100,000 m ²
Large-scale remediation projects through on-site remediation	4
Large-scale remediation projects involving site safety	4
Energy efficiency certification	approximately 1,800,000 m ²

1 The data refer to the activity of Pirelli & C. Real Estate Project Management S.p.A. between 1998 and 2005 and the activity of Pirelli & C. Ambiente Site Remediation between 2005 and 2008.

ENVIRONMENTAL SOLUTIONS

The Company offers a vast range of environmental solutions, using its specialist technical expertise in soil remediation to satisfy the wide-reaching requirements of the overall process of urban and land development. Ambiente Site Remediation assists building and building services designers by providing ideas for high-quality, highly energy efficient and environmentally friendly solutions.

This support is based on four core principles:

- **energy efficiency**, not only for winter heating, but also for summer cooling;
- use of **eco-compatible materials**;
- use of **renewable resources**;
- living **comfort**.

Pirelli & C. Ambiente Site Remediation has obtained SACERT certification (system of accreditation for building certification organisations), which allows the company to conduct building energy assessments, classify the buildings, prepare the energy qualification (certification certificates, and research solutions designed to improve the building's energy performance. The requirement for this type of certification stems from adoption by Member States of the European Union of Directive 2002/91/EC on the energy performance of buildings, whose principal goal is to promote energy conservation by reducing the energy consumption associated with buildings, which represents almost a third of the European Union's energy needs.

A cooperative project with the University of Genoa is currently under review for the development and testing of innovative materials resulting both from research and from benchmarking of the most recent and advanced solutions available. These involve new generation products characterised by high quality, energy efficiency and eco-sustainability standards.

Pirelli & C. Ambiente Site Remediation will thus expand its commitment in the following areas:

- energy efficiency for legal compliance;
- low environmental impact;

- sustainability of the built environment;
- better air quality due to the absence of harmful emissions;
- more healthful environments through the use of natural materials;
- green areas designed for relaxation and leisure time.

Plans for 2009 call for completing decontamination of the former CAM di Pero oil depot by using biotechnology and continuation of ongoing activities to map and remove asbestos at TAMOIL service stations throughout Italy.

Pirelli & C. Ambiente Site Remediation aims to obtain ISO 14001 environmental certification in 2009.

SOLAR UTILITY S.p.A.

Solar Utility S.p.A. is a 50-50 joint venture between Pirelli Ambiente, supplier of environmental solutions, and Global Cleantech Capital, a leading investor in the renewable energy sector in Europe and North America. Cleantech Capital specialises in solar and wind power, green building, bio-energy and advanced materials, with the aim of increasing renewable energy production and energy efficiency, and thus reducing the use of fossil fuels.

Created in 2007 through the union of these two major players, Solar Utility is a photovoltaic electricity producer. It provides **100% green electric power** to end users at competitive prices and has an ambitious investment programme in Italy aimed at the development, construction and operation of its own photovoltaic plants, with an installed capacity of 50 MW over the next three years.

Solar Utility makes its operating decisions according to the optimal localisation of plants, resulting from a combination of objective local conditions (the typical sun exposure of southern Italy, orientation, shade, dimensions of roof or land areas) and the rules set out in the Energy Account Decree of February 2007, which regulates government subsidies for photovoltaic energy production.

Solar Utility works closely with the firmly established operators in the photovoltaic industry to implement its own capital expenditure programme.

One of the first projects approved by Solar Utility in 2007 was the agreement with the Town of Alessano (Lecce) for the construction and operation of photovoltaic plants on buildings and lands owned by the town. The town will realise major economic savings through this project, due to the significant dimensions of the photovoltaic plants (from 1.1 MW), which will provide an annual output of over 1,600,000 KWh clean electricity (equivalent to the consumption of over 600 families).

In 2008 Solar Utility signed another two agreements with public authorities for the construction of photovoltaic plants in Puglia and Calabria. It also completed construction on photovoltaic plants with an aggregate capacity of 3 MW.

Furthermore effectively into the photovoltaic market, Solar Utility initiated a collaborative project with Pirelli Labs in 2008 to develop innovative plastic materials that can be used to build photovoltaic structures and industrialise a prototype photovoltaic tracker created by exploiting the existing know-how of Pirelli Labs.

www.pirelliambiente.com > Solar Utility

Pirelli Labs S.p.A.

The Group's "innovation engine" is Pirelli Labs, the advanced research centre serving all Pirelli businesses. It was created in Milan in 2001 with an investment of 135 million Euros.

Pirelli Labs is the hub of Pirelli Group advanced research and innovation expertise and is involved in a large number of research projects. It works with various international universities and research centres, including the **Joint Research Centre at Ispra, CNR, ENEA, University of Milan Bicocca, Milan Polytechnic, Turin Polytechnic**, and other major labs such as **CORIMAV, Consorzio per la ricerca dei materiali avanzati (Consortium for Advanced Materials Research)**. Three-year doctorate degree scholarships have been funded under the auspices of Corimav at the Department of Material Sciences at the University of Milan Bicocca with research topics focused on environmental sustainability and renewable energy.

Pirelli Labs cooperates with other Pirelli business units, with short-term and long-term results. Its projects are increasingly focused on **the creation of "green" products using materials, technologies and processes for sustainable development.**

Pirelli Labs has expertise in the following fields:

- solutions for renewable energy
- new materials
- tyre recycling
- solutions for eco-building and energy efficiency
- innovative materials for sustainable development
- materials and solutions for fuel cells
- innovative antenna solutions for telecommunications
- materials for applications in the fashion sector.

Solutions for renewable energy

In the renewable energy sector, Pirelli Labs is particularly active in developing photovoltaic technologies. Following a carefully planned series of experiments with all major technologies, both conventional and innovative, carried out together with **ENEA, photovoltaic concentration was identified as the most promising solution** for reducing costs (which currently represent the principal limit on penetration of this technology).

Photovoltaic concentration, which is based on systems of specially developed plastic lenses, makes it possible to use up to one thousand times less photovoltaic material than conventional technologies, by using low cost assembly processes borrowed from the automotive industry. Pirelli Labs, working closely with its parent business unit, **Pirelli Ambiente**, is developing innovative solutions to increase efficiency in the conversion of modules and simplifying the assembly process. The aim is to reduce the cost of producing electricity from solar power at costs lower than energy from fossil fuels. Other joint projects with Pirelli Ambiente have Pirelli Labs working on the development of **innovative solar trackers**, to be used both on conventional and concentrated photovoltaic cells that can significantly increase energy yield.

www.pirellilabs.com

They are characterised by their **low visual impact design, great resistance to high wind and modular development, which facilitates installation.**

New materials

Two products developed by Pirelli Labs set important milestones in 2008:

- **Silerex™** (a registered trademark of Pirelli) is a patented and certified sound insulation material. Comprised of low environmental impact materials (granules of recycled rubber) and a polymer binding agent in water emulsion, it represents an innovative solution for development of sustainable building. A non-exclusive patent and know-how license was recently granted to an Italian firm operating in the sector;
- field trials of **prototype third generation eco-sustainable poles**, initiated in 2007 at the Telecom Italia testing site, concluded successfully by demonstrating that the product is reliable. To exploit this result, contacts are currently being made with external companies that might be interested in acquiring the production technology license.

Tyre recycling

Available know-how for the recycling of materials enabled **Pirelli Tyre** to reuse industrial scrap through the assessment of technologies, processes and new solutions for using rubber powder. The aim is to reduce the environmental impact of industrial scrap to a minimum and increase their reuse through the recovery of materials and energy.

Solutions for eco-building and energy efficiency

Cooperative efforts continue with Pirelli RE to conduct research on materials, products and low impact systems that will improve the quality of buildings.

The proposed materials must be recycled and, if possible, recyclable themselves or natural or from renewable sources, and always characterised by **a low impact LCA**. Once they are integrated in the design, they must enhance energy efficiency and liveability. A significant example of a sustainable product is represented by **the Silerex™ sound insulation** described above.

Innovative materials for sustainable development

Collaboration with **Pirelli Eco Technology** continued in 2008 on the development of ceramic particulate filters for diesel powered cars. A research project was begun in order to identify **an oxidation catalyst** of particulate “free of noble and toxic metals” to be applied on the filter to permit passive regeneration.

Once the optimum composition and its response to thermal aging have been determined, Pirelli will have an effective, proprietary solution that can contribute to reducing urban air pollution.

In regard to raw materials, alternative processes were identified for the production of **silicon carbide**, starting from **biomass resulting from the processing scrap** of agricultural products. Once Pirelli specifications are satisfied, the economics of the process will be assessed in order to prepare a key raw material from a renewable source.

Materials for application to fuel cells

Pirelli Labs is also active in the sector of **fuel cell energy generation systems**. It has developed a particularly versatile **polymer electrolyte free of halogens** that performs outstandingly in cells fuelled both by hydrogen and direct methanol.

Innovative antenna solutions for telecommunications

The development of integrated antenna solutions continued for application to broadband access devices using WiFi technology. The spread of the new 802.11n standard, which exploits the MIMO (Multiple Input Multiple Output) technique with the use of two or more antennas, has raised the even more urgent need to integrate the antennas inside the devices themselves. An ADSL modem designed and developed by **Pirelli Broadband Solutions for a European telephone operator** was equipped with a **pair of internal stamped circuitry antennas** with a spatial configuration protected by a **Pirelli patent**. The device will be **produced and sold in 2009**.

A potentially significant solution that is currently being studied calls for an adjustable antenna to be installed in wireless extender devices that make it possible to connect the TV receiver by cable (IPTV) with the ADSL modem without it being necessary to install cables between the different spaces where the modem and receiver are housed.

Thanks to its ability to guide the radiated power in the best directions for making a connection, **the integrated adjustable antenna** inside the wireless extender will make it possible not only to create a smaller, **more attractive** device, but also to **optimise its performance** and reduce the emission of electromagnetic energy in directions that are not useful for communication (**thereby limiting this form of pollution**).

Materials for applications in the fashion sector

The technical and scientific expertise developed in Pirelli laboratories have also been applied to provide innovative support to PZERO brand products. Activity in the fashion and footwear sectors is focused on identifying and transferring technologies that can lend special properties to the materials used.

Characteristics such as **breathability and water and oil repellency** are essential for outerwear that can be used in most seasons. The aim is to realise these characteristics through **eco-compatible processes** without changing the appearance and consistency



Milano Bicocca, Italy, Pirelli Labs.

of fabrics or skins. Joint efforts have been undertaken with major tanning groups, textile companies and research groups in order to consolidate the synergies necessary for industrialisation and application of the processes. In 2009 research is also continuing on active substances that can lend particular effects to skins and fabrics.

Pirelli Broadband Solutions S.p.A.

Pirelli Broadband Solutions (PBS) was established in 2004 to focus resources in the sector of cutting-edge telecommunication with an extremely high technological content.

Since demerger of the Photonics business unit on 1 April 2008¹, after it had been set up in the Pirelli Group company PGT Photonics, Pirelli Broadband Solutions has concentrated its activity on solutions for residential and small office broadband access.

The company's products enable residential and small business users to connect to the internet and telecommunication operator service networks via broadband, thereby exploiting a potentially unlimited variety of services. Telephony, video communication, internet TV, e-commerce, e-health, e-government, social networking and telecommuting are some of the principal examples of applications that increasingly allow users to receive utility, business, entertainment, communication, social interaction and learning services without having to move physically, consequently generating environmental benefits due to less travel.

After consolidating management of end-of-life products in Italy and certain European countries (Directive 2002/96/EC - WEEE), the reduction of hazardous substances in products (Directive 2002/95/EC - RoHS) and improvement of the environmental impact of packaging (Directive 2005/20/EC - Packaging), in 2008 Pirelli Broadband Solutions dedicated itself to energy issues and the reduction of pollutants in product batteries (pursuant to Directive 2006/66/EC and the relevant implementing decree, Legislative Decree 188 of 20 November 2008). In the energy area, it continued to work on introduction of the provisions imposed by Directive 2005/32/CE - EuP (Energy using Products) for development of the products that use energy in order to operate.

PBS took the actions required pursuant to European Regulation 1907/2006 - REACH (Registration, Evaluation, Authorization of Chemicals) for registration of the chemical substances used in products, in order to achieve full control. Consistently with the Pirelli Group's commitment to eco-compatible technological development, Pirelli Broadband Solutions ranks **eco-sustainable development as one of the "musts" on its own portfolio roadmap for the three-year period 2009-2011**. More specifically, the roadmaps of the Customer Premises Equipment (CPE) products made by PBS have embarked on two paths of action according to a sequential plan:

- **Reduction of CPE electricity consumption:** to this end, PBS refers to the European Union guidelines that impose lim-

www.pirellibroadband.com

⁽¹⁾ In July 2008, an agreement was signed to incorporate PGT Photonics S.p.A. into CyOptics, a private American company, leader in the field of optical components based on indium phosphide.

its on the consumption of broadband network equipment (*Code of Conduct on Energy Consumption of Broadband Equipment*), applying design criteria where possible to reduce consumption by the core device and accessories, such as power adapter units. The electric power consumption reduction policy has a major impact on the reduction of the carbon footprint of ICT technologies and consumer electronics;

- **Use of eco-compatible materials:** beginning in the second half of 2009, PBS will give its own customers the option, for at least three product lines (operators and service providers) of CPE with housings made of 100% biodegradable plastic, i.e. plastic that can be fully recycled. This will make it possible to reuse the same material in a new life cycle without substantial deterioration in its performance.

In line with the Pirelli Group Sustainability Policy and to assist and improve the management of its own environmental performance, the management of Pirelli Broadband Solutions has decided to govern its activities by adopting a Health, Safety and Environmental Management System in accordance with the UNI EN ISO 14001 and OHSAS 18001 standards. Due to company re-organisation, the certification date, originally scheduled for 2008, has been moved back to 2009-2010. However, the project has made it possible to set out and disseminate a **PBS Health, Safety and Environmental Policy**, which is fully in line with the analogous Group Policy and the framework of the essential components of the Health, Safety and Environmental Management System.

In 2008 the programme to expand waste recycling was completed and targeted work was carried out on the plants at the Milan location, resulting in a significant reduction in water consumption. In 2009 additional measures to save energy are being studied, by upgrading the air filtering systems in the clean rooms located at the Milan site. It is estimated that electricity consumption will be reduced by about 5% once this work is completed.

Following the environmental communication programmes carried out in 2008 with a section devoted to sustainability on the website, resources will be dedicated once again in 2009 to promote adequate communication and environmental awareness activities targeting employees, suppliers, customers and external businesses.

PIRELLI GROUP ENVIRONMENTAL TARGET FOR 2009-2011

Pirelli will continue to develop cutting-edge products and solutions in the “green economy”, specifically targeting sustainable mobility, environmentally compatible building construction and renewable energy sources.

The Group has set itself the following goal for the three-year period 2009-2011: raise the “green” component on Group revenues **from about 20% at the end of 2008 to about 40% by the end of 2011.**



Social dimension

Internal Community

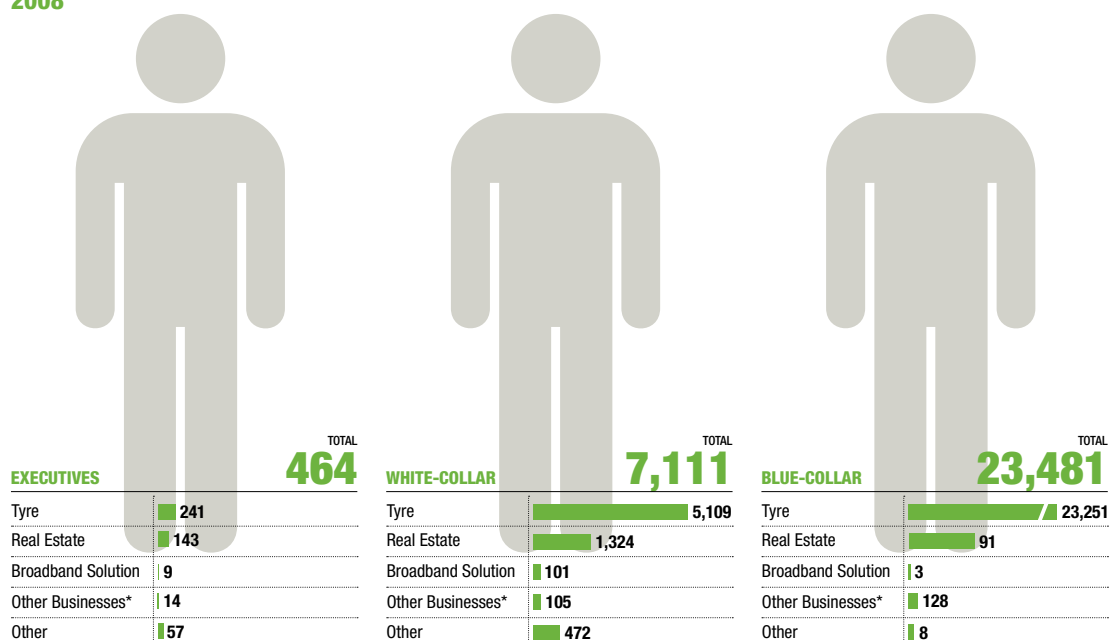
“Group companies recognise the central importance of human resources in the believe that the key to the success of any business is the professional contribution of the people that work for it, in a climate of fairness and mutual trust. Group companies shall safeguard health and safety in the workplace and consider respect for worker’s rights as fundamental to the business. Working relationships are managed with a view to guaranteeing equal opportunities and promoting the personal development of each employee” (excerpt from Article 6 of the Ethical Code - Human Resources).

For detailed information on the Real Estate Sector, whose sustainability performance is addressed in this report, please consult the Pirelli Real Estate SpA Sustainability Report, which can be found on the website www.pirellire.com.

www.pirelli.com > Sustainability >
Stakeholders > Human Resources

WORKFORCE BREAKDOWN

2008



	Tyre	Pre	Pbs	Other * Business	Other **	TOTAL
2008						
Executives	241	143	9	14	57	464
Impiegati	5,109	1,324	101	105	472	7,111
Blue-collar	23,251	91	3	128	8	23,481
TOTAL	28,601	1,558	113	247	537	31,056

2007						
Executives	250	216	15	16	67	564
White-collar	5,135	1,954	166	66	536	7,857
Blue-collar	21,839	522	15	13	13	22,402
TOTAL	27,224	2,692	196	95	616	30,823

2006						
Executives	210	194	15	9	89	517
White-collar	4,946	1,401	145	41	1,262	7,795
Blue-collar	20,013	269	6	2	15	20,305
TOTAL	25,169	1,864	166	52	1,366	28,617

DELTA 2008 VS 2007						
Executives	-9	-73	-6	-2	-10	-100
White-collar	-26	-630	-65	39	-64	-746
Blue-collar	1,412	-431	-12	115	-5	1,079
TOTAL	1,377	-1,134	-83	152	-79	233

DELTA 2008 VS 2006						
Executives	31	-51	-6	5	-32	-53
White-collar	163	-77	-44	64	-790	-684
Blue-collar	3,238	-178	-3	126	-7	3,176
TOTAL	3,432	-306	-53	195	-829	2,439

* OTHER BUSINESSES include the workforce of the companies: Pirelli & C Ambiente S.p.A., Pirelli Eco Technology and PZero Moda

** OTHER Includes the workforce of corporate companies and the Service Centres

WORKFORCE GEOGRAPHICAL BREAKDOWN

2008

NORTH AMERICA

Tyre	265
Real Estate	0
Broadband Solution	0
Other Businesses*	0
Other	0

CENTRAL AND SOUTH AMERICA

Tyre	11,804
Real Estate	0
Broadband Solution	1
Other Businesses*	0
Other	14

EUROPE

Tyre	11,830
Real Estate	1,558
Broadband Solution	111
Other Businesses*	247
Other	523

ASIA, AFRICA, OTHER

Tyre	4,702
Real Estate	0
Broadband Solution	1
Other Businesses*	0
Other	0

	Tyre	Pre	Pbs	Other * Business	Other	TOTAL
2008						
Europe	11,830	1,558	111	247	523	14,269
North America	265	0	0	0	0	265
Central and South America	11,804	0	1	0	14	11,819
Asia, Africa, Other ¹	4,702	0	1	0	0	4,703
TOTAL	28,601	1,558	113	247	537	31,056

2007

Europe	11,893	2,692	191	95	599	15,470
North America	262	0	3	0	0	265
Central and South America	10,531	0	1	0	16	10,548
Asia, Africa, Other ¹	4,538	0	1	0	1	4,540
TOTAL	27,224	2,692	196	95	616	30,823

2006

Europe	11,285	1,864	166	52	1,349	14,716
North America	265	0	0	0	0	265
Central and South America	9,786	0	0	0	16	9,802
Asia, Africa, Other ¹	3,833	0	0	0	1	3,834
TOTAL	25,169	1,864	166	52	1,366	28,617

DELTA 2008 VS 2007

Europe	-63	-1,134	-80	152	-76	-1,201
North America	3	0	-3	0	0	0
Central and South America	1,273	0	0	0	-2	1,271
Asia, Africa, Other ¹	164	0	0	0	-1	163
TOTAL	1,377	-1,134	-83	152	-79	233

DELTA 2008 VS 2006

Europe	545	-306	-55	195	-826	-447
North America	0	0	0	0	0	0
Central and South America	2,018	0	1	0	-2	2,017
Asia, Africa, Other ¹	869	0	1	0	-1	869
TOTAL	3,432	-306	-53	195	-829	2,439

* OTHER BUSINESSES include the workforce of the companies: Pirelli & C Ambiente SpA, Pirelli Eco Technology and PZero Moda

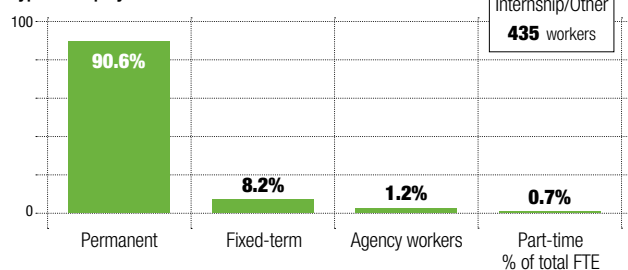
¹ also includes Turkey

CHANGES IN GROUP WORKFORCE

The workforce has grown significantly over the past two years, by **+3,986 employees** including +2,196 in 2007 and +1,790 in 2006.

2008

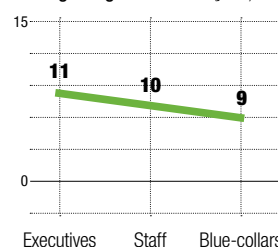
Type of employment contract



New hirings
6,740 workers

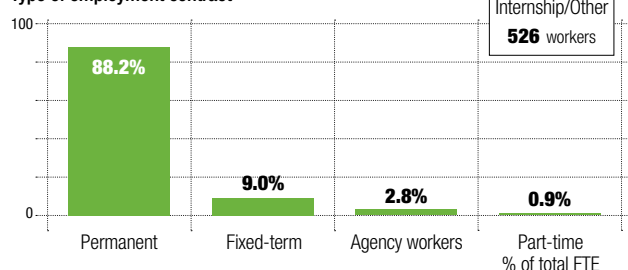
Employees leavings
5,899 workers

Average length of service (years)



2007

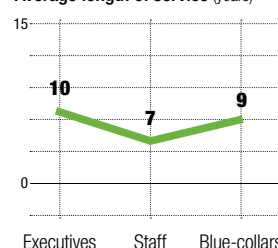
Type of employment contract



New hirings
5,630 workers

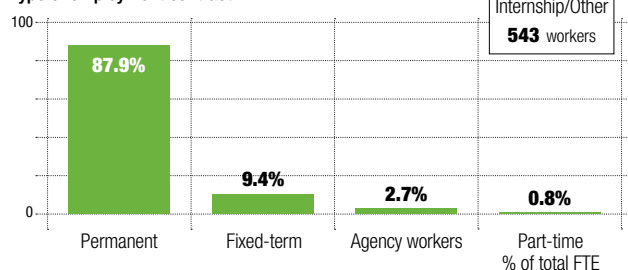
Employees leavings
3,504 workers

Average length of service (years)



2006

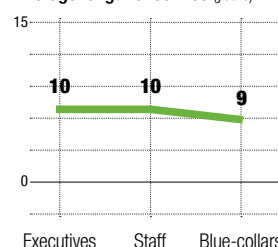
Type of employment contract



New hirings
5,016 workers

Employees leavings
3,156 workers

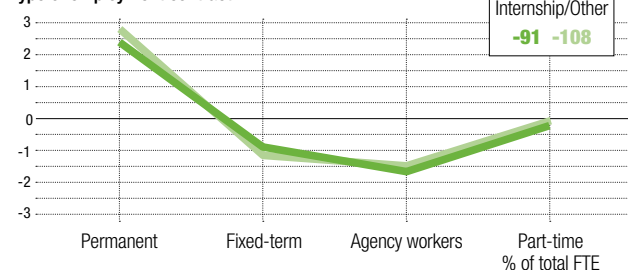
Average length of service (years)



DELTA

— 2008 vs 2007 — 2008 vs 2006

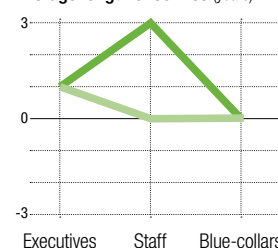
Type of employment contract



New hirings
1,110 1,724

Employees leavings
2,395 2,743

Average length of service (years)



The trend in the Group's workforce over the last year has been characterised by substantial stability at the Group level (+167 employees), while employment levels at the individual businesses changed at different rates. At Pirelli Tyre hiring increased at the new investment centres in China and Romania, with an increase in blue-collar employment in Brazil following change in the work patterns at the Santo André and Gravatai factories and higher production volumes and insourcing of resources from certain supplier firms (particularly in logistics). Other growth took place at Pirelli Eco Technology to start up the new particulate filter plant in Romania. At Pirelli Real Estate, acquisition of the German company Baubecom was completed in 2008, while the facility management business was sold and restructuring of the other Real Estate Group companies began.

In regard to the annual movements of incoming and outgoing personnel, seasonal work should be taken into account. This is a typical phenomenon in the tyre sector that involves using temporary workers to stand in for permanent workers (a total of about 700 persons in Germany and Turkey) to maintain constant production volumes during the summer months.

The Group does not employ anyone under the age of 14.

The Tyre Sector employs 95 young workers between 16 and 18 years of age (52 in Brazil, 35 in Venezuela and 8 in Germany), and 14 young workers between the ages of 14 and 16 on an exceptional basis (12 in Brazil and 2 in Germany), as part of training and induction schemes in compliance with local laws.

HUMAN RESOURCES POLICIES, ACTIVITIES AND PROJECTS

Compensation and International Mobility

To manage the crucial phases of integration and development of human resources, Pirelli implements an extensive policy system both at Group and Sector/foreign affiliate company level.

Salary Review policies are implemented locally on a country-by-country basis, except for procedures involving Group executives and key resources involved in international mobility schemes, as these categories are centrally coordinated by the parent company in order to ensure uniform application of these policies worldwide.

A new talent management process was introduced in 2008. This process defined a pool of outstanding resources to be dedicated special, centralised attention in terms of growth and development paths and dedicated training plans, and ad hoc compensation programmes in order to promote and retain them.

The full potential of the performance management tool was exploited in 2008. It became the key tool supporting the supervisor-assistant relationship, by clearly defining individual roles and objectives, while encouraging transparent, shared evaluation.

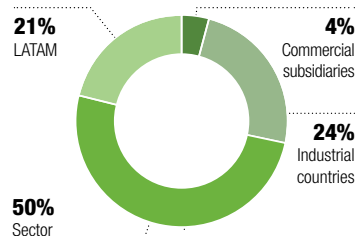
All executives and 60% of managers participate in the **Group's annual inventive scheme (MBO - Management by Objectives)**. This sets clear Group/business/country and individual

economic and financial targets, and pays out bonuses that vary according to assessment and the extent to which these targets are achieved. This process, which is centrally managed in accordance with a common set of rules for the whole Group, is accompanied by other schemes implemented by the principal affiliates.

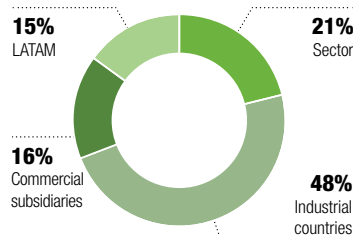
The “**International Mobility Policy**”, of considerable strategic value in the development of leadership within the Business, deserves special attention. About half of current Pirelli management and senior management personnel have had one or more significant work experiences in a foreign country, which represents a strategic value for internationalisation in the development of leadership. Over the past decade, an average of about 250 people, including executives, managers and white-collar employees of different nationalities and cultures have exchanged know-how, developed their professional skills and exploited new managerial opportunities, thereby contributing to the creation of a truly international Group.

DISTRIBUTION OF THE EXPATRIATES

By origin

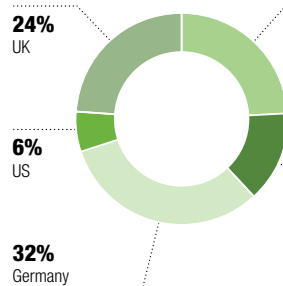


By destination country

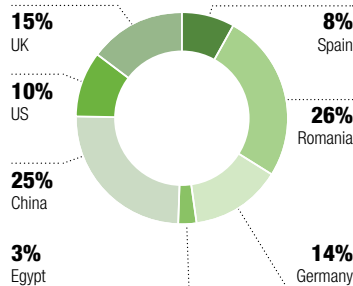


BREAKDOWN OF INDUSTRIAL COUNTRIES

Origin



Destination



Many aspects of the global labour market have imposed a more flexible approach to the international framework that can readily satisfy organisational and individual requirements. With this aim in mind, a thorough audit was carried out in 2008 on processes and practises adopted for international mobility, leading to a proposal for general revision of Group policy. This revision will be fully implemented beginning in 2009.

The new policy will regulate all possible cases of foreign assignments in view of a uniform approach to all the different possible situations. Its principal drivers will be to develop/grow talent resources and transfer technical know-how in support of the start-ups.

International mobility, which is perceived as a real opportunity for development, is also a tool supporting the “Group Equal Opportunities” project. At the end of 2008, the percentage of women out of the total number of personnel transferred abroad was around 15% (just as in 2007).

Diversity Management

Over the course of 2008, awareness steadily grew in the Pirelli Group of the need to adopt a structured and global approach to equal opportunity, in order to handle it in the broader context of **Diversity Management**.

www.pirelli.com > Sustainability > Pirelli and Sustainable Development > Equal Opportunities

Individuals are focusing more and more on the promotion of diversity and spread of an "inclusive" work culture, one that is based on mutual diversity, especially cultural, in order to increase the entire organisation's possibilities of success and its ability to deal with the challenges arising on the external market.

This inclusive approach has been decisively encouraged by Pirelli's commitment to spreading an “equal opportunities culture.” Since 2005, this commitment has been fully expressed with the “**Group Equal Opportunities Project**” and the “**Group Equal Opportunities Statement**” signed by the Chairman and distributed with the Project objectives to all employees in their local language.

Consequently, Diversity Management takes the form of a business process for progressive change of employees' “common sense” that values diversity as a source of creativity and innovation, which in turn, if managed appropriately, constitutes a resource that can enhance the effectiveness and efficiency of work.

Focusing on individuals of different nationalities can transform into a competitive advantage for businesses that are constantly seeking ideas and useful skills to create process and product innovations. From this point of view, Pirelli has long supported the growth and development of its own managers through international experiences that are designed to develop the creative and managerial potential inherent in multiculturalism and in the context of different professional environments (please refer to the section on international mobility policies).

Specific actions support the exploitation of diversity.

All the **opinion surveys** conducted in 2008 (see the specific section for details) included certain questions on the perception of diversity (sex, religion, race...) in the Company. Analysis of these surveys did not reveal particular criticalities. On the contrary, in the survey carried out at the two plants in Romania, which have a large female population, the results were particularly positive.

To monitor compliance with the equal opportunity principles affirmed by the Group from the **recruiting stage on**, a control mechanism was introduced in Italy in 2008 based on the compilation of an anonymous postcard/questionnaire by every candidate interviewed by the Company.

The feedback received through this new tool has been extremely positive: 98% of the recent university graduate job candidates (data refer to the period February-October 2008) confirmed their adherence with the equal opportunity principles during the hiring process. Positive feedback was also received from the candidates invited to interviews at the Group's Italian companies. The data that have been examined thus far confirm their full adherence with equal opportunity principles in over 90% of the cases (Tyre 90%, PBS-Labs 100%, Corporate 97%).

Adherence with **workplace** equal opportunity principles is monitored locally and centrally through the internal **Equal Opportunities Complaint Procedure**, which is designed to reveal any cases of sexual harassment and/or discrimination that the employee believes he/she has suffered at the Company. This Procedure was never activated in 2008.

The **breakdown of the workforce by gender** at 31 December 2008 shows that almost 20% of managerial positions were held by women (unchanged from 2007), while they held 38% of white-collar positions (unchanged from 2007) and 5% of blue-collar positions (compared with 4% in 2007). Their number as a percentage of the total workforce is in line with the figure reported for 2007. The **substantially equal pay** for men and women was confirmed.

Pirelli took action in numerous areas at the institutional level during 2008. In May 2008 the Group participated in the first Italian **Career Day** dedicated to "Diversity & Work," which was sponsored by Sodalitas and the Anti-discrimination Office. It offered protected and immigrant job seekers to meet with business offering work.

In 2008, just as in 2007, Pirelli participated in the Laboratorio Armonia ("Harmony Workshop"), which is now called the **Diversity Management Observatory**, sponsored by the Research Division of the SDA Bocconi business school. It began with the intention to create know-how for the management of diversity in the corporate world and compare relevant operating practices. Its aim is to provide interpretative models and operating tools to confront and manage gender differences.

In particular, Pirelli promoted participation by its own working mothers in the SDA Bocconi research project on *The Cost of Motherhood*, in order to reveal how much motherhood costs the firm and the mother who works there, both in monetary terms and in terms of its impact on the entire life of the firm and individual. This project was carried out by distributing an anonymous questionnaire to be filled out with feedback by female employees on a voluntary basis.

Pirelli has belonged to the **European Alliance for CSR** since 2007. This initiative is promoted by the European Commission to encourage the spread and exchange of the best sustainability practices amongst businesses.

Thus far, Pirelli has focused its active participation in the Alliance through the **European Workshops for the Alliance**, coordinated in Italy by the Sodalitas Foundation (Pirelli has a seat on its Executive Committee).

Pirelli's participation in the Workshop on Equal Opportunities (set up in 2007) contributed to publication of the toolkit **"Practising Gender Equality in Careers"** which was presented at the CSR Europe General Meeting in Brussels on 19 June 2008.

Since 2008 Pirelli has also participated in the Italian Workshop on **"Managing Multiculturalism at Your Company"** which will produce a management manual in 2009 based on existing best practises for multicultural management. The aim of this Workshop is to show "how" inclusive management and constant attention on the multicultural dimension can translate into a competitive edge for businesses.

SELECTION, TRAINING & DEVELOPMENT

Selection

Talent Attraction initiatives and Employer Branding

In 2008 the Group's employer branding activity was focused on updating Pirelli's image among young university graduates and consolidation of its orientation practises in a year when actual hiring needs contracted.

In 2008 the **recruitment, hiring and placement** process of young university graduates was revised. The first part of this change involved changing the service provider of the Assessment Centres, which resulted in greater perceived quality of the service (since it was not directly connected with the world of agency work, unlike its predecessor) and streamlining of the assessment process itself. One of the first results was an increase in the percentage of candidates who passed the evaluation process and an increase in the percentage of interns who were hired.

Secondly, the Group introduced specific tools at Corporate level to quickly, constantly and anonymously record the feedback given by candidates participating in the hiring process. The Equal Opportunities postcards represented one of these tools. They were handed out to candidates at the end of the job interviews to measure their perception of how fairly the interview was conducted, and the questionnaires delivered at the end of the Assessment Centre for assessment of the university graduate job candidates, in which the candidates themselves expressed their opinion on the quality of the service.

Finally, a new company policy for placement of recent university graduates was introduced and presented clearly during the selection process beginning in 2008. Implementation of this policy is constantly monitored at the corporate level, particularly in regard to the activation of new internships to be offered only when a real possibility of future placement exists.

At the **academic level**, the Company guarantees its presence through channels and tools that had already been consolidated over the years (Career Days, Career Books, presentations by Pirelli managers at major Italian universities, orientation meetings for young university students, visits to Group facilities by student delegations from foreign universities, etc.).

www.pirelli.com > Career

In 2008 Pirelli participated at 11 Career Days organised by leading Italian universities. One of these national events was "Diversity & Work," which targeted foreign or otherwise qualified candidates, and the 1st Career Day for candidates holding or working on a PhD.

In 2008 Pirelli centrally coordinated organisation of Career Days for the first time in China (at the Tongji University in Shanghai), in Romania (at the University of Craiova), and in Egypt (Alexandria) at the beginning of 2009.

The principal orientation projects that were started and/or continued in 2008 included:

- **POLITONG:** a cooperative project between the Milan Polytechnic and Turin Polytechnic and Tongji University in Shanghai began 2007 and continued in 2008, with targeted actions involving our managers in Italy and in China. After attending alternate years studying at the participating Italian and Chinese universities, the Italian and Chinese students participating in the POLITONG project received a specialised degree recognised both in Italy and in China.
- **Global Management Challenge:** once again in 2008, Pirelli took part in the biggest international business strategy tournament, based on a business game, by supporting nine teams of students (compared with three in 2007), including two Chinese teams, two Romanian teams, two Brazilian teams and three Italian teams.

Aside from the usual cooperative programmes between Pirelli and leading national and international university centres, the first financing project for academic research in materials at Jinan University in Shandong Province, China was launched in 2008.

In addition to orientation and other activities at universities, the Pirelli Group has expanded and organised its presence at certain technical high schools in Italy in order to provide students with professional orientation. It is expected that these cooperative efforts will continue in 2009, by reinforcing and consolidating the Group's local network.

As part of the project to relaunch and update the company's image to attract young graduate talent, in 2008 Pirelli modified the image of the highchair ("Seggiolone") that had been introduced in 2007. It used it at foreign job fairs and interviews, the new stand set up for Career Days and Job Meetings, in the banners used at various selection sites and the Group's partner university locations, and especially by making it the principal image of the new Pirelli HR brochure, which is distributed in Italy and at all foreign affiliates.

Training and Development

Performance Management Process

The PMT-Performance Management Tool is the online tool for measuring performance. It was launched at the Group level in 2007, the year when it was used online by Italy, Turkey, Brazil, Argentina and Venezuela. As planned, in 2008 its use was extended to Spain, Germany, UK, Romania and Egypt. Assessment is based on the objectives, agreed with managers, to be achieved during the year, the level of expertise as measured by the skills of the respective professional family and the training/development received to achieve objectives. Performance targets were assigned to 3,968 employees in 2008. This number represents 96% of the population involved through the online management performance tool, comprised by the employees in the countries linked with SAP HR. In those countries that do not operate on SAP HR, the process was carried out by using an equivalent paper tool.

Principal Group Training and Development Projects

The most important training and development projects conducted at the Group level for the principal professional categories are listed below:

- **Training in Romania:** a “crash training” course was started towards the end of 2008 at the Slatina plant. It involved 850 persons in various areas and subjects (HSE, Quality, 5S, HR, Tyre Technology, etc.). In particular, the PMS (Pirelli Manufacturing System) training programme offered nine days of training in the classroom and factory, for a total of 18,900 hours of training provided by 28 instructors from Pirelli plants worldwide. The topics addressed were safety and quality, to involve and engage the personal responsibility of each worker in the process of improving production, according to the new model adopted by Pirelli Tyre and gradually introduced at factories starting from last March.
- **“Best Seller” project for the Italian Sales Force:** training sessions were held in 2008 as part of the project dedicated to the Italian Tyre Sales Force in order to make Pirelli’s selling proposition more convincing through the use of new, different approaches to customers. The techniques used were highly innovative insofar as they involved a minimal amount of time in the classroom and sales activity sessions held “in the field” that were not related to the participants’ usual working environments and responsibilities.
- **Fostering ACF Skills:** the training programme for the Administration, Control and Finance professional family was concluded in November 2008. “Fostering Administration, Control, Finance Skills” was launched in 2006 and was created and managed in association with the SDA Bocconi business school. Its main aims are to enhance specific “technical” expertise and managerial skills, and increase the sense of belonging within the Administration, Finance & Control professional family. It involved about 200 participants for a total of about five man-days of training.

- **Turin Industrial Centre:** planning for the professional re-training plan for employees at the Turin Centre plants was completed. The first training module on safety was held in 2008, involving all employees (both blue-collar and white-collar). In 2009-2010 the technical and behavioural models envisaged in the plan will be offered. The training courses were offered in coordination with the scheduled completion of infrastructure at the new Turin Industrial Centre.
- **Organisational Model - Italy:** following amendments to the reference statute, the Group began a training course for Italian employees on the new Organisational Model in 2008, targeting Italian employees. Online training involved all employees, while 359 persons participated in classroom training, including executives, managers, white-collar employees, top management and/or employees “at risk” of the criminal offences envisaged in Legislative Decree 231.
- **Italy Catalogue 2008:** 2008 was marked by a large number of editions and participants (681, for a total of 109 classroom days) in catalogue training provided at the Piero Pirelli Institute. The “Talents in Action Plan” was introduced for newly hired university graduates hired by the Company as apprentices, involving a structured two-year training programme. The new changes in 2008 are the invitations to courses according to the guidelines set out in the Performance Management Tool. This process, which was adopted in November 2008, guaranteed a high number of participants.
- **Career Development Programme:** this is an international programme designed to support growth and development of talented Company employees. It is divided into skills assessment/development modules (Development Centres) and training modules (training seminars on “Understanding Business Complexity”, “Managing a Growing Complexity” and “Developing Managerial Excellence”).

The following tables illustrate the number of training and development programmes and participants described above:

LOCAL DEVELOPMENT CENTRES

Country	2008		2007	
	No. editions	No. participants	No. editions	No. participants
Italy	2	28	3	38
Germany	1	12	1	12
Spain	1	7	1	8
Romania	2	22	1	8
UK	1	5	1	13
Turkey	2	24	2	20
Brazil	2	24	2	24
Argentina	1	14	1	16
China	1	18	-	-
	13	154	12	139

GROUP DEVELOPMENT CENTERS

Company/Country	No. participants in 2008 - 6 editions	No. participants in 2007 - 6 editions
Pirelli Tyre Italia	40	38
Pirelli & C. + S.I. + PBS + Ambiente + Labs	9	18
Egypt	5	3
England	4	2
Germany	8	11
Austria + Switzerland	2	-
Spain	4	3
France	3	-
Turkey + Greece	7	3
Poland + Romania	1	1
China + Singapore	5	1
Japan	1	-
Argentina	5	3
Brazil + Cord	13	7
USA + North America	3	-
	110	90

TRAINING SEMINARS

Understanding Business Complexity - UBC																
	Italy	Germany	Spain	Turkey	Brazil	UK	China	Egypt	France	Argentina	USA	Venezuela	Mexico	Romania	Comm. Units	TOT
2008	27	7	2	12	7						1			7		63
2007	18	8	2	5	16	2	5	1	1							58
2006	10	2	1	1	2	2				1						19

Managing a Growing Complexity - MGC																
	Italy	Germany	Spain	Turkey	Brazil	UK	China	Egypt	France	Argentina	USA	Australia	Hungary	Romania	Singapore	Middle East
2008	16	6	1	3	4	1	1	4	2	1	2					41
2007	27	8			4	2	4	3						1	1	50
2006	12	3		1	1	1		2								20

Developing Managerial Excellence - DME																
	Italy	Germany	Japan	Turkey	Brazil	UK	China	Greece	France	Russia	Canada	Venezuela	Romania			TOT
2008	13	3			1	3										20
2007	10	4		1		2	2		1		1		1			22
2006	13	1	1		2			1								18

Sustainability Training

The communication campaign to raise employee awareness of Sustainability issues that began in 2007 continued in 2008 with specific classroom training activities involving blue-collar and white-collar employees. The participating countries were the United States, Germany, Turkey, Romania, Egypt and Switzerland.

Completion of the training modules in the remaining countries where the Group has a presence is scheduled for 2009.

Training activities, which were led by local managers supported by CSR Referents, focused on the concept of sustainability, the internal and external competitive advantage stemming from being a CSR Company that integrates it in its growth strategy, review of all corporate policies, from the Ethical Code to the HSE&CSR Policy and Global Compact as a model for sustainability formally adopted by the Group. The analysis of stakeholders, the Company's approach to human rights and the environment completed the training, which was offered to employees on an interactive basis. They were reminded of the importance of full operating collaboration to maintain Pirelli's high sustainability profile.

The contents of the presentations, which offered a uniform basis for training in the various countries, were defined by the corporate departments in view of disseminating business sustainability in a uniform way. Local managers were contacted in advance and their comments were obviously taken into consideration. Training activities also included a post-training questionnaire so that the training experience could be tracked.

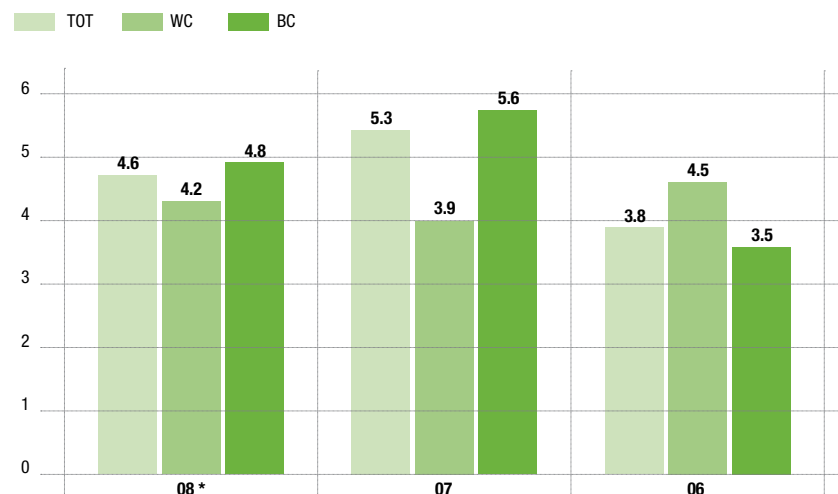
Summary figures for training days

The table below shows the average number of training days per person worldwide at the Pirelli Group.

The increase per person in 2008 measured on the staff population stems from the greater investment made in managerial and technical and professional training.

In 2007, training resource were focused instead on the operating population following the work necessary to support and create the professional skills of blue-collar workers at the new start-up factories in China and Romania.

TRAINING DAYS PER PERSON



* including Pirelli Real Estate (Total man-days 2008 Pirelli Real Estate alone: 1.16)

For the years 2006-2007 the graph illustrates the data for training days in relation to Group employees, excluding Pirelli Real Estate from the scope of measurement.

From 2008 the figure also includes Real Estate, and thus the entire Group.

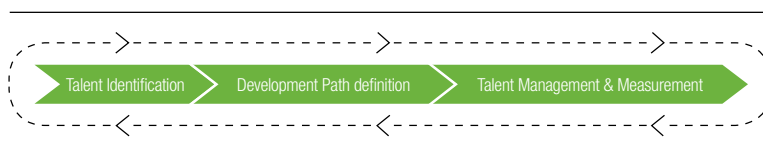
Main objectives for 2009

Consistently with business priorities and the results of opinion surveys conducted in 2008 (as mentioned herein), the following activities will be carried out in 2009:

1. integration of the Performance Management Tool with other processes for tracking and enhancing the know-how of persons (CV and skill mapping by professional family online);
2. new centralised management of the pool of critical know-how by corporate HR departments that, just as for management of talented employees, will ensure implementation of the process for management of critical know-how at the international level.
3. new training portal: release of a new platform for the management of training services is scheduled for the first half of 2009, which will make it possible to expand the scope of use of the previous portal by also introducing interactive services and knowledge sharing at the same time;
4. international leadership programme for executives, in view of developing, disseminating and consolidating a style aimed at realising high personal performance and initiative, motivation and commitment in one's own organisation;
5. continuity of international development and training programmes for growing resources;
6. training programme for management at factories in all countries to support the introduction of Lean Manufacturing and PMS methods (see the section dedicated to these programmes elsewhere in this report);
7. more intense Internal Communication plan targeting executives and managers to facilitate their activities during the current phase.

TALENT RETENTION TOOLS

The following flow chart illustrates the implemented dynamic process:



The new Talent Management & Retention process was implemented in 2008, which aims to reinforce attentive, individualised management of staff considered to have managerial talent and/or high value for the Company.

The first step involved identification of a pool of talented young people in the Group - about 250 individuals (3% of the total) through meetings with business unit/department heads and top management.

Personalised, challenging professional growth paths were then defined for the short term (1-2 years). The semi-annual monitoring of the talent pool was implemented according to a specific set of KPIs that permit assessments of their performance, the results they achieve and the degree of implementation of the development plan.

Finally, specific meetings were defined and held at the sector and country levels, in order to track individual progress on growth and development paths by the members of the talent pool. Opportunities for the Group's young talents and/or Strategic Resources to meet top management were also organised.

The new process introduces intense centralised coordination by corporate HR departments in the management of talents worldwide, guaranteeing implementation of the process. Both the decision-making process for development actions and their short and medium-term monitoring will be guaranteed through the Talent Development Committees at the central and country business unit levels.

INNOVATION MANAGEMENT TOOLS

The Pirelli Group has always been on the cutting edge of process and product innovation. In the area of human resources, projects to promote innovation amongst employees have also been pursued over the years.

Two major projects were launched in the industrial and commercial sectors during 2008 to stimulate the search for innovative ideas and solutions in different ways at all levels to improve the performance of the Company and/or its individual departments and/or the products and services that it develops.

- **COMMERCIAL SECTOR** - In September 2008 a competition named “**Marketing Innovation Challenge**” was launched in



the Sales&Marketing departments of all countries in order to select and develop the best proposals for innovative strategies to approach new international markets and new procedures for managing relations with customers, partners and stakeholders. All the proposals were collected at the end of 2008, and the best will be chosen in the first few months of 2009. The winning projects will be allocated a large budget for implementation; their effectiveness will be directly monitored in 2009 by the Commercial Department.

- INDUSTRIAL SECTOR: “**Passion in Operation**” is the slogan accompanying introduction of the new production model in the Pirelli world (**PMS - Pirelli Manufacturing System**), which aims to standardise the approach to both continuous improvement and quality through the sharing of a common language and standard methods. Twenty factories worldwide have joined the PMS programme since its inception in 2008.

The Pirelli Manufacturing System is focused on safety, quality, people and costs. Action taken under the PMS is based on the philosophy of continuous improvement, which pursues efficiency through the principles and tools of Lean Manufacturing, including “5S activation groups” (5S= *Seiri, Seiton, Seiso, Seiketsu and Shitsuke* - Japanese words that can be translated as select, organise, shine, standardise and support), kaizen activities and mapping the value flow.

It aims to eliminate waste, maintain a clean environment and stimulate the daily pursuit of efficiency and quality.

The particularly active and “energising” methods used to involve all those who work in the areas implementing the “5S” facilitate and promote the generation of new ideas and improvement actions.

INTERNAL COMMUNICATION

During 2008, the internal community at the Pirelli Group was the object of numerous communication initiatives at both global and national levels, while varying widely in terms of duration, scope of action and channels used. The following paragraphs illustrate highlights of the principal areas in which Internal Communication and Human Resources took actions with useful, interesting and engaging actions, in step with the most modern formats but especially capable to reinforce the employee’s perception as an active member of the business community, where individual contributions create value for everyone.

Opinion Survey 2008

The second Group Opinion Survey was conducted in 2008, and involved executives, managers and white-collar employees (the previous opinion survey was conducted in 2005).

Participation in the survey, which involved the distribution of an online questionnaire translated in 10 languages that was distributed to a target of 5,971 persons, was very high (78%).

Some of the most positive results showed that respondents had a strong sense of belonging to the Group, high levels of knowledge and skills involving Company products/services, a good level of operating efficiency and a satisfying quality of internal relations amongst colleagues/departments.

Instead, those highlighting the need for improvements are related to reconciling the demands of personal life and work, performance management and feedback by management to the various levels of the Company and the need to further increase spending on training and career development support measures.

The survey results were returned to the managers of the individual business units/departments (in Italy) and local HR managers in September and October 2008. The HR managers were also involved in a specific workshop held in October to interpret the survey results in the individual countries, discuss them and guide the definition of specific action plans at both the local and Group level to be implemented in 2009.

At the end of 2007-beginning of 2008, a study was carried out on the climate of the population of the two plants in Settimo Torinese. A large number of employees participated, as illustrated in the following table:

	Settimo Veicoli Plant	Settimo Vettura Plant	Total (1,114)
Staff	93%	88%	91%
Blue-collar	65%	57%	62%
Total (1,114)	72%	64%	69%

On the whole, the survey produced satisfying results.

In particular, in comparison with the Turin population as a whole, the survey showed that perception of Company products, image and equal opportunities are the key components that generate the Company's identity.

Minimal differences were detected amongst car and vehicle plants, but they were restricted to limited areas, particularly safety and the environment, relations with co-workers, corporate communication and management style.

During 2008, the Group also conducted two additional surveys targeted at the blue-collar population, particularly at the Rome (USA) and Slatina (Romania) plants. The response rate for these new surveys was also very high (80.9% at Slatina, 100% in Rome).

The "Pirelli is a CSR Company" campaign

After being launched in all countries in 2007, the campaign to improve employee awareness about corporate social responsibility issues was completed in July 2008 with communication of the actions that the Company had taken in response to the feedback it had received.

The "Pirelli è una CSR Company" ("Pirelli is a CSR Company") campaign used an informational brochure and postcard (in local

language) to explain the meaning of sustainability and its integration in Company operations to employees, asking them to express their opinion on what they thought were the most important aspects of CSR and suggest any improvements.



Pirelli Group. CSR campaign.

Over the following months, each country developed its own local action plan on the basis of the feedback received. These action plans were communicated to everyone through a local information campaign. A poster with the opinions expressed in percentage terms by the employees at each location was put up in the main corridors of all affiliates, while a series of messages published on the Group Intranet explained the reasons for the actions to be taken, in view of promoting general consensus on a project that involved the entire internal community on socially relevant issues.

Pirelli Corporate Press

The project to reorganise the corporate press was implemented in 2008. This project was planned in 2007 to overhaul internal information activity by adopting an immediate style capable of appealing to employees by providing useful, interesting and engaging content. Implementation of this project began with the three historic magazines published by the Group in Italy - *Pirelli Flash*, *Fatti&Notizie* and *Pirelli World*. The first issues of the new generation of these publications came out in February, at the same time as the launch of the new Intranet portal, where the Company house organs are available in digital format in a special area found on the home page.

Pirelli Flash, a monthly news magazine for Italian blue-collar workers that had traditionally been composed and printed by Corporate Internal Communications in Milan and distributed at the Arese, Bollate, Figline Valdarno and Settimo Torinese plants, was made directly accessible to factory managers once it moved to the Intranet, so that they could independently manage, print and distribute it, consequently reducing the time and cost of centralised printing and distribution.



 Pirelli Group, Corporate Press.

Fatti&Notizie, a news periodical targeting all Pirelli employees in Italy, underwent radical changes. The magazine has abandoned the old top-down approach to communication and has employees speak through interviews and reports about working life on the factory floor or in the office, complete with specific photo reports. This approach to communication reinforces content by making it more concrete and topical, thereby encouraging the reader's process of identification and involvement. Extensive positive feedback has confirmed the magazine's enhanced appeal. In particular, the formula of factory reporting, which focused in 2008 on the Bollate and Settimo Torinese factories, generated tangible effects of cohesion in the productive environment at a particularly delicate time in internal relations.

Employees have become the protagonists of internal communication

With the new column *Entra in redazione*, the new *Fatti&Notizie* reports stories by readers, beginning with their experience in motor sports. The invitation *Sei mai stato a una gara di Superbike?*

(Have you ever been to a superbike rally?) that initiated this format was accepted by various enthusiasts, with the most interesting piece later being selected and published in the magazine.

Another important characteristic of the new publishing project was the reinforced synergy between the magazine and other internal communication events: *Fatti&Notizie* is linked with the Intranet (icons point to the portal for more detailed information on a specific topic) and with numerous events such as open day, competitions, mood surveys, etc.

The magazine is no longer mailed to employees' homes, but is provided to them instead at specific distribution points at the workplace, consequently reducing distribution time and costs.

Pirelli World, an English language magazine targeted at the Group's management around the world, is published in Milan and distributed to associates and affiliates. It underwent a major graphic and editorial restyling to reinforce its external image. A collaborative process supports production of the main articles, with various Company departments contributing specialised pieces that are occasionally complemented by the contributions of external experts. For example, the last issue of the year, which came out after the United States presidential election, focused on the United States and contained an exclusive interview with Nigel Gault, an economist who is an expert on IHS Global Insight, addressing America after Obama's victory. The previous issue focused on the Group's history in Latin America, and publishing a scenario report on Brazil by ISPI, the ("Istituto per gli Studi di Politica Internazionale" - Institute for International Political Studies).

Phase 2 of the corporate press overhaul project began in the second half of the year, in order to transfer the Group's principal identifying traits to the approximately 30 publications put out by affiliates and branches worldwide. *Pirelli News*, the German monthly, standardised its image according to the new guidelines of the corporate publications. The Chinese monthly *Pirelli Voice* is instead undergoing integration of local content with pieces that reinforce corporate identity, responding to the need expressed by the company's CEO. In Romania, *Stiri* is a new monthly magazine that further enriches the wealth of information, communication and collaboration by Pirelli corporate communication around the world.

Aside from the development of global and national publications, 2008 also witnessed the creation of new tools of information by individual practise communities, first and foremost the newsletter "PMS - Pirelli Manufacturing System," which was rolled out to support the introduction of the new Pirelli production system at all production sites. This monthly bulletin, which is sent via e-mail to the various heads and managers at Pirelli Tyre plants around the world and available online over the Intranet, reports on the projects implemented at individual factories to promote the exchange and sharing of achieved targets and results.

Intranet

The new Pirelli Group Intranet went online on 4 February 2008. It was the result of a complex overhaul of the old portal that engaged an interdepartmental project team (Internal Communication, Human Resources and Information Systems) over the course of six months. Available in Italian and English, accessible by 17,000 users in 34 countries, it is the only Intranet that is shared by all employees at all Group companies worldwide. It has two objectives: to create a public place where everyone's information and tools are available to everyone; reinforce individuals' sense of empowerment, by inviting them to "speak up" and "express their own opinion".

In the area dedicated to news, which is updated daily, the activities and know-how of individual companies are shared with everyone, thereby encouraging the exchange of information and technology amongst businesses and departments. This exchange is enhanced by the possibility each employee has to make his own comments, which immediately enter the public domain, contributing to the Company's knowledge base.

Corporate news that can be commented on, cooperate networks, interviews and a direct line with the editorial office: from being users of content, employees also become its producer, stimulating constant refinement of site formats in step with the needs of the internal community. The home page of the Intranet also hosts a section dedicated to the individual countries where the Company has a production plant. News of local interest is published in this section - Arab, Chinese, Romanian, Spanish, Portuguese, Turkish, etc. - accessible to everyone through the selection features.

Eight thousand individual visitors a week, 500,000 visits a month and constantly increasing time online: in 10 months the Intranet has become the principal tool of internal communication, as affirmed by 81% of the employees interviewed during the Opinion Survey conducted last July. The implementation of additional functions for employees was planned for 2009, and will use Web 2.0 technology for new forms of cooperation benefiting innovation inside the Company.

COMPANY INITIATIVES FOR THE INTERNAL COMMUNITY

The Company's initiatives for the Internal Community vary from country to country, to respond to the specific needs that are typical of the various social contexts in which the affiliates operate.

Some of the most common initiatives taken at Company affiliates include:

- subsidised holidays for employees' children;
- scholarships and support for the education of employees' children;
- company social and sports clubs;
- preventive medicine through scheduled, specialised medical examinations;
- awareness and vaccination campaigns;
- agreements with retailers and health care providers for Company employee discounts.

Details on certain important initiatives undertaken in 2008 are described below.

FOCUS ON ITALY

Once again, Pirelli has included a specific focus on one of its geographical areas of operations.

In 2006 the focus was on South America, in 2007 on Romania, and in 2008 the choice has fallen on Italy.

Details on certain important initiatives undertaken in 2008 are described below.

Company discounts

Over 200 commercial establishments in Italy offer Pirelli employees discounts, even major ones, on the purchase of goods and services. These range from clothing to electronics, books to gyms: the discounts range from a minimum of 15% to a maximum of 60%.

This benefit for the business community is the result of screening by the Internal Communication Department to select retail offers in the local areas near Group facilities in response to employee request and consistently with the ethical requirements that characterise Pirelli relations with the external community.

The list of participating organisations is available online, on the Group's Intranet home page. This list is a guide that users can search directly. Constantly updated, it offers employees the possibility of carrying out searches according to merchandise and geographical criteria.

The list is provided to blue-collar workers on factory bulletin boards, which periodically announce the organisations participating in the Company discount campaign. Not just commercial establishments. The discount agreements include one with three theatres belonging to the "Torino spettacoli" association, which is particularly appreciated by Pirelli blue-collar workers at Settimo Torinese, who are the target of an off-line communication campaign.

Open Day

Open house at the Bicocca (Milan) and at Settimo Veicoli Industriali (Turin) for employees and their families who were invited to spend a Saturday afternoon at the Company under different circumstances than their daily work routine. Entertainment for children and adults was offered, from handcraft workshops for younger children to cabaret for older children, as well as original informational and educational programmes designed to improve general awareness of Pirelli's history and identity.

In 2008 the traditional formula of the Open Day was effectively overhauled in Italy, not only in terms of the originality and wealth of activities offered but also in terms of its synergies with other internal communication programmes and with events and celebrations with ties to local communities, where the Group has deep roots.



Settimo Torinese, Italy. Pirelli Day 2008.

A photo exhibit on the 100th anniversary of the Bicocca area attracted over 1,000 participants to the Milan Open Day on 24 May, where they were able to “revisit” their workplace in evolution from the early 1900’s to today. This represents a reason for pride for most people, enhanced by the possibility of visiting the most secret Pirelli research sites, which are normally inaccessible.

At Settimo Torinese, the photo exhibit “Places and Faces in a Factory undergoing Transformation” chose factory workers and machines as the factory’s star players. This factory was opened to about 2,000 visitors on the 11 October Open Day, even while production was underway. A tram carried the visitors through the mini-factories of the historic industrial vehicle tyre production plant, guided by the voice of the plant foremen who participated directly in the event. A concert by the Italian pop star Enrico Ruggeri was offered at the end of the afternoon, open also to the citizens of Settimo Torinese, to celebrate the 50th anniversary of the official birth of the town together.

Cultural activities in the factory

The factory as a place for encounter with culture: this concept is deeply rooted in the history of Pirelli, revived in 2008 with a series of initiatives to stimulate the cultural training of employees, and particularly blue-collar workers.

At Settimo Torinese, the “+ Libri” campaign increased the holdings of the Pirelli Settimo Vettura Cultural Centre library by 1,200 titles in 2008. Magazines, novels and children’s books purchased by the Company can be checked out for reading at home, including publications in foreign languages (Arabic, Romanian, etc.) to promote the integration of non-Italian workers. A full-fledged Italian cultural centre was opened in June, at the Pirelli Tyre factory in Slatina, Romania. Its library is already active and stocked with hundreds of classics of our literature, as well as Italian language grammar books for foreigners. The cinema to be opened in the factory is currently being organised, and will also be open to the local community in future.

From literature to cinema and theatre: at the Settimo Vettura plant in Italy, the area that is normally used as a parking lot was transformed into an open-air theatre for a weekend in June. Moni Ovadia and Marco Paolini, two of Italy’s most important authors and actors today, staged their socially progressive plays *Il compagno Rabinovich* and *Miserabili - Io e Margareth Thatcher*. This programme was appreciated by employees, almost all of whom attended the performances and even expressed their positive reactions on the Intranet.

Competitions

For the launch of the new Cinturato P4 and P6 tyre, Internal Communications sponsored a competition in January 2008 that was open to all Group employees, entitled “Un viaggio ma, secondo me...” (“A trip but, in my opinion...”). The competition asked participants to creatively interpret the concept of the new product, but it especially solicited the involvement of individual employees

in a more far-reaching project of great importance to the Company. Many entries were submitted to the competition secretariat office, including short stories, poems and films by white-collar and blue-collar employees. A specially designated jury selected the best works, which were rewarded by top management at the Bicocca Open Day and then published on the Group Intranet.

Communication campaigns in support of training activities

Training is of fundamental importance to the development of human resources at the Pirelli Group. In order to realise maximum efficiency, special attention was dedicated to communicating these activities in 2008.

This included the “We Work Safely” (“Lavoriamo in Sicurezza”) programme, a project to provide information and training on job safety at the Italian plants of Pirelli Tyre. An educational kit with intuitive graphics and a summary booklet of key themes and concepts was prepared for use by those attending the courses, while reports and interviews about the results of the programme were published in the Italian corporate magazines.



Pirelli Group: “We Work Safely” campaign.

Melanoma prevention campaign

With the slogan “We care about your skin,” the Fondo Assistenziale Sanitario (FAS - “Health Assistance Fund”), in collaboration with the Health, Safety and Environment Department of Pirelli & C. SpA, launched a “Skin Cancer Prevention Campaign” at the end of 2007, commissioning the IDE - Istituto Dermatologico Europeo (European Dermatological Institute), a prestigious institute specialising in the diagnosis and cure of skin diseases.

The campaign objective was to raise the awareness of FAS members, i.e. Pirelli employees in the Province of Milan and their families, about the importance of early diagnosis of skin melanoma, by offering a clinical/dermoscopic screening of pigmented skin moles.

The campaign began with the delivery of a brochure to each employee on melanoma and other important tumor pathologies, complete with instructions on registration procedures.

About **5,500 people were contacted** during the campaign, including 3,066 employees at the Milano Bicocca, Bollate and Arese plants who were enrolled with the FAS at 1 October 2007, 1,658 family members, including 691 retirees and relatives.

The programme began on 4 October 2007 at the Bollate infirmary, continued between November 2007 and July 2008 at the Bicocca general outpatients clinic, with biweekly examinations during the first phase, and one day dedicated to the workers at Arese.

The screening was carried out on **806 employees** and instructions were given for exeresis histological analysis of all pigmented lesions that raised doubts/suspicion during clinical and/or dermoscopic examination.

INDUSTRIAL RELATIONS

Pirelli Group industrial relations are conducted on the basis of constructive dialogue, fairness and respect of the various roles involved. Guaranteeing and respecting employees' freedom to engage in union activities has always been one of the Company's core principles.

Relations and negotiations with trade unions are managed locally by each affiliate in accordance with the laws, national and/or company-level collective bargaining agreements, and prevailing customs and practises in each country. At this level, these activities are supported by the Central Departments, which coordinate activities and ensure that the aforementioned principles are observed throughout the Group.

In 2008, industrial relations activities achieved significant results in negotiations, with the renewal of collective bargaining agreements at various plants in Turkey, Germany and all the production sites located in Brazil (Santo André, Campinas, Sumaré, Feira de Santana and Gravataí), where negotiations are carried out at the factory level. This includes the role played in renewal of the Rubber and Plastic National Collective Bargaining Agreement in Italy.

In 2008 the Company implemented a series of structural changes that reduced the overall number of the Group's permanent employees in Western Europe. These changes stem from organisational and productive streamlining activities focused on containing costs and implemented from the second half of 2008.

Conversion of the factory at Manresa, Spain was the most important part of this process.

A letter sent by the CEO of Pirelli Tyre S.p.A. on 25 February 2009 announced the decision to halt production of tyres at that plant at the end of 2009, with its simultaneous conversion for new business activities in 2010.

That letter manifests the Company's interest in remaining in Catalonia. Pirelli intends to start up new activities in the services, particulate filter and photovoltaic fields in that region. These activities will employ about 100 employees at the current factory, in addition to the 250 employees who will continue operating the Group's logistic and commercial activities. The redundant employees will receive the jobless benefits agreed on with trade unions and local authorities in order to limit the negative impact on the community.

Cost cutting and production curtailment measures have been implemented and are currently underway in Italy, Great Britain and Germany.

At the international level, a very important agreement was signed by Pirelli and Russian Technologies on 6 November 2008 to build a new production plant in the Russian region of Samara. This project is part of the policy of investments made by the Group over the past year, which are moving ahead in 2009 in spite of the global economic crisis, as also confirmed by the continued work on the new Industrial Centre project at Settimo Torinese.

Given the need to reduce costs in Italy in response to the global economic and financial crisis, the Group began three distinct procedures in October 2008 to reduce employment at the Milano Bicocca and Cinisello Balsamo sites for Pirelli Tyre S.p.A. and Milano Bicocca for Pirelli & C. S.p.A. and Pirelli Sistemi Informativi S.r.l. During the negotiations initiated with trade unions, these companies entered into specific agreements governing the procedures to manage the job redundancies in the least traumatic way possible. As a result of these labour agreements, the redundancies were reduced from the initially announced figure of 130 to 114 workers, including 96 at Pirelli Tyre S.p.A., 8 at Pirelli & C S.p.A. and 10 at Pirelli Sistemi Informativi S.r.l..

To counter the effects of the crisis, which has severely impacted the real estate sector, industrial relation activities at Pirelli Real Estate not only involved reorganised and streamlined its staff, but also implemented structural measures resulting from acquisitions and disposals of business branches. Both initiatives were accompanied by major information and consulting activities with workers and their labour representatives.

In particular, on 23 December 2008 Pirelli RE and Intesa Sanpaolo sold to Manutencoop FM their respective equity investments in Pirelli RE Integrated Facility Management BV ("PRE.I.F.M. BV"), a 50-50 joint venture in facility and project management. This process, underway for some time, is aimed at higher growth and internationalisation of the Group's facility management activities, including through the sale of shareholdings and integration with other players in the sector. Afterwards, disposal of the entire equity investment in the facility management activities was positively assessed in the context of the process of refocusing Pirelli RE operations at the international level, changes in the real estate sector and current difficulties afflicting financial markets. When the sale was finalised, the company had about 1,200 employees.

As part of the restructuring processes that affected executives and staff, professional reassignment policies were adopted consistently with the Company's sustainable approach to business, through framework agreements with major international companies for outplacement plans.

European Works Council (EWC)

The Pirelli European Works Council (EWC), set up in 1998, holds an ordinary meeting once a year, following the presentation of the Group's financial statements, to be updated on operating performance, financial-economic forecasts, investments made and planned, research progress, etc. The agreement establishing the EWC also allows for the possibility of holding other extraordinary meetings to fulfil its obligations to provide information and consult with its delegates in view of transnational events involving significant changes to the corporate structure: new openings, restructuring or closure of sites and major changes in the organisation of work. EWC delegates are provided with the IT tools that they need to perform their duties and a connection with the corporate Intranet system, for the real time communication of official Company press releases.

In accordance with the founding agreement, the European Works Council was promptly informed about activities/programmes to contain the costs planned and agreed to with local trade unions. At their annual meeting, EWC members and the Industrial Relations Department dealt with the issue of the global economic crisis and its impact on Europe.

The Committee currently has 14 members. The countries entitled to representation on it are Italy, Germany, Spain, France, Romania and the UK.

Compliance with legal and contractual obligations governing overtime and time off

Pirelli Group policy has always involved compliance with all legal and/or contractual requirements concerning working hours, the use of overtime and the right to regular days of rest. These requirements are often the subject of agreements with trade unions and individual workers, in line with the regulatory context of each country.

There are no restrictions on any of the workers' right to use their total number of holidays, and the holiday period is generally agreed between the worker and the company.

Labour and social security lawsuits

In 2008, as in previous years, the level of disputes remained low, generating a very small number of labour and social security lawsuits. In Brazil, the level of labour-related lawsuits is traditionally high, representing about 90% of the lawsuits currently pending against the whole Group. This continues to be a various widespread phenomenon, which also affects other multinationals operating in

that country, due to local legal customs. Labour lawsuits are generally initiated when an employment agreement is terminated, and they usually involve the interpretation of regulatory, legal and contractual issues that have long been controversial.

The Company reconfirms its commitment to settle these disputes in Brazil through conciliation procedures.

Unionisation levels and industrial action

The Group's unionisation levels cannot be calculated precisely, as this information is not available in all countries. However, it is estimated that about half the Group's employees are trade union members. The percentage of employees covered by collective bargaining agreements in 2008 remained largely unchanged from previous years. This percentage is essentially the result of the historical and cultural differences from one country to another.

Individual contracts continue to be held by about 10% of the employee population, including executives worldwide, except for Italy, managers in the UK, the "Non Tarif" in Germany, the "Excluidos" in Spain, "Senior" and "Esecutivi" in Brazil.

The overall conflict rate recorded in 2008 was slightly higher than in previous years. This increase is connected with the effects of the severe global economic crisis and is limited to the areas where the market suffered the greatest downturns. Industrial actions during the year were concentrated mainly in Italy, Spain and Argentina. In Italy, they occurred during renewal of the collective bargaining agreement and due to measures to contain fixed costs and to reorganise, which began to be implemented in the last quarter of 2008 and continue today. The industrial action at the Manresa production plant in Spain stemmed from political and economic demands connected with the factory restructuring project, while industrial action in Argentina took place during renewal of the collective bargaining agreement. All of the above disputes were resolved by agreement between the parties.

Occupational Pension Plans and Healthcare Schemes

No significant changes were made in this area in 2008, with the majority of affiliates providing supplemental pension schemes for their employees. The Group maintains the policy adopted in previous years, involving the abandonment of defined benefit plans in favour of defined contribution plans.

Defined benefit plans are in place in the UK (covering employees who were hired before a certain date, while those hired later participate in a defined contribution plan), in the USA (these plans were closed a number of years ago to active employees in favour of defined contribution plans; (since then, they only apply to retired employees but are not tied to wage increases) and in the Tyre Sector in Germany (this scheme was closed to new hires in 1982). Other defined benefit plans exist at Pirelli Real Estate in Germany and in the Tyre Sector in Holland, but they represent a relatively insignificant liability for the Group.

Group affiliates still provide healthcare schemes in compliance with local needs. These healthcare schemes vary from country to country in terms of allocation levels and the types of coverage provided. These schemes are managed by insurance companies or specially created plans. The Company participates by paying a fixed fee, as in Italy, or an insurance premium, as in Brazil and the USA.

OCCUPATIONAL HEALTH, SAFETY AND HYGIENE

“Group companies shall safeguard health and safety in the workplace and consider respect for worker’s rights as fundamental to the business” (Article 6 of the Ethical code – Human Resources).

Health, Safety and Hygiene Management complies with the principles set out in the Group’s Ethical Code and the *Group Policy for Health, Safety, Environment and Social Responsibility*, discussed in the introduction to this report.

The text of the Ethical Code and Policy, which have been distributed to all Group workers in their respective languages, is available in the “Sustainability” section of www.pirelli.com.

The various topics discussed below have been divided under “Pirelli Tyre”, “Pirelli Real Estate” and “The Group’s Other Sectors/Companies”, reflecting the varied nature of Group businesses. For detailed information on the Real Estate Sector, whose performance is consolidated in this report, please consult the Pirelli Real Estate S.p.A. Sustainability Report, which can be found in the Sustainability section of the website www.pirellire.com.

SAFETY MANAGEMENT SYSTEM

Pirelli Tyre S.p.A.

A Safety Management System organised and certified to meet OHSAS 18001 standards has long been in operation in the Tyre Sector (which also comprises steel cord production plants).

Following implementation of the system at the new plant in Yanzhou, China, 21 of the 24 operating units were certified under this standard. In 2009 implementation of the system at the Slatina Tyres and Milano Bicocca (which includes the research, development and testing activities carried out at it in addition to CMP and Next Mirs) sites was planned.

The Safety Management System implemented at the Group’s production units has been developed on the basis of centrally drafted common procedures and guidelines. This has enabled the use of a “common language” within the Group, in terms of the key elements of occupational safety management and a uniform shared mode of operations.

A summary description is provided below of some practical examples of safety management.

- **Safety of machines, installations and work environments**
Pirelli decided many years ago to adopt the same standards of safety worldwide for machines, installations and work environments as those in force at its European facilities, which are regulated by specific EU directives.

This decision has resulted in the installation of machines and equipment in emerging countries with safety features that are not required under local law but rather in compliance with European standards.

- **Training activities**

The Pirelli Group has always recognised that training of personnel is one of the keys to achieving success in its own business. Specific training courses on HS problems continued in 2008.

Pirelli Real Estate S.p.A.

Partly in connection with the gradual implementation of the Consolidated Safety Act ("Testo Unico Sicurezza"), a series of activities were undertaken in 2008 to implement and monitor the new statutory obligations. A document summarising all the changes with respect to previous law has been published on the Company Intranet and is accessible to all employees.

The extraordinary campaign begun in 2007 to raise the awareness of safety officers continued in 2008, with particular focus on the Group companies whose operations involve high levels of risk (information, training, written designation - assignment of responsibility - of the appointed safety officers, even if not required). Raising the awareness of the safety officers should ensure further improvements in the actual level of accident prevention and safety at work given their role and presence in the workplace.

Prevention and Protection Service

A dedicated, centralised department supervises all Pirelli RE companies. The Prevention and Protection Service continued to provide assistance, information and "proactive control" for the Company's operating units in 2008.

The Company believes that the best results over time are achieved by increasingly promoting a culture of safety and prevention at the workplace and by raising the awareness of the personnel involved:

- safety managers
- safety officers
- workers

The vast, interdisciplinary laws that are applicable, supported by available tools and sector business procedures or operating rules must increasingly become a part of daily habits so that concrete and effective programmes can be implemented for:

- prevention and protection;
- compliance with constantly changing sector laws and regulations;

- effective involvement of resources at all levels - worker, safety officer, safety managers, employers, and the Prevention and Protection Service;
- real protection of operating personnel.

Legislative Decree 231 Internal Control Scheme

At the end of 2008 Pirelli RE amended its Organisational Model pursuant to Legislative Decree 231/2001 with a specific chapter dedicated to safety. The same measure will be taken at Pirelli RE companies in 2009. The model provides a useful reference tool for proper compliance with statutory obligations and promotion of prevention and worker protection activities.

Safety at construction sites (large construction/special maintenance sites)

A control and monitoring system, using specific indicators, for the safety of individual construction sites and compliance with applicable safety laws was set up.

Prevention of undeclared work and social security evasion by contractors/subcontractors

A procedure for identifying and monitoring on-site workers and trades people was established and regular audits of social security compliance of the businesses operating at construction sites are performed.

Projects undertaken in 2008 and main objectives for 2009

The various projects implemented in 2008 include:

- **revision of the system for internal communication of safety issues;**
- establishment of a **computerised Safety Diary**, which will enable the “monitoring” and “maintenance” of all the initiatives taken to protect individual workers, i.e. details of information provided, training, risk-specific brochures for duties assigned to employees, IPD delivery, etc. This diary will also be used by the medical officer to bring health surveillance into line as much as possible with the actual health risks faced by individual employees.

The following projects are the objectives for 2009:

- implementation of the internal control programme and reporting of safety indicators to the supervisory body;
- adoption of organisation and management models defined pursuant to Article 30 of Legislative Decree 81/08 and applied to the individual companies of the Pirelli RE Group;
- implementation of a first level control system under the supervision of the Prevention and Protection Service Manager (workplaces) and the site manager (construction sites);

- implementation of a second level control system under the supervision of the Group Safety manager to monitor the performance of the Prevention and Protection Service Manager;
- implementation of a second level control system focusing on construction sites (as activated by the various customers).

Other Group Sectors / Companies

Pirelli Broadband Solutions

The company is implementing an Integrated Safety and Environment Management System (ISO 14001 / OHSAS 18001), which is scheduled for the certification audit in 2009.

Pirelli Labs

Activities in 2008 focused mainly on training according to the typical risks of research activities.

Pirelli Eco Technology

The company, which was set up in March 2008 to make particulate filters, rapidly expanded its production activity and capacity. Risk assessments of the new machinery, production processes and management processes were consequently undertaken. The company implemented an integrated Quality and Environment management system, in order to lay the basis for subsequent extension to the Safety Management system in accordance with Group policy.

Just as has been done at the Group's operating units, a Safety Management System is being developed at Pirelli & C Ambiente and other companies that was inspired by the Group Safety, Environment and Social Responsibility Policy.

As previously indicated in regard to Pirelli Real Estate, the Occupational Health and Safety System was not formally certified, but it was decided to promote a local development of management systems that might be better suited to the peculiar nature of each site, according to the characteristics and type of activity performed.

At the organisational level, a system of delegations of authority, including spending authority, has been put in place together with local structures to support local safety management.

MEASUREMENT OF HEALTH & SAFETY PERFORMANCE

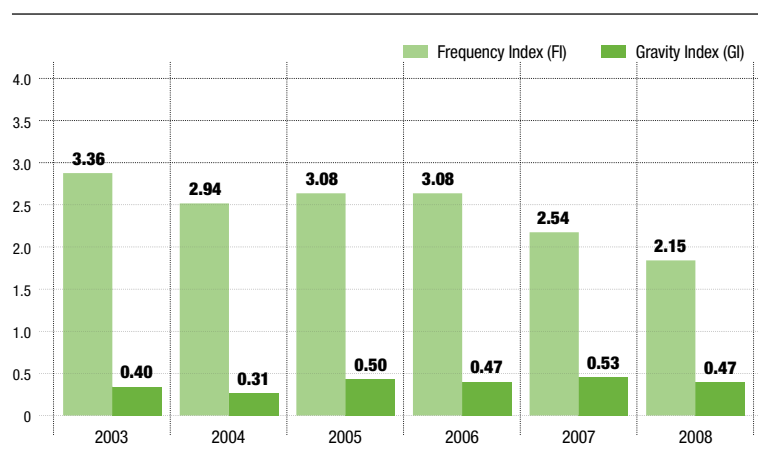
Pirelli Tyre S.p.A.

The number of injuries fell significantly once again in 2008, with consequent improvement in the parameters that measure this phenomenon. When compared with 2007, the Frequency Index (FI), i.e. the number of injuries, fell by 15.5% in 2008, and the Gravity Index (GI) fell by 12%.

To better understand these data, it should be kept in mind that the GI was calculated by considering all calendar days between the injured person's work interruption and his or her return to the factory as "lost," i.e. the actual days necessary for complete rehabilitation.

The calculation of the aforementioned indices did not included "in itinere" injuries, which are discussed later in this report.

The following graph provides details on this phenomenon:

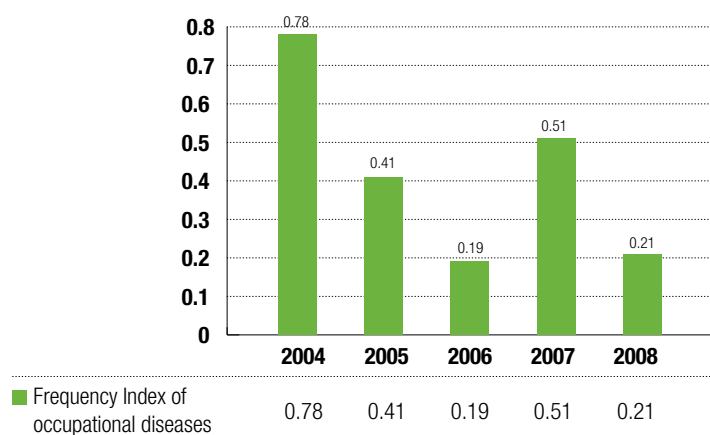


$$FI = \text{Frequency Index} = \frac{\text{Total number of injuries with work interruption} \times 100,000}{\text{Total hours actually worked}}$$

$$GI = \text{Gravity Index} = \frac{\text{Total days lost due to injuries} \times 1,000}{\text{Total hours actually worked}}$$

Specifically in regard to employee health, the 2008 frequency index of new cases of occupational disease was 0.21, down 58% from the previous year. Consequently, the 2008 parameter returned to the Company's historic levels, in line with the 2006 frequency index of 0.19.

The anomalous increase in the frequency index for occupational diseases in 2007 from 2006 (+0.51) was mainly due to updating of documentation at the Guacara factory in Venezuela. Among other things, this update entailed reporting new cases of disease. Net of the effect of updating records, the 2008 parameter thus returned to the historic trend.



Shifting the focus to injuries occurring at the Tyre Sector's non-production units (commercial offices), it was decided to refine the procedure used to collect data. This measure has been included among the targets for operating improvement in 2009.

2009 Targets

The **quantitative** target assigned for 2009 in regard to the frequency of injuries is a 10% reduction compared with consolidated 2008 figures.

The principal focus of **qualitative** targets continues to be a reduction in workplace injuries through the implementation of specific initiatives extended to all countries worldwide.

In particular:

- technical improvement programmes,
- organisational improvement programmes
- programmes for improvement of safe behaviour
- participatory and communication programmes

All operating units will consequently be committed to thoroughly revising their approach to safety, whose cornerstone is based on the involvement of the entire organisation (white-collar workers, blue-collar workers and contractors) in order to privilege focus on organisational and individual behaviour. This approach also aims to complement prevention in all business processes by prompting participation and awareness.

The Pirelli HSE Campus (as illustrated later in this report) was set up to support this programme for cultural change.

Pirelli Real Estate S.p.A.

Over the last several years, Pirelli RE has taken numerous measures to reduce accidents.

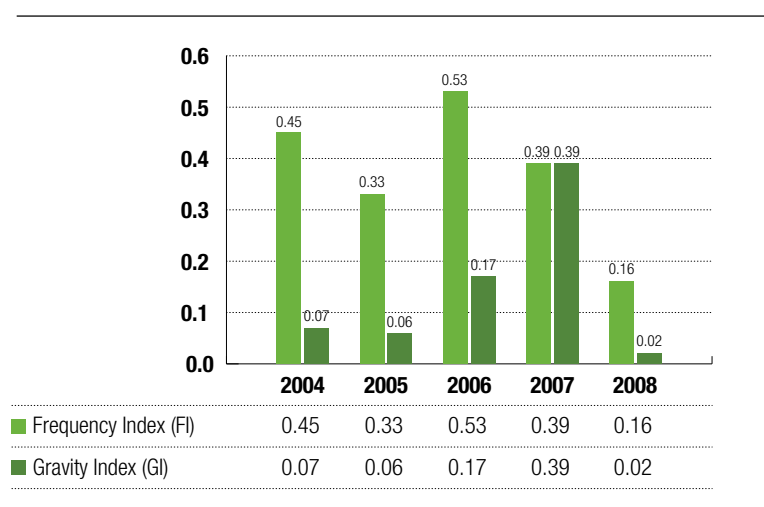
In particular:

- raising the awareness of Facility management personnel (prevention campaign targeting operating employees);
- issuance of a “safe driving” manual, conceived to prevent motor vehicle accidents (in itinere and not);
- semi-annual analysis of injuries, classification and analysis of individual cases;
- on-site inspection (in all cases) by the Prevention and Protection Service of the place where an accident occurred.

The number of accidents decreased markedly in 2007 and 2008, particularly in comparison with 2006.

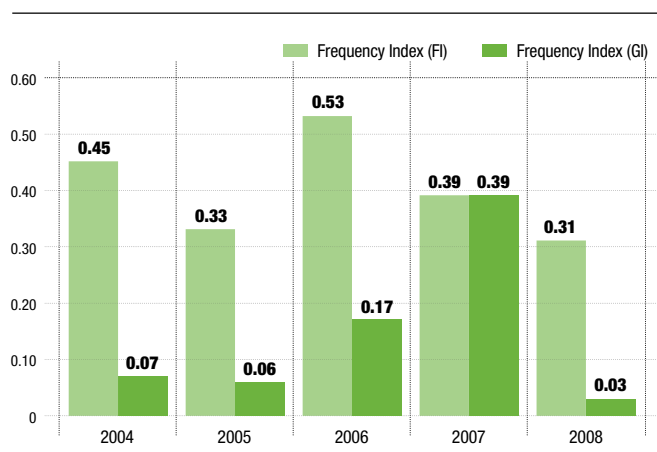
Observing the injury indices for 2008 at the companies belonging to **Pirelli Real Estate S.p.A.** (and thus Italy plus the foreign locations), the frequency index was **FI = 0.16** and the gravity index was **GI = 0.02**.

The following graph provides more details:



If the analysis is limited instead to **the Italian locations only** (in order to read the trend in comparison with previous years), the 2008 frequency index was **FI = 0.31** and the gravity index was **GI = 0.03**.

The following graph provides more details:



In 2008 there were nine *in itinere* injuries, compared with eleven such injuries in 2007.

The decrease in the number of injuries confirmed that the measures taken by Pirelli Real Estate to realise improvements were appropriate.

Other Group Sectors / Companies

- Pirelli Broadband Solution - no injuries at work and none *in itinere*;
- Pirelli Labs - no injuries at work and non *in itinere*;
- Pirelli Eco Technology - one injury at work causing less than three days of absence from work, and one *in itinere* injury;
- Pirelli & C. (aggregated with Pirelli Ambiente) - two injuries at work causing eight days of missed work.

In itinere injuries at the Group

Information on *in itinere* injuries (i.e. occurring during work trips or while travelling to reach the workplace): at the Group level, the total number of these injuries was **143**, corresponding to **4.6** accidents every one thousand workers (3.8 in 2007 and 4.5 in 2006).

Fatal accidents at the Group

No Pirelli employee or employee of outside contractors working at the Group's operating sites suffered a fatal accident in 2008.

AWARENESS RAISING AND TRAINING

Pirelli Tyre S.p.A.

Training activity in 2008 was focused on spreading the “safety culture” as the essential starting point from which individual employees at all levels of responsibility can - and therefore must - make a commitment to learning the adopted rules, models and safe work procedures.

The training activity carried out at the Italian operating units, “Working Safely”, is an example of the adopted training approach. This programme engaged the participation of all blue-collar workers in numerous training sessions.

At the same time, the safety training programme continued for new hires and anyone else who, in various capacities (agency work, internships, etc.), started working at Pirelli.

Training for personnel with operational assignments was provided through specific sessions held both in the classroom and, especially, in the workplace.

Educational tools also included operational instructions describing the typical duties of various positions. Experience gained through risk analysis reviews and from past injuries was also shared.

Workers at all production plants were given training on how to handle emergencies.

The “**Pirelli HSE Campus**” initiative was launched at the beginning of 2009. It offers a catalogue of courses and seminars given at Group operating units by qualified Company personnel. This programme targets managers in order to provide them with skills and knowledge about the best operating practises. The topics listed in the catalogue include ergonomics, risk assessment, behavioural analysis and management systems.

Exchange of experiences by factories

An ad hoc information system collects all information about the injuries occurring in Pirelli Tyre factories (accident analysis, adopted corrective measures, etc.) and, if the dynamics of a particularly event are significant, all sites are informed and urged to:

- carry out an internal audit as to whether conditions similar to those that caused the injury exist at their plant;
- define any corrective measures.

This information system is used to collect the solutions adopted by the various sites and share those that are considered the best.

Another information system provides all production units with the “Best of Best”, i.e. the best practises applied, which also include actions for occupational safety improvements. This process is integrated in the Pirelli Manufacturing System (PMS).

Pirelli Real Estate S.p.A.

Safety information

Distribution of informational pamphlets to all Group employees according to their position and degree of risk was completed in 2008. Furthermore, the "Safety" section on the Company Intranet was put online. Accessible to all employees, it contains over 60 prevention and protection information tools. Some of them are particularly innovative and are geared specifically to blue-collar workers, safety officers and project managers.

The site is organised as follows:

- **information and training:** it contains risk fact sheets for all job positions at the Pirelli RE Group, work in brownfield areas, coordination of work on buildings, installations and construction sites. It also contains a guide to safe driving;
- **work procedures;**
- **safety on the job;**
- **safety at construction sites;**
- **management and safety of properties** (it also contains an operational fire prevention manual for Property Managers);
- **operating standards for Pirelli RE technical staff** (analysis of various, specific job risk situations and the hazards of drinking alcoholic beverages on the job);
- **work equipment fact sheets** (buyer's guide, safety hazards, prevention and protection measures, user instructions, IPDs for the use of equipment);
- **technical pamphlets** (including one on asbestos risks, which was prepared in-house so that it most accurately reflect actual operating conditions at the Group);
- **safety news:** a list of statutory changes in the field of safety, accident prevention, occupational hygiene and property management.

In 2008 the number of information tools rose from about 100 to about 120 (from 60 to 100 between 2007 and 2008). Each one is fully up-to-date in accordance with the regulatory provisions introduced by the Consolidated Safety Law.

The construction site safety management and control system was also thoroughly revised. It envisages **first and second level controls to protect all affected persons**, particularly for the workers employed by the various contractors.

Safety training

In 2007, training requirements, including those for new hires (mainly blue-collar workers), were revised following a thorough reorganisation. Human Resources initiated a specific survey of the training provided for this purpose. The effects of these initiatives took form in 2008.

As part of the profound reorganisation underway throughout the Pirelli RE Group and the entry into force of the Consolidated Safety Law in the last quarter of 2008, a new training plan was prepared for implementation in 2009.

This plan calls for:

- a self-paced seminar (offered over the corporate Intranet) addressing the new Consolidated Safety Law that targets all employees;
- specific training sessions targeting safety managers;
- specific training sessions targeting safety officers, when named and designated, addressing their job activities;
- specific training sessions targeting the Fond Managers;
- in-service training sessions on first-aid and fire prevention.

The “Safety” section of the Pirelli RE Intranet also contains the **Catalogue of safety courses**.

Other Group Sectors / Companies

Safety is also a key part of employee training programmes at other Group sectors / companies.

In 2008, training offered at these companies addressed, among other topics, safe working practises in laboratories and during experiments, with a special focus on training and information campaigns for new recruits and external personnel.

HEALTH & SAFETY INVESTMENTS AND EXPENDITURE

In 2008, the most significant health and safety investments were made at **Pirelli Tyre**, and totalled 11.3 million Euro.

Investments focused on improvements to plant and machinery and, more generally, the overall work environment (e.g. improvement of microclimate and lighting conditions, layout changes to improve operating ergonomics, measures to ensure the healthfulness of infrastructure, etc.). All these activities, for which investments were necessary, were constantly monitored by local and central HSE departments.

These investments were complemented by safety related expenses that are essentially attributable to environmental monitoring (i.e. sampling and analysis, consultancy studies, etc.), the purchase of personal protection equipment (e.g. injury prevention boots, gloves, safety goggles, etc.) and collective protection devices (e.g. better protection of machinery, suction systems and measures to improve the workplace environment not covered by specific investment projects).

HEALTHCARE ASSISTANCE DURING WORKING HOURS

Pirelli has operated infirmaries for decades in its production plants, with nurses and doctors available to provide all employees with medical care during working hours. These facilities provide first aid care, advice on health problems unrelated to work and health supervision for workers exposed to specific hazards.

Healthcare promotion campaigns developed in line with local programmes also make use of these facilities.

GROUP FLU PREVENTION CAMPAIGN

Once again in 2008, Pirelli offered all its employees the opportunity to be inoculated with the seasonal flu vaccine free of charge. The anti-flu campaign was given further impetus through wide-reaching information tools for all organisational levels (targeting employees located in the southern hemisphere during the spring and employees in the northern hemisphere during autumn). Several thousand people took part in this initiative.

GROUP "NO SMOKING COMPANY" POLICY

In June 2003 a letter sent by top management to all the Group's Chief Executive Officers announced the Company's decision to become a "No Smoking Company", to safeguard the health of both smokers and non-smokers. This decision is consistent with Pirelli's policy to protect the health of its employees in all countries where the Group operates.

Specific training/information initiatives on the damage caused by cigarette smoke were also implemented through the distribution of leaflets, conferences on nicotine addiction and publication of questionnaires on the Intranet.

Enforcement of the no smoking policy also led to reports of 55 violations of the policy by staff on Pirelli premises.

External Community

RELATIONS WITH INSTITUTIONS AND PUBLIC AUTHORITIES

Group companies maintain relationships with local, national and supranational authorities in a spirit of full and active cooperation and transparency that does not compromise their independence, economic targets or the values enshrined in this Code. (Article 5 of the Ethical Code - Community).

In 2008, relations with institutions were maintained at the national, European Union and international levels, with a focus on where the Pirelli Group has a presence. This activity was characterised by a series of initiatives to build lasting and stable relations that have always been based on maximum transparency and collaboration. The principal objective is to constantly provide information to the Group's various institutional stakeholders regarding presentation of the Group and its different companies, especially in regard to its industrialisation projects inside and outside Italy. Preventive and cooperative attention to the requests and demands made by institutional bodies, coupled with punctual monitoring of relations, makes it possible to prevent any criticalities from arising and to undertake projects that are supported by those institutions.

In Italy, Pirelli operates in a system where numerous institutional bodies have a voice. At the parliamentary level, the Group monitors all legislative activity of interest to it, concentrating particu-

www.pirelli.com > Sustainability >
Stakeholders > External Community

larly on the work of the standing committees in the Chamber of Deputies and Senate responsible for matters affecting its business, and occasionally appearing at individual committee hearings in support of the parliamentary information gathering process that precedes the drafting of bills.

At the governmental level, the Group cultivates ongoing relations with the Prime Minister's Office and the Ministers of Economic Development, Transport, Environment, Labour and Foreign Affairs. The issues that received the most attention during meetings with Ministers were the Group's projects on road safety, reducing the energy impact of the transport sector, employment in areas hit by the economic crisis, incentives for businesses committed to re-industrialisation and other forms of financing for investment projects and scientific, technological and socio-economic research.

The Pirelli Group also considers its relationship with European institutions to be fundamental in defining the principles, general objectives and strategic policies of European Union policies. In this view, the Group monitors legislative activity and actively participates in the decision-making process.

The Group relies on the customary tools of information for the daily management of its institutional relations; it frequently participates with its own contributions at working or institutional meetings on public policy issues, focused on specific targets and offering complete, transparent information on these topics. Its objective is to establish a permanent dialogue.

At the local level, the Group maintains constant relations with various entities, including the Milan and Rome municipal governments, with which it collaborates on various socio-cultural projects.

At the international level, continuous contact is maintained with institutional and diplomatic representatives in the various countries where the Pirelli Group's presence is already consolidated or in those where new installations are being planned.

In view of the new industrial installation to be opened in Russia, a visit by the Italian Minister of Economic Development and the Russian Federation Minister of Industry and Trade was organised at Pirelli Group headquarters in Milano-Bicocca. The Group also collaborated on setting up the Italo-Egyptian Business Council on logistics realised by the Italian Foreign Trade Institute and the Italian and Egyptian Ministries of Transport, where a major bilateral agreement between the two countries was signed.

COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY

"Group companies encourage and, where necessary, provide support for social, cultural and educational initiatives geared towards promoting personal development and improving standards of living." (Article 5 of the Ethical Code - Community).

"Pirelli Group supports and respects the protection of internationally proclaimed human rights" (Policy on Health, Safety, Environment and Social Responsibility).

www.pirelli.com > Sustainability > News & Events

The awareness of its role in promoting the civil and cultural progress of communities where it operates has been a cornerstone of Pirelli's business culture for over 130 years. This commitment is not only consistent with the principles expressed in the Ethical Code and Group Social Responsibility Policy, but also forms an important part of Pirelli's strategy of maintaining its role as an international company that is one of the most integrated within the communities where it operates.

This is why the Group organises and backs the protection of human rights and improvements in the living conditions of local communities, from health to education, from art to sport, working with both public and private institutions, local authorities, associations and bodies that are chosen on the basis of criteria designed to ensure their quality.

In 2008, Pirelli made a major commitment to social initiatives in support of needy communities and respect of basic human rights, first and foremost education, healthcare and work.

Following is a list of the principal initiatives undertaken in the various countries where the Group operates:

Argentina

Present in this country with a production plant since 1950, Pirelli Argentina has distinguished itself over time by its commitment to the local community, which was focused on healthcare in 2008. Pirelli paid for maintenance work in the paediatric ward at the **Malvinas Hospital** - from painting of walls to installation of air conditioners - to which it also donated new equipment essential for neonatal care.

Brazil

Once again in 2008 numerous social and humanitarian activities were sponsored on behalf of the local population in Brazil, where Pirelli has had a presence for over eighty years.

In the **city of Santo André**, home to the historic Pirelli industrial vehicle tyre manufacturing plant, Pirelli supports the **"Guri"** project, set up in 1995 by the Culture Secretariat of the State of São Paulo for **social integration of young people through music**. About 48,000 young people between the ages of 8 and 18 participate in this programme, which is based on the ability of music to promote socialisation with an orchestra and chorus format. Pirelli has financed the **Santo André** unit since 2004, which attracts 200 young participants for every session. In the city of Santo André, Pirelli supports **"Cata Preta"** the suburban childcare centre that hosts 80 poor children between 2 and 6 years old from the local area, offering them nursery school education and paediatric care.

In the city of **Campinas**, home to a car and SUV tyre manufacturing plant, Pirelli supports three educational programmes for youngsters. The first - **"Love life without drugs"** - involves 31 schools,

focusing on reinforcing young people's personal and social identity to discourage narcotics use. The second - **"Os Seareiros"** - is a scholastic education and healthcare assistance project for about 120 children between 6 and 15 years old at the Nucleo Madre Maria. The third programme supports **AMIC Association Friends of the Child of Campinas**, the association that assists 4,500 families in suburban Campinas by receiving about 1,500 children every day and handing out an average of 3,000 food baskets every month.

In the **city of Salvador**, Bahia State, Pirelli has supported the re-modelling of the **Casa José de Petitinga**, which has been active for over forty years in favour of the indigent population in the historic Pelourinho neighbourhood. The Casa provides needy people with **food, medicine, clothing and medical, psychological and dental care**, as well as promote educational and social and cultural entertainment projects promoting the neighbourhood's growth.

At **Feira de Santana**, which is also located in Bahia State, Pirelli has signed an agreement with the Ministry of Sport and FAMFS - Fundação de Amparo ao Menor de Feira de Santana - for monthly donations of rubber scrap to build athletic tracks for children and youths in various regions of the country. The rubber scrap comes from the Pirelli plant (car, SUV and industrial vehicles) located in the city since 1976.



Santo André, Brazil. "Guri" project.

In the city of **Gravatã**, Rio Grande do Sul State, which is home to the Pirelli motorcycle and industrial vehicle tyre manufacturing plant, Pirelli finances the “**Peteca**” project, which supports children and poor children after school.

www.peteca.com

In **Amazonia**, the “**Xapuri**” project continues to operate. It was founded by Pirelli in 1998 in collaboration with the local government to recover the rubber harvesting culture amongst the Seringueiros. After the project in the Acre region, where Pirelli now supports 3,200 families with the purchase of natural rubber that they produce independently, this activity is now at risk in other states in the Brazilian federation.

The “**Forest Guardians**” project promotes the sustainable development of Seringueiros communities. Pirelli is particularly committed to setting up schools for rubber harvesters and buying rubber in the town of Santarém, Pará, in collaboration with local and federal institutions. Here the Company supports the Cajoiero school for needy children between 3 and 10 years old who live on the banks of the Tapajòs River. One of the priorities of this school, operated by volunteers, is to promote local culture according to a method that respects the learning pace of every single child.

China

Pirelli China has recently become a part of the Group's regional productive activities, but it already maintains active relations with local populations. Social responsibility projects tied to the business are underway in this huge Asian country, such as research on ecological tyres in collaboration with the University of Shandong and the agreement with the Beijing City Government to equip city buses with particulate filters, but also include social programmes. Unfortunately, one of these is connected with the earthquake that struck Sichuan Province in May 2008. On that occasion, Pirelli Tyre China was one of the first companies to offer aid to the local population.

In the scholastic and academic sphere, the Company continues to actively participate - together with the Milan Polytechnic and Turin Polytechnic - in the **Politong** project, which was initialised in 2006 by the Chinese Ministry of Education and the Italian Public Education Ministry, which will promote cooperation between the two countries at the university level.

www.politong.org

Egypt

In 2008, the solidarity initiatives of Pirelli Egypt focused on aiding orphaned children through the donation of hardware and software and basic necessities at the various orphanages in the region.

Romania

In its first year of activity, the **three-year programme of medical cooperation** between the Niguarda Ca' Granda Hospital of Milan and the Slatina Hospital, which was signed in December 2007 and financed by the Pirelli Group for the professional training and continuing education of Romanian healthcare professionals, offered a total of 300 hours of training to 25 physicians and nurses. Training activity was concentrated mainly in the Emergency Medicine, Emergency Surgery, Intensive Care, Resuscitation and Emergency Gynaecology Wards at Niguarda. Several medical directors from the Milan hospital also held continuing education courses in Slatina on the use of new technologies and procedures for first aid. In addition to financing this training activity, the Group donated modern medical equipment to the Romanian hospital for diagnosis and emergency care, including an echograph and an electrocardiograph.

The three-year training programme will involve around 70 doctors and nurses from the Slatina Hospital, who will take part in theoretical and practical courses on emergency medicine, emergency surgery, intensive care, resuscitation, gynaecology and hospital epidemiology.

For the younger members of the community, Pirelli, in association with FC Internazionale and the Associazione Comunità Nuova Onlus, has set up a new **"Intercampus"** in Slatina. The project uses the game of soccer as an educational and social networking tool for the youth of the Slatina community, providing them with fun and effective opportunity for growth and interaction.

Comunità Nuova has been assigned the task of handling the social interaction and educational aspects together with the organisation of recreational and study related activities for the children. FC Internazionale, on the other hand, has been given the task of engaging youngsters by providing them with top-flight sporting and training through its Intercampus.

Inter Campus is backed by the Mayor of Slatina and the Ministry for Youth Affairs, supported by the local physical education high school, and leading public and private voluntary associations.

www.comunitanuova.it

Venezuela

Present in this country with a manufacturing plant since 1990, the Company supports the local community by providing materials that are useful in various social projects. The **Pirelli Baseball School**, for example, is attended by over 300 children and teenagers: it fields a total of 25 teams that the Group supported in 2008 by donating the necessary uniforms and equipment, while the famous Tampa Bay Rays baseball team has held three training sessions with them.

Over the past year, nine schools received donations of furniture and equipment from Pirelli for classrooms and offices, while the Company donated shoes and portable PCs to more than 180 children in collaboration with Calzados Russo and Notebooks Caribbean.

Active academic support for youngsters is also provided through the **"Scholarship a Talent"** programme. For the next three years,

six students enrolled in the School of Engineering at Unitec, the technical university in the Araguaita-Guacara area, will study electrical, mechanical and industrial engineering with economic support from Pirelli, which chose the school on the basis of its excellent educational programme.

FOCUS ON ITALY

Once again, Pirelli has included a specific focus on one of its geographical areas of operations: in 2006 the focus was on South America, in 2007 on Romania, and in 2008 the choice has fallen on Italy.

Details on certain important initiatives undertaken in 2008 are described below.

Solidarity

Created by the Milan Istituto dei Ciechi (Institute for the Blind) in partnership with Pirelli, *Dialogo nel Buio* is a walk-through exhibit installed in a space with absolutely no light, so that people with normal vision can enter the world of the blind and experience the problems and extraordinary abilities that the condition of being "challenged" causes one to develop. Pirelli has collaborated with the Institute since the programme began in 2005, with excellent results in terms of interest expressed by the public and schools.

www.dialogonelbuio.org

The Group also has special relationships with some of the most important Italian non-governmental organisations (NGO). Pirelli is one of the founding members of **Emergency**, a neutral, non-political and independent humanitarian association created to provide free, top-quality medical care to the civilian victims of war, landmines and poverty worldwide.

www.emergency.it

Pirelli also provides institutional support to **Children in Crisis Italy**, an Italian association that is part of the international network Children in Crisis founded by the Duchess of York in 1993: active in 13 countries around the world, it works to improve the condition of children who are victims of conflict, poverty, disease or other grave problems.

www.childrenincrisis.it

In the field of solidarity, the Group also provides support to the association **Sempre insieme per la Pace**, which is committed to providing humanitarian aid at the international level.

Pirelli also provides support for children locally in the Milan area, through its contribution to the activities of associations like the **Fondazione Boccafogli**, dedicated to the recovery of juvenile delinquents by encouraging their artistic and expressive potential, or the **Centro ausiliario per i problemi minorili**, which seeks to ameliorate the condition of troubled youths, or the Milan institution **Fondazione Asilo Mariuccia**, which is dedicated to abandoned children.

In the medical field, Pirelli provides support to the **Fondazione Benedetta d'Intino**, which provides assistance for the treatment of autism and perceptive disorders in children, the **Fondazione Giancarla Vollaro** and the **Associazione Marco Semenza**, which operate in the cancer research field, and the **Centro Dino Ferrari**, which focuses on the study of neuromuscular and neuro-degenerative diseases.

www.benedettadintino.it

Support for art and culture

Pirelli actively supports the promotion of the artistic heritage, talent and local resources of all the countries where it operates, through a model of active cooperation that combines the skills of its partners with its own expertise in the fields of technology, organisation and communication. The Group has longstanding and prestigious partnerships in the art world. Since late 2007, it is party to an agreement with the **Triennale di Milano** to design and develop joint projects in the field of **industrial design**. Its objective is to revive the relationship between business culture and design culture, image in architecture, city planning, visual arts, graphics, design and communication. This is a strategic alliance between two of the most important historic institutions in Milan, joined by a bond that stretches back to the 1950's with the collaboration - as well as friendship and personal esteem - between the then Chairman Alberto Pirelli and Gio Ponti, the leading character in the history of the Triennale and who was commissioned to design the Pirelli Skyscraper.

www.triennale.it

In the ambit of this renewed partnership, the exhibition *Un viaggio, ma...* opened on 17 January 2008, having been conceived by Pirelli to launch the new Cinturato. To celebrate the new product and describe its complexity in terms of technological, communication, art and customs, Pirelli commissioned 15 contemporary artists and designers to freely interpret the Cinturato saga by using different media, from graphics to 3D animation, illustrations to photography, to site specific installations. They include speculative posters by Airstudio/Giacomo Spazio; graphic interpretations by Headscollective and Alessandro Bussen; the big tree by Leftloft and the Piovra Cinturata by Alberto Bettinetti; the tapestries by Elena Giavaldi; the visionary wall painting by Simone Tosca; the over-sized note pad by Marco Bruzzone, where everyone can leave a "trace of travel"; the natural sized tyre mace of liquorice by the food designer Ciboh (made with the generous support of the Amarelli company), the animated micro-narrative by Andrea Linke that recounts the journey with the view of a giant; the solitary adventures of a tyre recounted in a humorous vein by Graziano Mannu; the interactive landscape of the installation by Claudio Sinatti; the photographs taken by Luca Gabino on the Vizzola d'Adda test track transformed into what seems to be a space centre; and, finally, the photo story of travel over time by Carlo Furgeri Gilbert. These 15 works were flanked by materials from the advertising campaigns between 1954 and 1972, as illustrated by original sketches, films and products. Many of them, never shown in public before, were created by major designers such as Bob Noorda, Pino Tovaglia, Franco Grignani, Ugo Mulas, Antonio Boggeri and Alan Fletcher: icons of style and linguistics.

tic innovation that in those years transmitted the unmistakable "Pirelli Style" to Italy and the world. The most famous of these might be the image with the oblique, stylised tyre tread mark of the Cinturato, created by Bob Noorda in 1962.

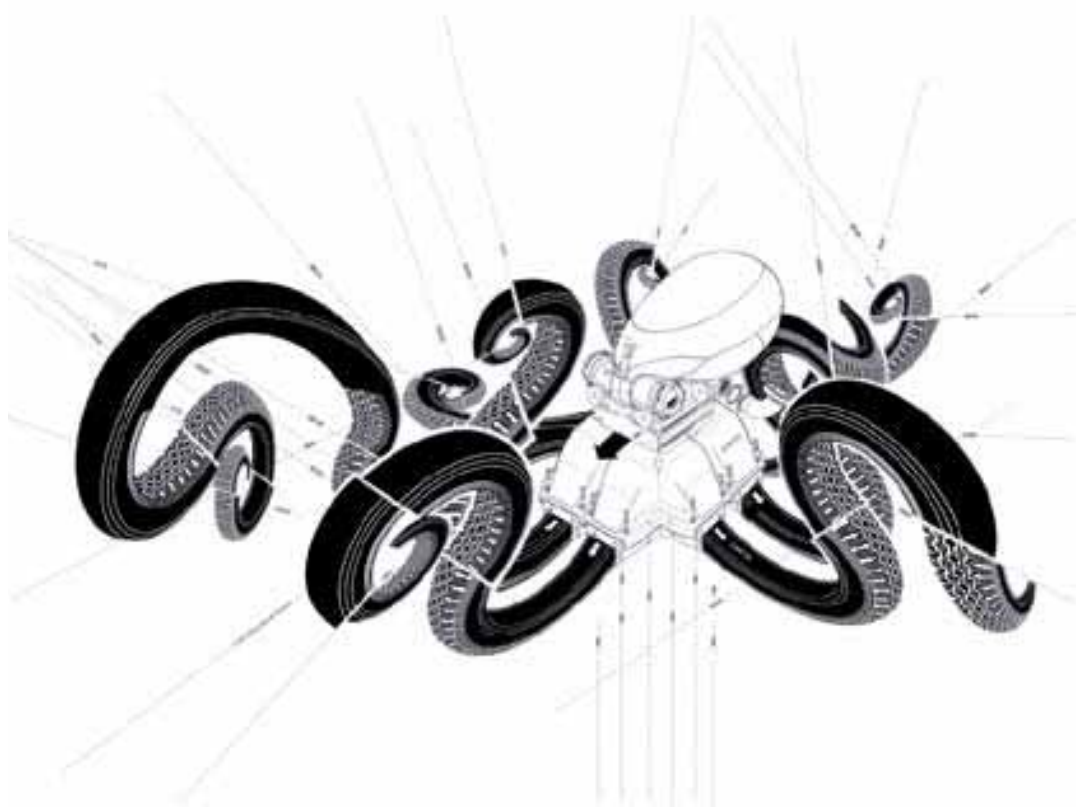
This exhibition, which was open to the public for a month, confirmed the Group's interest, today as in the past, to the most advanced forms of linguistic and communication research: this attitude is fundamental for it to remain a model of industry not only in Italy, but worldwide, capable of melding innovation, research, creativity and quality.

The Group's partnership with the Triennale di Milano was further reinforced in 2008 with Pirelli's participation in the **Rete dei Giacimenti del Design Italiano** ("Network of Italian Design Deposits"), formed under the auspices of the **Museo del Design** at the Triennale, of which Pirelli is an institutional sponsor.

www.triennaledesignmuseum.it

Since 2007 Pirelli has been party to an agreement with the **Solomon R. Guggenheim Foundation of Venice**, which has enabled the Company to joint the small number of partner-companies belonging to the Intrapresae group and that, among other benefits, provides for free entry to all Pirelli employees and their families at the prestigious Palazzo Venier dei Leoni museum.

www.guggenheim.org



A. Bettinetti, "P_jovra," January 2008.

A decade ago Pirelli signed an agreement to provide corporate support to the **Brera Art Gallery**, the oldest art collection in Milan and one of the most important in Europe, which is celebrating its bicentennial in 2009. The Group is providing institutional support to the gallery's activity, and in particular restoration of the 16th century paintings from the Veneto Region exhibited in Room XIV. After the *Pala Pesaro* by Giovanni Gerolamo Savoldo, the Company's support also made it possible to build an innovative apparatus - designed by the architect Sottsass - that enables gallery visitors to view the paintings while they are being restored.

Pirelli has long been a member of the **FAI - Fondo per l'Ambiente Italiano** (National Trust for Italy), with which it has collaborated on various initiatives, including the organisation of art history courses for the public. During the 2007-2008 season, Pirelli and FAI were involved - with the patronage of the Ministry of Cultural Affairs, the Region of Lombardy, and the Province and City of Milan - in a new edition of *I mercoledì dell'arte* (Art Wednesdays), a series of 29 lessons at the University of Milan. This edition, entitled *Meeting Asia*, provided hundreds of people with the opportunity to improve their knowledge of Asian art through the contemporary period. The agreement has been renewed for the 2008-2010 period with Pirelli's support for the new series of lessons on *Regge italiane. Arte, storia, potere* (Italian Palaces: Art, History, Power). The course will be held over a period of two years and will address the theme of the relationship between artistic heritage and systems of power, for a total of 54 lessons given by professors from various Italian universities. The first lesson, held on 29 September at the University of Milan, attracted a capacity audience.

www.fondoambiente.it

Promotion of theatre and music

In 2008 Pirelli renewed its historic ties with the **Teatro Franco Parenti**, a theatre founded in 1996, when the Group decided to participate in the creation of the **Fondazione Pier Lombardo**. This foundation was established to support the growth of one of the most active, firmly rooted theatres in Milanese cultural life. Particularly committed to young artistic voices, in 2008 Pirelli sponsored the review *Racconto italiano* ("An Italian Story"), a journey through contemporary Italy in the form of plays, readings and debates, which are made accessible to everyone with an admission charge of 5 Euro. For two months, actors, playwrights and young writers traded places on stage of the Franco Parenti Theatre, stimulating the public to participate actively in thinking about the most topical and contradictory issues confronted by society today. The interest and participation of Pirelli employees in the theatre's activity has steadily grown over the last several months, thanks in part to the awareness campaign that targeted them. Pirelli's support for the Franco Parenti Theatre will be renewed in 2009.

www.teatrofrancoparenti.com

By joining the Group of Supporters, Pirelli also renewed its corporate support for the **Piccolo Teatro di Milano**, the first permanent publicly funded theatre in Italy. Giovanni Pirelli participated in its creation in 1947 as a founding member.

www.piccoloteatro.org

During the year, participation on the **Progetto Galileo** ("Galileo Project") continued. This initiative by the Piccolo Teatro in collaboration with the Silvio Tronchetti Provera Foundation is aimed at using the theatre stage to encourage young people to study scientific disciplines. Launched in November 2007 with a performance of *The Life of Galileo* by Bertolt Brecht before over 900 students from Milan middle and high schools, the project has developed with the **Performing Galileo** competition, an invitation to reinterpret the play with using the language and technology of multimedia youth culture. All received works were published on the website www.performinggalileo.net, created by the Milan Polytechnic, the initiative's third partner. The best works, which were selected by a special jury, were rewarded at a ceremony held on 5 May at the Piccolo di Milano, in the presence of the city's leading cultural authorities. The success of *Performing Galileo 2008* has prompted the organisation of a second edition of the competition, to be held in 2009.

www.performinggalileo.net

In October, the review **Teatro Scienza 2008** ("Science Theatre 2008") was sponsored by Pirelli. This event was dedicated to contemporary investigations into the relationship between the stage and scientific culture. Educational institutions, from elementary schools to universities, were directly involved with performance lessons, educational workshops, meetings, performances and the online competition "Attori del sapere" ("Actors of Knowledge").

Moving from theatre to music, in 2008 Pirelli once again supported **MITO SettembreMusica**, an international music festival created in 2007 between Turin and Milan. A packed programme of classical, contemporary, jazz, rock, pop and ethnic music concerts entertained the two cities during the month of September, with internationally famous orchestras and artists, such as the Royal Concertgebouw Orchestra, Philip Glass, Lou Reed and others. The events attracted large public turnout, thanks to the generally free admission to events.

www.mitosettembremusica.it

School, education and research

In June 2008 Pirelli joined the foundation that operates the **Scuola Materna G.B. Pirelli nursery school in Varenna**, in the Province of Lecco. This initiative aims to recognise the merit of a nursery school operating in the birthplace of the Group's founder.

The first two scholarships for final year students at the **Liceo Classico Giosuè Carducci classical high school in Milan** were awarded in December. Dedicated to the memory of Leopoldo and Giovanni Pirelli, they were established in 2007 by the association of former students of the high school with the Group's support. The scholarships are worth 10 thousand Euro each and are awarded to needy students on the basis of merit. The "Giovanni Pirelli" scholarship is reserved for those undertaking humanistic studies, while the "Leopoldo Pirelli" scholarship is dedicated to those opting for scientific studies.

In April 2008 Pirelli and the **Milan Polytechnic** jointly announced the creation of a new professor's chair: "Chemical Foundations of Rubber and Compound Technology". This chair was the result of an agreement between the Group and the university, which also provides for scholarship funding of five doctorates over the course of ten years. Innovative materials and the application of nanotechnologies to the development of new generation tyres are being studied at the G. Natta Department of Chemistry, Materials and Chemical Engineering.

www.polimi.it

Joint research on tyres continued in 2008 within the framework of the five-year agreement made by Pirelli and the **Turin Polytechnic** in 2007, which was officially signed on 22 February 2008 at a ceremony held in the head office of the Region of Piedmont in Turin. As part of development of the **New Industrial Centre at Settimo Torinese**, one of the most modern and efficient tyre manufacturing plants in the world, the agreement calls for researchers at Pirelli and the Turin Polytechnic to collaborate on three cutting-edge technology projects in the tyre industry, first and foremost the "smart" Cyber Tyre. The programme kicked off on 29 May with a meeting between the two pools of researchers at the Pirelli general headquarters at Bicocca Milano. Francesco Profumo, President of the Turin Polytechnic, attended the event. The Group is also contributing to a professor's chair in Mechanical Engineering. All innovations resulting from this cooperative project will be developed at the New Industrial Centre.

www.polito.it

Pirelli's collaboration with the academic world also involves the **University of Milan - Bicocca**. Once again in 2008, Pirelli funded three research doctorates in the School of Science, through the Corimav (Consorzio ricerca materiali avanzati - advanced materials research consortium). Two of the scholarships are dedicated to the study of photovoltaic applications and the third to particulate filter technologies. Pirelli Labs researchers will work alongside university professors in specialised courses, seminars and tutoring. They will also provide students with an industrial perspective, which is necessary to work in the competitive technological society.

www.unimib.it

The relationship with universities and the scientific world also underlies Pirelli's partnership with the **Silvio Tronchetti Provera Foundation**, whose mission is to promote research and the nurturing of talents in economics, science, technology and management through funding, awards, scholarships, and contributions to university and scientific institutions. This activity takes place either directly or in association with other parties, including a partnership with three universities: the Milan Polytechnic, the Luigi Bocconi Business University and the University of Milan - Bicocca, whose presidents sit on the Foundations board. In association with the Umberto Veronesi Foundation and the Giorgio Cini Foundation, over the past four years the Silvio Tronchetti Provera Foundation has promoted the **Conference on the Future of Science**, a three-day programme of presentations and discussions by world-famous scientists and researchers, including many Nobel Prize winners. After the Relationship between Scientific Knowledge and Human Life (2005), Evolution (2006), Environment (2007), the theme of the 2008 Conference, held in Venice from 24 to 27 September, was *Food and Water for Life*.

www.fondazionetronchetti.it

www.thefutureofsciences.com

Bicocca Hangar

A key part of the Group's relationship with the local area and community is the Hangar Bicocca. It is a dynamic place for the production, documentation, exhibition, promotion and dissemination of contemporary art whose mission is to explore and experiment with multidisciplinary approach to all visual and performing arts - and the other fields of contemporary knowledge. The Bicocca Hangar project originated with the opening to contemporary art of a vast industrial installation that once belonged to the Ansaldo Group and dedicated to the production of coils for the electric motors of trains.

www.hangarbicocca.it

The first step towards a new use of the building was direct involvement by internationally famous artists interested in taking up the challenge of a specific project that dialogues with a visually powerful space. The first installation was realised by Anselm Kiefer in September 2004, who executed the monumental permanent work *I Sette Palazzi Celesti*; and then other installations were created by Mark Wallinger and Marina Abramovic. The principal group shows hosted by the Bicocca Hangar in 2006 were *Start@Hangar*, followed in 2007 by *Collateral*, *Quando l'Arte guarda il Cinema*, *Not Afraid of the Dark* and *Urban Manners*. The exhibitions organised in 2008 were: a solo show by the young Italian artist Daniele Puppi entitled *Fatica 16*, *Antarctica*, a solo show by the Anglo-Argentine duo Lucy+Jorge Orta and the big retrospective *It is difficult* by Alfredo Jaar that was organised in collaboration with the Province of Milan. That show recently closed and was accompanied by the public project for Milan created by the artist.

Bicocca Hangar was transformed into a foundation in 2008, as a non-profit organisation subject to private law, and its current founding members are Pirelli RE, the Milan Chamber of Commerce and the Region of Lombardy. The MBA Group and AON Insurance Brokers have also joined as participating members. Among the various cultural communication initiatives sponsored by Pirelli RE are *Great Architects: A journey in the mind of...*, a series of DVDs created in collaboration with the magazine *Interni*: a journey through contemporary architectural culture, where the protagonists recount their design project and personal way of working.

Sport

For over a century, Pirelli has been involved not only in automobile and motorcycle racing but also other disciplines (cycling, athletics and tennis), testifying to its wide-ranging commitment to the most varied aspects of sport.

The Group's commitment to **soccer** is known the world over through its sponsorship of F.C. Internazionale in Italy and other top-class teams including Palmeiras in Brazil, Peñarol in Uruguay, Velez Sarsfield in Argentina, and Basel in Switzerland. However, its commitment goes beyond professional soccer. Pirelli is involved in the promotion of sports culture, which means the promotion of responsible and ethical social interaction amongst young people.

This is the spirit behind the project **“Leoni di Potrero - Calcio per tutti”** (Protrero Lions - Soccer for Everyone), a free training centre supported by Pirelli & C. in association with the Inter Milan soccer players Esteban Cambiasso and Javier Zanetti, aimed at children between 5 and 12 years of age. The objective is to participate in the development of young students, by fostering positive values such as friendship, loyalty, fidelity, respect and tolerance. This represents a way to teach the concept of integration to children from different social classes, working to prevent negative situations like isolation and loneliness.

www.leonidipotrero.com

Summary tables

This section is designed to enable readers to relate the issues addressed within the report to the international experience of the GRI and the Global Compact.

REPORTING ELEMENTS

		Reporting Elements	Page
Strategy and Analysis		1.1	10-11, 164, 210
		1.2	216-249
Organisational Profile		2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10	8, 13-160, 191-202, 252-254
Report Parameters	Report Profile	3.1, 3.2, 3.3, 3.4	165
	Report Scope and Boundary	3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11	165
	GRI Content Index	3.12	306
	Assurance	3.13	308
Governance, Commitments and Engagements	Corporate Governance	4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10	84-160, 170-174
	Commitments to External Initiatives	4.11, 4.12, 4.13	186, 292-305
	Stakeholder Engagement	4.14, 4.15, 4.16, 4.17	167, 187, 192, 203-204, 208, 213-215, 257-259, 263-264, 267-269, 272-277

KEY PERFORMANCE INDICATORS

Area	Aspects	Indicators	Page
Economic	Economic Performance	EC1, EC3	185-186, 378 on
	Indirect Economic Impacts	EC8	186
Environmental	Materials	EN1	206
	Energy-Water	EN3, EN4, EN5, EN6, EN7, EN8	219-229, 232-233
	Biodiversity	EN11, EN12, EN13, EN14	215-216
	Emissions, Effluents and Waste	EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24, EN25	219-229, 232-233
	Products and Services	EN26	216, 224-232, 234-248
	Compliance	EN28	215-216
	Transports	EN29	224
	Overall	EN30	222
Labor Practices and Decent Work	Employment	LA1, LA2, LA3	252-255
	Labor/Management Relations	LA4, LA5	277-281
	Occupational Health and Safety	LA7, LA8, LA9	281-292
	Training and Education	LA10, LA11, LA12	259-267, 282-284
	Diversity and Equal opportunities	LA13, LA14	170, 177, 257-259
Human Rights	Investment and Procurement Practices	HR2, HR3	173, 203-208, 263-264, 268-269
	Non-Discrimination	HR4	170, 257-259
	Freedom of Association and Collective Bargaining	HR5	277-278
	Child Labor	HR6	255
	Forced and Compulsory Labor	HR7	169-170, 279
Company	Community	S01	177-180, 213-215, 292-305
	Corruption	S02, S03	171-173, 292-293
	Public Policy	S05, S06	186
Product Responsibility	Customer Health and Safety	PR1	177-178, 196-202
	Product and Service Labeling	PR5	180-183, 192-193

THE GLOBAL COMPACT PRINCIPLES AND GRI INDICATORS

Global Compact issues areas	Global Compact Principles	Directly relevant GRI Indicators	Indirectly relevant GRI Indicators
Human Rights	<i>Principle 1 - Business should support and respect the protection of internationally proclaimed human rights.</i>	HR1-9	LA4, LA13-14, SO1
	<i>Principle 2 - Business should ensure that they are not complicit in human rights abuses.</i>	HR1-2, HR8	
Labor Standards	<i>Principle 3 - Business should uphold the freedom of association and the effective recognition of the right to collective bargaining.</i>	HR5, LA4-5	
	<i>Principle 4 - Business should uphold the elimination of all forms of forced compulsory labor.</i>	HR7	HR1-3
	<i>Principle 5 - Business should uphold the effective abolition of child labor.</i>	HR6	HR1-3
	<i>Principle 6 - Business should uphold the elimination of discrimination in respect of employment and occupation.</i>	HR4, LA2, LA13, LA14	HR1-2, EC5, EC7, LA3
Environment	<i>Principle 7 - Business should support a precautionary approach to environmental challenges.</i>	Profile disclosure 4.11	EC2
	<i>Principle 8 - Business should undertake initiatives to promote greater environmental responsibility.</i>	EN2, EN 5-7, EN10, EN13-14, EN18, EN21-22, EN26-27, EN30	EC2, EN1, EN3-4, EN8-9, EN11-12, EN15-17, EN19-20, EN23-25, EN28-29, PR3-4
	<i>Principle 9 - Business should encourage the development and diffusion of environmental friendly technologies.</i>	EN2, EN5-7, EN10, EN18,	EN26-27
Anti-Corruption	<i>Principle 10 - Business should work against all forms of corruption, including extortion and bribery.</i>	SO2-4	SO5-6

Assurance Letter



ASSURANCE LETTER

ASSURANCE STATEMENT OF PIRELLI & C. S.p.A. 2008 SUSTAINABILITY REPORT

SGS Italia S.p.A. received the mandate to verify the Pirelli & C. S.p.A. 2008 Sustainability Report.

The information contained in the Sustainability Report is the exclusive responsibility of Pirelli & C. S.p.A.. SGS Italia S.p.A. was not involved in the preparation of the Sustainability Report in any way or in the collection and processing of the data contained therein.

The verification methodology adopted is in line with the SGS SRA Sustainability Report Assurance service requirements, based on the Sustainability Reporting Guidelines of the Global Reporting Initiative and in compliance with the Accountability 1000 (AA1000 Assurance Standard) principles. The audit activity for this Report was performed by reviewing the objective findings, such as examining documents, verifying records and interviewing Pirelli & C. S.p.A. personnel, and is referred to Level 1 of above-mentioned SRA protocol and concerned the assessment of the completeness and accuracy of the data and information included in the Report, as well as the application of materiality, completeness and sustainability context principles, in accordance with the recommendations set out in the GRI Guidelines.

The verification activities concerning the economic and financial data considered the procedures in place to collect and process the data corresponding to the Pirelli & C. S.p.A. 2008 Consolidated Financial Statements, already subject to the professional opinion expressed by the Auditing Company. Sample audits were performed with reference to the environmental and social data, with particular reference to the Company's international standing, to establish an adequate level of confidence concerning the reliability of the process to collect, manage and consolidate the information originating from the different organisations within the group.

We confirm the reliability and the accuracy of the information contained in the Pirelli & C. S.p.A. 2008 Sustainability Report, on the basis of the audit procedures performed. The 2008 Sustainability Report represents a significant summary of the activities engaged in by the Group, in addition to representing a key communication tool with the Stakeholders.

The audit team appreciated and confirms the Pirelli & C. S.p.A. commitment, reflecting the Top Management's intention to pursue the on-going improvement of the sustainability process as integrated choice in the strategies of growth and vision of the group.

Milan, 7th April 2009

SGS Italia S.p.A.

Paolo Pineschi
Systems & Services Certification
Business Manager

Marina Piloni
Systems & Services Certification
Sustainability Service Development





Consolidated financial statement

CONSOLIDATED BALANCE SHEET (in thousands of euros)

	12/31/2008		12/31/2007	
		of which related parties		of which related parties
8 Property, plant and equipment	1,598,046		1,650,485	
9 Intangible assets	1,046,108		672,540	
10 Investments in associates and joint ventures	515,300		534,194	
11 Other financial assets	505,899		958,272	
12 Deferred tax assets	72,426		58,524	
14 Other receivables	723,004	565,152	672,894	520,827
15 Tax receivables	10,264		12,278	
27 Derivative financial instruments	3,161		3,849	
Non-current assets	4,474,208		4,563,036	
16 Inventories	921,110		776,474	
13 Trade receivables	787,951	77,096	1,098,927	123,668
14 Other receivables	239,956	23,917	241,475	22,072
17 Securities held for trading	115,800		114,039	
18 Cash and cash equivalents	253,905		2,057,682	
15 Tax receivables	46,246		43,281	
27 Derivative financial instruments	94,042		58,326	
Current assets	2,459,010		4,390,204	
Total assets	6,933,218		8,953,240	
19.1 Attributable to the equity holders of the company:	2,171,804		2,980,231	
- Share capital	1,554,269		1,555,934	
- Reserves	965,037		1,259,746	
- Income (loss) for the year	(347,502)		164,551	
19.2 Attributable to the minority interest:	202,558		823,840	
- Reserves	267,582		664,799	
- Income (loss) for the year	(65,024)		159,041	
Total equity	2,374,362		3,804,071	
24 Borrowings from banks and other financial institutions	1,375,747		905,296	
26 Other payables	48,472		23,300	
22 Provisions for other liabilities and charges	141,191		146,331	
12 Deferred tax liabilities	38,372		44,625	
23 Employee benefit obligations	366,535		349,142	
21 Tax payables	9,706		11,211	
27 Derivative financial instruments	2,139		6,782	
Non-current liabilities	1,982,162		1,486,687	
24 Borrowings from banks and other financial institutions	695,561	5,209	754,661	2,869
25 Trade payables	1,108,573	23,843	1,323,588	29,148
26 Other payables	482,401	7,699	1,394,673	21,522
22 Provisions for other liabilities and charges	135,650		71,340	
21 Tax payables	44,036	1,051	45,707	
27 Derivative financial instruments	110,473		72,513	
Current liabilities	2,576,694		3,662,482	
Total equity and liabilities	6,933,218		8,953,240	

Related party transactions in respect of the individual line items in the financial statements are presented in Note 44.

CONSOLIDATED INCOME STATEMENT (in thousands of euros)

		2008		2007	
			of which related parties		of which related parties
29	Revenues from sales and services	4,660,175	138,093	6,075,597	195,930
30	Other income	175,928		274,939	72,720
	- of which, nonrecurring events	17,000		2,818	
	Change in inventories of work in process, semifinished and finished products	115,372		29,921	
	Raw materials and consumables used (net of change in inventories)	(1,832,699)		(3,009,099)	
31	Personnel costs	(1,174,851)	(3,097)	(1,095,945)	(14,504)
	- of which, nonrecurring events	(132,352)		5,186	
32	Amortization, depreciation and impairments	(218,555)		(213,546)	
	- of which, nonrecurring events	(7,100)		-	
33	Other expenses	(1,687,569)	(42,862)	(1,703,857)	(88,931)
	- of which, nonrecurring events	(4,764)		-	
	Increase in property, plant and equipment from internal work	5,454		5,990	
	Operating profit	43,255		364,000	
34	Financial income	577,337	34,064	295,289	31,203
	- of which, nonrecurring events	48,691		11,234	
35	Financial expenses	(603,452)	(164)	(377,176)	(4,474)
36	Impairment losses on investments	(275,262)		(34,137)	
37	Dividends	31,268		34,459	6,600
	Gains (losses) from changes in fair value of financial assets	(796)		(20,097)	
39	Share of earnings (losses) of associates and joint ventures	(175,677)	(175,677)	116,543	116,543
	Income (loss) before income taxes	(403,327)		378,881	
40	Income taxes	(72,620)		(123,028)	
	Income (loss) from continuing operations	(475,947)		255,853	
41	Income (loss) from discontinued operations	63,421	32,646	67,737	67,666
	Income (loss) for the year	(412,526)		323,590	
	Attributable to:				
	Equity holders of the company	(347,502)		164,549	
	Minority interest	(65,024)		159,041	
42	Earnings per share (Euros per thousand of shares)				
	basic earnings per share				
	- continuing operations	(70.65)		22.09	
	- discontinued operations	5.74		8.60	
		(64.91)		30.69	

Related party transactions in respect of the individual line items in the financial statements are presented in Note 44.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (in thousands of euros)

	2008	2007
A Income (loss) for the year	(412,526)	323,590
Differences on translation transferred to the income statement, previously recognized in equity	-	(70,455) ^a
(Gains) losses on cash flow hedges transferred to the income statement, previously recognized in equity	1,848	(48,653) ^a
(Gains) losses transferred to the income statement on available-for-sale financial assets, previously recognized in equity	1,995	1,019
(Gains) losses transferred to the income statement, previously recognized in equity	3,843	(118,089)
Differences on translation of foreign currency financial statements	(136,630)	7,679
Changes in fair value on available-for-sale financial assets	(136,408)	(96,535)
Net actuarial gains (losses) on employee benefits	(85,058)	2,589
Changes in fair value on derivatives designated as cash flow hedges	(59,863)	(5,535)
Reversal of reserve for reclassification of investments from available-for-sale financial assets to associates	15,419	-
Tax effect	11,281	(2,856)
B Income (expenses) recognized directly in equity	(387,416)	(212,747)
A+B Total income (expenses) recognized in equity	(799,942)	110,843
Attributable to:		
- Equity holders of the company	(703,993)	(54,739)
- Minority interest	(95,949)	165,582

^a Referring to the sale of Olimpia S.p.A.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euros)

	2008		2007	
		of which related parties		of which related parties
Income (loss) from continuing operations before taxes	(403,327)		378,881	
Income (loss) from discontinued operations	63,421		67,737	
Amortization, depreciation / impairment (losses) reversals of intangible assets and property, plant and equipment	221,535		218,678	
Gain from discontinued operations	(72,543)		(41,417)	
Reversal financial income and expenses	30,170		41,618	
Reversal loss of value of participations	275,262		34,137	
Reversal dividends	(31,268)		(34,459)	
Reversal Gains (losses) from changes in fair value of financial assets	679		20,179	
Share of earnings (losses) of associates and joint ventures (net of dividends received)	204,745		45,845	
Income taxes	(72,620)		(123,028)	
Change in inventories	(144,636)		25,302	
Change in trade receivables/payables	95,961		(85,366)	
Change in other receivables/payables	(79,065)		105,217	
Change in employee benefit obligations and other provisions	(28,650)		(108,987)	
Other changes	16,016		10,045	
A Net cash flows provided by (used for) operating activities	75,680		554,382	
Investments in property, plant and equipment	(310,724)		(286,709)	
Disposals of property, plant and equipment	33,800		14,911	
Investments in intangible assets	(25,783)		(17,037)	
Disposals of intangible assets	94,533		4,764	
Acquisitions of investments in associates and joint ventures	(171,220)		(262,727)	
Disposals of investments in associates and joint ventures	30,841		3,354,789	
Acquisition of Speed S.p.A.	(434,361)		-	
Net cash flow from discontinued operations	69,600		38,075	
Acquisitions of other financial assets	(96,052)		(155,906)	
Disposal of other financial assets	32,285		16,849	
Dividends received	31,268		34,459	
Net investment in business combinations	(1,338)		(385,933)	
B Net cash flows provided by (used for) investing activities	(747,151)		2,355,535	
Change in share capital and share premium reserve	13,400		7,499	
Other changes in equity	-		(54,289)	
Change in financial payables	(408,747)	(218,922)	(1,287,705)	
Change in financial receivables	(65,625)		(51,509)	
Change in financial payables/receivables for acquisitions	(401,100)		395,302	
Financial income/expenses (net of gains on avail.-for-sale fin. assets)	(53,606)		(96,911)	
Dividends paid	(167,889)	(22,746)	(74,400)	
C Net cash flows provided by (used for) financing activities	(1,083,567)		(1,162,013)	
D Total cash flows provided by (used for) during the year (A+B+C)	(1,755,038)		1,747,904	
E Cash and cash equivalents, at beginning of the year	2,010,475		259,389	
F Exchange differences on translation of cash and cash equivalents	(28,360)		3,182	
G Cash and cash equivalents, at end of the year (D+E+F)	227,077		2,010,475	
(*) Of which:				
- cash	253,205		2,057,682	
- bank overdrafts	(26,828)		(47,207)	

The consolidated statement of cash flows shows transactions with related parties only in the event they cannot be directly inferred from the other statements. Related party transactions in respect of the individual line items in the financial statements are presented in Note 44

Notes to the consolidated financial statements

1. General information

Pirelli & C. S.p.A. is a corporation organized under the laws of the Republic of Italy.

Founded in 1872 and listed on the Milan Stock Exchange, Pirelli & C. S.p.A. is a holding company which manages, coordinates and finances the operations of its subsidiaries.

At the balance sheet date, the Group's operations are principally represented by investments in:

- Pirelli Tyre S.p.A. – a company operating in the tyre sector – 100 percent stake in share capital.
- Pirelli & C. Eco Technology S.p.A. – a company active in the field of technologies for reducing emissions – 51 percent stake in share capital.
- Pirelli & C. Real Estate S.p.A. – a listed company operating in the real estate sector – 56.45 percent stake in share capital.
- Pirelli Broadband Solutions S.p.A. – a company operating in the field of telecommunications components, equipment and systems – 100 percent stake in share capital.
- Pirelli & C. Ambiente S.p.A. – a company operating in the field of renewable sources of energy – 51 percent stake in share capital.

The head office of the company is located in Milan, Italy.

The consolidated financial statements are audited by Reconta Ernst & Young S.p.A., pursuant to art. 159 of Legislative Decree 58 dated February 24, 1998 and taking into account the Consob recommendation dated February 20, 1997, in execution of the resolution passed by the shareholders on April 29, 2008 which engaged the audit firm for the period 2008-2016.

The consolidated financial statements were approved by the board of directors held on March 10, 2009.

2. Basis of presentation

Although the challenging economic and financial picture has triggered a slowdown of the world economy that has had a particularly sharp impact on the automotive and real estate sectors and, consequently, has negatively affected the consolidated results for the year 2008, there are no significant doubts about the continuity of the company as a going concern.

Disclosure as to major uncertainties is summarized in the report on operations.

The market scenario facing the Group has nevertheless driven it to review its strategies and devise a decisive action plan aimed at ensuring maximum efficiency and competitiveness. The main strategic courses of action, the measures adopted and the correlated sources of available financial resources for their implementation were announced when the 2009-2011 Industrial Plan was presented to the financial community.

Accordingly, the consolidated financial statements have been prepared using accounting principles on a going concern basis.

ACCOUNTING STANDARDS ADOPTED

In accordance with Regulation 1606 issued by the European Parliament and by the Council of the European Union in July 2002, the consolidated financial statements of the Pirelli & C. Group have been prepared in accordance with International Financial Reporting Standards (IFRS) in force issued by the International Accounting Standards Board (IASB) and endorsed by the European Union as at December 31, 2008, as well as the measures emanated for the implementation of art. 9 of Legislative Decree 38/2005. The designation IFRS also includes all effective revised International Accounting Standards (IAS) and all Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly named the Standing Interpretations Committee (SIC).

The consolidated financial statements have been prepared under the historical cost convention except for investment property (held by companies in the Real Estate sector, accounted for by the equity method), derivative financial instruments, financial assets designated at fair value and available-for-sale financial assets, which are measured at fair value.

ACCOUNTING STANDARDS AND INTERPRETATIONS ENDORSED AND IN FORCE AS FROM JANUARY 1, 2008

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”: reclassification of financial assets

The purpose of these amendments is to allow – in certain rare circumstances – some financial instruments to be reclassified outside the category “at fair value through profit or loss” to another category, depending on the type of financial asset, that is:

- financial assets held to maturity, measured at amortized cost;
- loans and receivables, measured at amortized cost;
- available-for-sale financial assets, measured at fair value with fair value changes recognized in equity and not through profit or loss.

Reclassification is not permitted for:

- derivatives of any kind;
- financial assets measured at fair value through profit or loss designated at initial recognition.

Such amendments were endorsed by the European Union in October 2008 (EC Regulation 1004/2008). The next document issued by the IASB in November 2008 ("Reclassification of Financial Assets – Effective Date and Transition") clarifies that the effects of the reclassifications made from July 1, 2008 to October 31, 2008 are applicable beginning from July 1, 2008, whereas the effects of the reclassifications made from November 1, 2008 and thereafter are applicable starting from the date of the reclassification.

The application of these amendments did not have any impact on the consolidated financial statements.

ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT NOT YET IN FORCE AND/OR NOT ENDORSED

As required by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", new Standards or Interpretations issued but not yet in force or not yet endorsed by the European Union and therefore not applicable are summarized and briefly described below.

The Group did not elect the early adoption of any of these Standards or Interpretations.

IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions

This interpretation, endorsed by the European Union in June 2007 (EC Regulation 611/2007), provides guidance on the application of IFRS 2 "Share-based Payment" to certain types of plans that involve different units of the Group.

IFRIC 11 is applicable from January 1, 2009. The application of this interpretation is not expected to have a material impact on the consolidated financial statements.

IFRIC 12 – Service Concession Arrangements

IFRIC 12 addresses private sector operators contracted for the supply of typical public sector services (e.g. roads, airports and energy and water distribution under concession arrangements). Under these arrangements, the assets are not necessarily controlled by the private operators which, however, are responsible for constructing, operating or maintaining the public sector infrastructure. Assets under these arrangements could possibly not be recorded as property, plant and equipment in the financial statements of the private operators but rather as financial assets and/or intangible assets depending on the type of service concession arrangement.

IFRIC 12, not yet endorsed by the European Union, is applicable to the Group but is not expected to have a material impact on the consolidated financial statements.

IFRIC 13 – Customer Loyalty Programmes

IFRIC 13 addresses the accounting treatment that must be adopted by entities that grant loyalty award credits to customers who buy goods or services. It establishes that the fair value of the obligations connected with the loyalty awards must be separated from sales revenues and deferred until the entity has fulfilled its obligation to the customers.

IFRIC 13 was endorsed by the European Union in December 2008 (EC Regulation 1262/2008). The Group decided to apply this interpretation beginning January 1, 2009 but it is not expected to have a material impact on the consolidated financial statements.

IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IAS 19 “Employee Benefits” establishes a limit on the assets of a defined benefit plan which can be recognized in the balance sheet. This interpretation provides guidance on how to assess this limit and clarifies the impact on the assets and liabilities relating to a defined benefit plan when minimum contractual or statutory funding requirements exist.

IFRIC 14 was endorsed by the European Union in December 2008 (EC Regulation 1263/2008). The Group decided to apply this interpretation beginning January 1, 2009 but it is not expected to have a material impact on the consolidated financial statements.

IFRIC 15 - Agreements for the Construction of Real Estate

This interpretation provides guidelines on determining whether an agreement for the construction of real estate units is within the scope of IAS 11 “Construction Contracts” or IAS 18 “Revenue”, defining the point in time in which revenues should be recognized.

In light of this interpretation, residential development activity falls under the scope of IAS 18 “Revenue”, requiring recognition of revenues when the deed of sale is drawn up; commercial development activity, if conducted on the basis of the technical specifications of the buyer, falls under the scope of IAS 11 “Construction Contracts”.

IFRIC 15 is not yet endorsed by the European Union. The future application of this interpretation is not expected to have a material impact on the financial statements since the Group’s accounting treatment is already in line with the above changes.

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation

This interpretation clarifies certain issues relating to the accounting treatment, in consolidated financial statements, of hedges of net investments in foreign operations, explaining which types of risks have the requisites for the application of hedge accounting. IFRIC 16 specifically establishes that hedge accounting is only applicable to exchange rate differences arising between the functional currency of the foreign operation and the functional currency of the parent, and not between the functional currency of the foreign operation and the presentation currency of the consolidated financial statements.

IFRIC 16 is not yet endorsed by the European Union. The application of this interpretation is not expected to have an impact on the financial statements.

IFRIC 17 – Distribution of Non-cash Assets to Owners

This interpretation clarifies that:

- dividends payable should be recognized when the dividends are appropriately authorized and are no longer at the discretion of the entity;
- dividends payable should be measured at the fair value of the net assets to be distributed;
- the difference between dividends paid and the carrying amount of the net assets distributed should be recognized in profit or loss.

This interpretation is not yet endorsed by the European Union. The future application of this interpretation is not expected to have a material impact on the consolidated financial statements.

IFRIC 18 – Transfers of Assets from Customers

This interpretation, issued in January 2009, particularly applies to companies operating in the utilities sector. It clarifies the requirements which should be followed for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, water or gas).

This interpretation is not yet endorsed by the European Union. The future application of this interpretation is not expected to have an impact on the consolidated financial statements.

IFRS 8 – Operating Segments

This standard, endorsed by the European Union in November 2007 (EC Regulation 1358/2007), supersedes IAS 14 (Segment Reporting) and aligns segment disclosure with the requisites of US GAAP (SFAS 131 Disclosures about Segments of an Enterprise and Related Information), introducing the approach whereby the segments are identified in the same way they are identified in internal reports for management.

IFRS 8 is applicable from January 1, 2009. The application of this standard is not expected to have a material impact on the Group's disclosures in the financial statements.

Amendments to IAS 23 "Borrowing Costs"

These amendments, which are part of the project for convergence with US GAAP (SFAS 34 Capitalization of Interest Cost), remove the option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Therefore, borrowing costs are required to be capitalized as part of the cost of that asset.

These amendments, endorsed by the European Union in December 2008 (EC Regulation 1260/2008), are applicable from January 1, 2009. The application of these amendments is not expected to have an impact on the consolidated financial statements since the Group does not avail itself of the option that was eliminated.

Revision to IAS 1 "Presentation of Financial Statements"

IAS 1 has undergone a revision which is not one of substance but requires a change in the name of some of the statements forming the full set of financial statements and the introduction of a new statement ("statement of changes in equity"). The information in this statement had previously been disclosed in the notes. The amendments of the new IAS 1 also apply to comparative figures presented together with the period financial statements.

These amendments, endorsed by the European Union in December 2008 (EC Regulation 1274/2008), are applicable from January 1, 2009. The application of these amendments is not expected to have a material impact on the consolidated financial statements.

Amendments to IFRS 2 "Share-based Payment: vesting conditions and cancellations"

The amendments to IFRS 2 aim to clarify the following aspects that are not explicitly dealt with in the current standard:

- vesting conditions: vesting conditions refer only to service conditions (whereby a party should complete a specific period of service) and performance conditions (whereby it is necessary to reach specific targets). Other conditions, on which the current standard makes no explicit statements, should not be considered vesting conditions;
- cancellations: all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The current IFRS 2 describes the accounting treatment in the

case of cancellation by the entity but does not provide any indication in the case of cancellation by parties other than the entity.

These amendments, endorsed by the European Union in December 2008 (EC Regulation 1261/2008), are applicable from January 1, 2009. The application of the amendments is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements”: puttable instruments and obligations arising on liquidation.

These amendments refer to the accounting treatment of certain particular types of financial instruments which have characteristics similar to ordinary shares, but are currently classified as financial liabilities, since they give the holder of the instrument the right to request redemption by the issuer.

In accordance with these amendments, the following types of financial instruments must be classified as equity instruments on condition that they have particular characteristics and satisfy specific conditions:

- puttable financial instruments (financial instruments redeemable upon the request of the holder), for example certain types of shares issued by cooperative companies;
- instruments which give rise to an obligation for the entity to deliver to another party a pro-rata share of the net assets of the entity only on liquidation – for example certain partnerships and certain types of shares issued by limited duration companies.

These amendments, endorsed by the European Union in January 2009 (EC Regulation 53/2009), are applicable from January 1, 2009. The application of these amendments is not expected to have an impact on the financial statements.

Revision of IFRS 3 “Business Combinations”

This revision is also part of the project for convergence with US GAAP and has the purpose of aligning the accounting treatment of business combinations. The main changes over the previous version refer to:

- recognition in the income statement – when incurred – of the expenses relating to business combination transactions (legal, advisory, valuation and audit fees and professional fees in general);
- the option of recognizing minority interests at fair value (full goodwill); this option can be elected for each single business combination transaction;
- specific rules for the recognition of step acquisitions: in the case of the acquisition of control of a company in which a minority interest is already held, the previously held investment must be measured at fair value, recognizing the effects of this adjustment in the income statement;
- contingent consideration, that is, the obligations of the acquirer to transfer additional assets or shares to the seller in the case certain future events or specific conditions arise, must be recognized and measured at fair value at the date of acquisition. Subsequent changes in the fair value of such agreements are normally recognized in the income statement.

These revisions are not yet endorsed by the European Union. The impact on the financial statements in the year of first-time application of the new standard cannot be determined at this time.

Amendments to IAS 27 "Consolidated and Separate Financial Statements"

The revision of IFRS 3 "Business Combinations" also required amendments to IAS 27 "Consolidated and Separate Financial Statements", which can be summarized as follows:

- changes in the equity interests of a subsidiary, which do not entail the loss of control, qualify as equity transactions. In other words, the difference between the price paid/received and the share of net assets acquired/sold must be recognized in equity;
- in the event of the loss of control, but where an interest is retained, such interest must be measured at fair value at the date in which the loss of control is established.

These amendments are not yet endorsed by the European Union. The impacts on the financial statements in the year of first-time application of the new standard cannot be determined at this time.

"Improvements" to IFRS

Under the project begun in 2007, the IASB has issued a series of amendments to IFRS in force. The amendments bring about accounting changes for presentation, recognition and measurement and also terminology changes. Such amendments are not yet endorsed by the European Union. The future application of these amendments is not expected to have a material impact on the financial statements.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" – Cost of an investment in a subsidiary, jointly controlled entity or associate

The amendments establish that at the date of the first-time adoption of IFRS in its separate financial statements, an entity may choose to use a deemed cost option to account for the cost of an investment in a subsidiary, jointly controlled entity or associate.

At the date of transition to IFRS, the deemed cost can be the fair value – measured in accordance with IAS 39 – or the previous GAAP carrying amount.

Moreover, any distribution by the subsidiary, associate or joint venture is allowed to be recognized as income in the separate financial statements whether the distribution is from pre-acquisition or post-acquisition reserves.

These amendments, endorsed by the European Union in January 2009 (EC Regulation 69/2009), are applicable from January 1, 2009. The application of these amendments is not expected to have a material impact on the financial statements.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – eligible hedged items

This amendment provides clarification on what can be designated as a hedged item in certain particular situations:

- designation of a one-sided risk item as a hedged item, that is, when only the changes in the cash flows or fair value of a hedged item above or below a specified value, instead of the total change, are designated as a hedged item;
- designation of inflation as a hedged item.

These amendments are not yet endorsed by the European Union. The future application of these amendments is not expected to have a material impact on the financial statements.

In conformity with the provisions of art. 5, paragraph 2, of Legislative Decree 38 dated February 28, 2005, these consolidated financial statements have been prepared in euros, the presentation currency.

FINANCIAL STATEMENT FORMATS

The company has applied the provisions of Consob Resolution 15519 dated July 27, 2006 with regard to the formats of the financial statements and Consob Communication 6064293 of July 28, 2006 in respect of corporate disclosure.

The consolidated financial statements consist of the balance sheet, the income statement, the statement of recognized income and expense, the statement of cash flows and the notes, together with the report on operations by the directors on the operating performance.

The format adopted for the balance sheet classifies assets and liabilities between current and non-current.

The income statement applies the classification of costs by nature.

The format for the changes in equity is entitled "Statement of recognized income and expense" and includes the result for the year and, by homogeneous categories, the income and expenses which, under IFRS, are recognized directly in equity. The amounts of transactions with equity holders and movements during the year in the earnings reserves are presented in the notes.

In the statement of cash flows, cash flows from operating activities are presented using the indirect method where the income or loss for the year is adjusted by the effect of non-monetary transactions, by any deferral or accrual of previous or future operating collections or payments and by revenues or costs connected with cash flows from investing or financing activities.

Compared to the published consolidated financial statements at December 31, 2007, the caption of the line item in the income statement "Raw materials and consumables used" has been changed to "Raw materials and consumables used (net of change in inventories)" and the caption of the line item "Financial instruments" has been changed to "Derivative financial instruments".

The consolidated financial statements show the comparative figures of the previous year. Compared to the published balance sheet at December 31, 2007, the amount of Euros 117,098 thousand has been reclassified from "Current borrowings from banks and other financial institutions" to "Non current borrowings from banks and other financial institutions". This reclassification has no effect on the result for the year or equity.

In the income statement for the year ended December 31, 2008 and in the comparative figures for the year ended December 31, 2007, the income or loss from discontinued operations, in reference to the sale of the INTEGRA FM B.V. Group (formerly Pirelli RE Integrated Facility Management B.V.) and PGT Photonics S.p.A., is shown separately from the results from continuing operations. Accordingly, the income statement data presented in the consolidated financial statements for the year ended December 31, 2007 have been reclassified.

Lastly, the cash flows from discontinued operations (and the corresponding amounts for the prior year) are disclosed in the notes, whereas in the consolidated financial statements at December 31, 2007, such cash flows were reported in the statement of cash flows.

SCOPE OF CONSOLIDATION

The scope of consolidation includes the subsidiaries, the associates and the investments in joint ventures.

Subsidiaries are considered all the companies and entities in which the Group has the power to determine the financial and operating policies; this circumstance is generally considered to occur when more than half of the voting rights is held. The financial statements of subsidiaries are included in the consolidated financial statements from when control over such subsidiaries commences until the date that control ceases. The equity and income (loss) attributable to the

minority interests are shown separately, respectively, in the consolidated balance sheet and consolidated income statement.

Associates are considered all the companies in which the Group exercises a significant influence as defined by IAS 28 – Investments in associates. Such influence is presumed to exist when the Group holds a percentage of voting rights between 20 and 50 percent, or when – even with a lower percentage of voting rights – it has the power to participate to the determination of the financial and operating policies by virtue of specific legal relationships for example, participation in shareholders' agreements combined with other forms of exercising a significant influence over governance rights. Joint ventures are considered those companies in which, under a contractual agreement or in accordance with the bylaws, two or more parties undertake an economic activity subject to joint control.

The main changes in the scope of consolidation during 2008 refer to the sale of INTEGRA FM B.V. group (formerly Pirelli Real Estate Integrated Facility Management B.V.) and PGT Photonics S.p.A. to the United States registered company CyOptics, an associated company of the Group.

Consolidation

For consolidation purposes, the financial statements used are those of the companies included in the scope of consolidation, prepared at the reporting date and adjusted, where necessary, to conform to IAS/IFRS as applied by the Group.

The financial statements expressed in foreign currencies have been translated into euros at rates prevailing at the year-end for the balance sheet and at the average exchange rates for the income statement.

The differences arising from the translation of opening equity at year-end exchange rates have been recorded in the reserve for translation differences, together with the difference between the result for the year translated at the year-end rate compared to the average rate. The reserve for translation differences is recognized in the income statement upon the disposal of the company that generated the reserve.

The consolidation principles can be summarized as follows:

- Subsidiaries are consolidated on a line-by-line basis according to which:
 - the assets and liabilities and revenues and costs of the financial statements of the subsidiaries are assumed in full, regardless of the percentage of ownership;
 - the carrying amount of the investments is eliminated against the underlying share of equity;
 - the balance sheet and income statement transactions between companies consolidated line-by-line, including dividends distributed within the Group, are eliminated;
 - the equity or income (loss) attributable to the minority interest is presented separately in equity and in the income statement;
- investments in associates and joint ventures are accounted for by the equity method on the basis of which the carrying amount of the investments is adjusted by:
 - the share of the post-acquisition results of the associate or joint venture;
 - the adjustments from movements in equity that were not recognized in the income statement, in accordance with benchmark principles;
 - dividends paid by the associate or joint venture;
 - when the group's share, if any, of the losses of the associate exceeds the carrying amount of the investment in the financial statements, the carrying amount of the investment is reduced to nil and the share of any further losses is recognized in the "Provisions for other risks and charges" to the extent that the Group has a binding obligation to cover the losses;
- unrealized gains on sales transactions made by subsidiaries to joint ventures or associates are eliminated to the extent of the Group's interest in the joint ventures and associates;

- gains arising on sale transactions of properties made by one joint venture to other joint ventures or associates are recognized to the extent of the lower of the Group's interest in the buyer company compared to that of the seller company, that is, only to the extent of the gain realized with third parties;
- gains arising on sales transactions of properties from associates to other associates are recognized to the extent of the gain realized with third parties;
- at the time of acquisition of subsidiaries, associates or joint ventures, the price paid is allocated according to the purchase method in the manner described below:
 - determining the cost of acquisition in accordance with IFRS 3;
 - determining the fair value of the assets and liabilities acquired (both actual and contingent);
 - allocating the price paid to the fair value of the assets acquired and liabilities assumed;
 - recognizing any residual amount in goodwill, consisting of the excess of the cost of acquisition over the net fair value of the Group's share of the identifiable/assumed net assets and liabilities;
 - immediately recognizing the negative goodwill, if any, directly in the income statement if the fair value of the net assets acquired exceeds the cost of acquisition.

3. Accounting policies

INTANGIBLE ASSETS

Intangible assets with a finite useful life are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization starts when the asset is available for use or is able to function as management intends, and ceases on the date on which the asset is classified as held for sale or is derecognized. The gains or losses from the sale or disposal of an intangible asset are determined as the difference between the net proceeds from the sale and the carrying amount of the asset.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's interest in the identifiable assets and liabilities acquired as of the date of acquisition.

Any negative difference (negative goodwill) is recognized in the income statement at the date of acquisition. In the absence of a standard or a specific interpretation on the subject, in the event of the acquisition of minority interests in companies already controlled, the difference between the acquisition cost and the carrying amount of assets and liabilities acquired is recognized as goodwill, according to the "Parent entity extension method". Any negative difference is recognized in the income statement.

Goodwill is tested for impairment in order to identify any impairment losses at least annually or whenever there are indications of an impairment loss, and is allocated to cash-generating units for this purpose.

Upon the disposal of a part or the whole of a previously acquired company to which goodwill has been allocated, the corresponding residual amount of goodwill is taken into account in the determination of the gain or loss on sale.

Trademarks and licenses

Trademarks and licenses are stated at cost less accumulated amortization and accumulated impairment losses. Cost is amortized over the contract period or the useful lives of the assets, whichever is sooner.

Software

Software license costs, including direct incidental costs, are capitalized and recorded in the balance sheet less accumulated amortization and accumulated impairment losses. Software is amortized over its useful life on a straight-line basis.

Research and development

Research expenditures for new products and/or processes are expensed when incurred. There are no developments costs which meet the conditions for capitalization under IAS 38.

The useful lives of intangible assets are the following:

Trademarks and licenses	5 years
Software	from 1 to 3 years

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at the cost of acquisition or production, including directly attributable incidental expenses.

Subsequent expenditures and the cost of replacing some parts of property, plant and equipment are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred. When the cost of replacing some parts is capitalized, the carrying amount of the part replaced is recognized in the income statement.

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, except for land, which is not depreciated and is stated at cost less accumulated impairment losses.

Depreciation is accounted for starting from the month in which the asset is available for use, or is potentially able to provide the economic benefits associated with it.

Depreciation is charged monthly using the straight-line method at rates designed to write-off the assets to the end of their residual useful lives or, for disposals, until the last month of use.

Depreciation rates are as follows:

Buildings	3% - 10%
Plant	7% - 20%
Machinery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Government investment grants relating to property, plant and equipment are recorded as deferred income and credited to the income statement over the period of depreciation of the relative assets.

Borrowing costs incurred for the purchase of an asset are expensed unless they are directly attributable to the purchase, construction or production of a qualifying asset, in which case they are capitalized. A qualifying asset is one that takes a substantial period of time to get ready for

use. The capitalization of borrowing costs ceases when substantially all the work necessary to render the qualifying asset available for use has been completed.

Leasehold improvements are classified as property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period corresponds to the remaining useful life of the asset or the residual period of the lease contract, whichever is sooner.

Spare parts of a significant amount are capitalized and depreciated over the estimated useful life of the assets to which they refer.

Dismantling costs, if any, are estimated and added to the cost of property, plant and equipment with a corresponding entry to a provision account for other liabilities and charges. They are then depreciated over the remaining useful life of the assets to which they refer.

Assets acquired under finance lease contracts, in which substantially all the risks and rewards of ownership are transferred to the Group, are recorded in property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, with a corresponding entry to the relative financial payable. The lease payment is allocated between interest expense, recorded in the income statement, and the principal repayment, recorded as a reduction of the financial payable.

Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. The costs referring to an operating lease are recognized as an expense in the income statement over the lease term on a straight-line basis.

Property, plant and equipment are eliminated from the balance sheet at the time of disposal or upon retirement of the asset from use and, consequently, future benefits are not expected from their sale or use.

Gains or losses from the sale or disposal of property, plant and equipment are determined as the difference between the recoverable amount and the carrying amount of the asset.

INVESTMENT PROPERTY (HELD BY COMPANIES IN THE REAL ESTATE SECTOR ACCOUNTED FOR BY THE EQUITY METHOD)

Investment property is defined as property held to earn rent or for capital appreciation or both.

Investment property is initially recognized at cost, including transaction costs, and subsequently re-measured at fair value. The changes in the fair value of investment property are recorded in the income statement.

The fair value of an investment property reflects the market value at the balance sheet date and represents the amount at which the investment property could be exchanged between knowledgeable and willing parties in an arm's length transaction and after the outcome of adequate sales negotiations based on the principle of reciprocal independence.

Each single property is measured and takes into consideration the future rental income and, where significant, the relative costs, discounted by applying a discount rate that reflects the risks specific to the cash flows generated by the asset.

The income or expense representing changes in the fair value of the investment property is recorded in the income statement in the year in which the change occurs.

The gain or loss on the disposal of investment property is calculated as the difference between the net proceeds from disposal and the carrying amount of the asset, and is recorded in the income statement in the year of sale.

When there is a change in use of an investment property from inventories to investment property, the difference between the fair value at the balance sheet date and the previous carrying amount is recorded in the income statement.

When there is a change in use from investment property to owner-occupied property, the fair value at the date of the change in use is considered the cost of the property under its new classification.

IMPAIRMENT OF ASSETS

Property, plant and equipment and intangible assets

Whenever there are specific indicators of an impairment, and at least annually for intangible assets with an indefinite life, including goodwill, the property, plant and equipment and intangible assets should be tested for impairment.

The test consists of an estimate of the recoverable amount of the asset and a comparison with its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where value in use is the present value of expected future cash flows originating from the use of the asset and those deriving from its disposal at the end of its useful life excluding income taxes, and applying a discount rate which should be the pre-tax rate which reflects the current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount is lower than the asset's carrying amount, the carrying amount is reduced to the recoverable amount. This reduction constitutes an impairment loss which is recognized in the income statement.

To test for impairment, assets are allocated to the lowest level at which independent cash flows are separately identifiable (cash-generating unit). Specifically, goodwill must be allocated to the cash-generating unit or group of cash-generating units which must never be at a higher level than the business segment.

When there are indications that an impairment loss recognized in prior years and relating to property, plant and equipment or intangible assets, other than goodwill, may no longer exist or can be reduced, the recoverable amount is estimated again and if it is higher than the net carrying amount, then the net carrying amount should be increased to the revised estimate of its recoverable amount. The reversal of an impairment loss may not exceed the carrying amount that would have been recorded (net of writedowns and depreciation and amortization) had no impairment loss been recognized in prior years.

The reversal of an impairment loss, other than on goodwill, is recognized in the income statement.

An impairment loss recognized on goodwill cannot be reversed in subsequent years.

An impairment loss recognized in the half-year financial statements on goodwill cannot be reversed in the following annual period.

Investments in associates and joint ventures

In order to test for impairment, the value of investments in associates and joint ventures accounted for by the equity method must be compared with the recoverable amount. The recoverable amount corresponds to the higher of the fair value, less costs to sell, and the value in use. It is not necessary to estimate both amounts since it is sufficient to verify that one of the two amounts is higher than the carrying amount in order to establish the absence of an impairment.

In keeping with recent interpretations, for purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active market is always equal to its market value, irrespective of the percentage of ownership.

In order to determine the value in use of an associate or joint venture accounted for by the equity method, the following estimates should be made alternatively:

- a) the share of the present value of estimated future cash flows that will be generated by the associate or joint venture, including cash flows generated by the operating activities of the associate or joint venture and the consideration that will be received on the final disposal of the investment, taking into account also the higher implicit values relating to the real estate portfolios held (known as the Discounted Cash Flow – asset side criterion);
- b) the present value of estimated future cash flows that will be generated by dividends to be received and the final disposal of the investment (known as the Dividend Discount model – equity side criterion).

When there are indications that an impairment loss recognized in prior years and relating to investments in associates and joint ventures no longer exists or can be reduced, the recoverable amount of the investment is estimated again and if it is higher than the amount of the investment, then the latter amount should be increased to the revised estimate of the recoverable amount. The reversal of an impairment loss may not exceed the amount of the investment that would have been recorded (net of writedowns) had no impairment loss been recognized in prior years. The reversal of an impairment loss on investments in associates and joint ventures is recognized in the income statement.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include investments in other companies and other securities not held for trading. They are included in "Other financial assets".

They are measured at fair value. The gains and losses from changes in fair value are recognized in a specific equity reserve.

In case of impairment, the losses recognized up to that time in equity are reversed to the income statement. A prolonged (more than 12 months) or significant (more than one-third) reduction in the fair value of equity securities compared to cost is considered as an indicator that the securities are impaired. In any case, before recognizing an impairment loss in the income statement, the investment should be measured specifically.

In the event of disposal, the gains and losses recognized up to that time in equity are reversed to the income statement.

Any impairment losses recognized on available-for-sale financial assets in the income statement cannot be reversed through the income statement.

Impairment losses recognized in the half-year financial statements on equity securities classified as available-for-sale cannot be reversed to the income statement in the following annual period.

Purchases and sales of available-for sale financial assets are recognized on settlement date.

Other financial assets, whether debt or equity securities, for which fair value is not available, are accounted for at cost, reduced by any impairment losses based on the best market information available at the balance sheet date.

INVENTORIES

Tyre Sector

Inventories are stated at the lower of cost, using the FIFO method, and estimated realizable value.

Inventories include direct costs of materials and labor and indirect overheads. Provisions are calculated for obsolete and slow moving inventories and take into account their expected future use and estimated realizable value. Net realizable value is the estimated selling price, net of all costs estimated to complete the asset and selling and distribution costs that will be incurred.

Cost includes incremental expenses and borrowing costs qualifying for capitalization, similarly to what is described for property, plant and equipment.

Real Estate Sector

Inventories consist of land to be developed, properties for renovation, properties under construction/renovation, completed properties for sale, trading properties and consumables.

Land to be developed is recognized at the lower of cost and estimated realizable value, net of direct selling costs. Cost includes incremental expenses and borrowing costs qualifying for capitalization, similarly to what is described for property, plant and equipment.

Properties under construction and/or renovation are valued at the lower of cost, including incremental expenses and borrowing costs qualifying for capitalization, and estimated realizable value, net of direct selling costs.

Trading properties are recognized at the lower of cost and estimated realizable value, which is normally taken as market value, inferred from sales of comparable properties in terms of location and type.

Cost is increased by any incremental expenses incurred up to the time of sale.

Classification of real estate portfolio: Inventories (IAS 2) – Investment Property (IAS 40)

In accordance with the business model prevalent within the Real Estate sector, the majority of property assets are classified in inventories insofar as they are held for the purpose of trading and are in any case intended for sale during the course of the normal operating cycle of the companies included in the scope of consolidation.

CONSTRUCTION CONTRACTS

A construction contract is a contract specifically negotiated for the construction of an asset, based on the instructions of a principal who, as a preliminary step, designs the plans and the technical characteristics.

Contract revenues include the consideration initially agreed with the customer, in addition to changes in the construction work and price variations envisaged by the contract that can be determined reliably.

When the outcome of a contract can be estimated reliably, the contract is measured using the percentage of completion method. The stage of completion is measured by reference to the costs incurred up to the balance sheet date as a percentage of the total estimated costs for each contract.

Costs incurred during the year in connection with future activities on a contract are excluded from contract costs when determining the stage of completion, and are recognized as inventories.

When it is probable that total contract costs will exceed total contract revenues, the expected loss is immediately recognized as an expense.

The gross amount due from customers for contract work for all the contracts in progress and for which the costs incurred plus recognized profit (or less recognized loss) exceed progress billings is recognized as a receivable in the line item "trade receivables".

The gross amount due to customers for contract work for all the contracts in progress for which the progress billings exceed the costs incurred plus recognized profit (or less recognized loss) is recognized as a payable in the line item "trade payables".

RECEIVABLES

Receivables are initially recorded at their fair value, generally represented by the agreed consideration or the present value of the amount that will be collected.

They are subsequently measured at amortized cost, less provision for impairment.

Amortized cost is calculated using the effective interest rate method, which is equivalent to the discount rate which, applied to future cash flows, renders the present value of such flows equal to the initial fair value.

In the event of an impairment loss, the carrying amount of the receivables is reduced indirectly by recognition of a provision account. When the conditions that gave rise to the impairment of the receivables no longer exist, the impairment losses recorded in previous periods are reversed by a credit to the income statement up to the amortized cost that would have been recorded had no impairment loss been recognized.

Receivables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a corresponding entry to the income statement.

Receivables are derecognized when the right to receive cash flows is extinguished, when substantially all the risks and rewards connected with holding the receivable have been transferred or in the case the receivable is considered definitively irrecoverable after all the necessary recovery procedures have been completed. When the receivable is derecognized, the relative provision is also derecognized if the receivable had previously been written down.

Junior notes and non-performing loans

Junior notes generated by transactions for the securitization of non-performing loans (found in the Real Estate sector) as well as non-performing receivables (deep discount receivables purchased at prices significantly below the carrying amounts) are classified as loans and receivables and initially recorded at fair value, generally represented by the price paid.

They are subsequently measured at amortized cost. Amortized cost is calculated using the effective interest rate method, which is equivalent to the discount rate which, applied to future cash flows, resulting from the first business plan prepared subsequent to purchase, renders the present value of such flows equal to the cost of purchase including any transaction costs.

The carrying amount is adjusted, whenever there is a change in the estimate of expected cash flows, to the amount resulting from discounting future cash flows at the original effective interest rate.

Any differences, whether positive or negative, are recognized in the income statement.

Shareholders' loans to associates and joint ventures

Financial receivables representative of loans to associates and joint ventures are initially recorded at their fair value, corresponding to the present value of future cash flows.

Loans by shareholders made at non-market conditions are discounted over the term of the loan at a rate representative of a loan having similar characteristics.

Any difference between the nominal amount of the loan and the fair value re-measured as previously described is recognized, by the lender, as an increase in the carrying amount of the investment, net of any tax effects. The beneficiary of the loan, in its financial statements prepared in accordance with Group principles and used for valuation of the investment by the equity method, recognizes the same difference as a reduction of its financial payables and as an increase, net of the tax effect, of equity.

After initial recognition, shareholders' loans are measured at amortized cost.

PAYABLES

Payables are initially recorded at their fair value, generally represented by the agreed consideration or the present value of the amount that will be paid.

They are subsequently measured at amortized cost.

Amortized cost is calculated using the effective interest rate method, which is equivalent to the discount rate which, applied to future cash flows, renders the present value of such flows equal to the initial fair value.

Payables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a corresponding entry to the income statement.

Payables are derecognized when the specific contractual obligation is extinguished.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This category of financial assets includes securities purchased principally for resale in the short term and classified in current assets in "securities held for trading". They also comprise financial assets which at the time of initial recognition are designated at fair value through profit or loss and classified in "other financial assets".

They are measured at fair value with a corresponding entry to the income statement. Transaction costs are expensed to the income statement.

Purchases and sales of such financial assets are recognized on settlement date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank and postal deposits and cash and valuables on hand.

PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Provisions for other liabilities and charges include accruals for current obligations (legal or constructive) deriving from a past event, for the fulfillment of which an outflow of resources will probably be necessary, the amount of which can be estimated in a reliable manner.

Changes in estimates are recognized in the income statement in the period in which the change occurs.

If the effect of discounting is material, provisions are presented at their present value.

EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations paid subsequent to the termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial calculations. The liability recorded in the financial statements is the present value of the Group's obligation, net of any plan assets.

With regard to defined benefit plans, the Pirelli & C. Group elected the option allowed by IAS 19 under which actuarial gains and losses are recognized in equity in full in the year in which they arise.

For other long-term benefits, actuarial gains and losses are recognized immediately in the income statement.

The interest cost and the expected return on plan assets are classified in personnel costs.

The costs relating to defined contribution plans are recognized in the income statement when incurred.

Up to December 31, 2006, the provision for the employees' leaving indemnity of the Italian companies (TFR) was considered a defined benefit plan. The rules regarding this provision were changed by Law 297 dated December 27, 2006 (Italian Budget Law 2007) and subsequent Decrees and Regu-

lations issued in the early months of 2007. In light of these changes, particularly with reference to Group companies with more than 50 employees, the provision is now considered a defined benefit plan for the portion accrued prior to January 1, 2007 (and not yet paid at the balance sheet date), whereas subsequent to that date, it is considered a defined contribution plan.

STOCK OPTION

The Group offers additional benefits to some of its senior executives and employees in the form of equity compensation plans (stock option plans).

Stock options are divided into two types which require different accounting treatments according to the features of the plan:

- *equity-settled*: are plans in which the grantee has the right to purchase shares of the company at a fixed price whenever specific conditions are met. In such cases, the fair value of the option, determined at the grant date, is recognized as an expense over the period of the plan with a corresponding entry increasing the reserves in equity;
- *cash-settled*: are plans which provide for put options on behalf of the recipient, combined with call options on behalf of the issuer, or plans in which the recipient directly receives the monetary equivalent amount of the benefit originating from the exercise of the stock option. The fair value of the option, re-measured at the end of every reporting period, is recognized in the income statement over the vesting period of the plan, with a corresponding entry to a liability in the balance sheet. The changes in the fair value of the liability subsequent to the vesting period are recognized in the income statement.

The Group has applied the transitional provisions of IFRS 2 and has therefore applied the standard to all stock option plans granted after November 7, 2002 and not yet vested at the date IFRS 2 came into force (January 1, 2005).

Detailed disclosure is also provided on the plans granted prior to that date.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are recognized initially at fair value with a corresponding entry in the income statement and subsequent re-measurement is always at fair value. Fair value gains or losses are recognized in the income statement except for derivatives designated as cash flow hedges.

In all cases in which derivatives are designated as hedging instruments under IAS 39, at the inception of the transaction, the Group formally documents the relationship between the hedging instrument and the hedged item, its risk management objectives and the strategy followed in effecting the hedge transaction.

Beginning in 2008, for purposes of the application of cash flow hedges, in the companies accounted for by the equity method, the Real Estate sector has implemented dynamic type hedging relationships between the derivatives portfolio and existing loans. This approach makes it possible to review and redefine, on a quarterly basis, the hedging strategy in relation to loan reimbursement forecasts in strict correlation with the business plan of the various initiatives. The Group also assesses the effectiveness of the hedging instrument in offsetting the variations in the cash flows attributable to the hedged risk. Such assessment is performed at hedge inception and on an ongoing basis for the duration of the hedge.

The effective portion of the change in the fair value of the derivative that was designated and qualifies as a hedging instrument is recognized directly in equity; the gain or loss relating to the ineffective portion is recognized in the income statement.

The amounts recognized directly in equity are reversed to the income statement at the same time the hedged item produces an effect in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity

until the hedged item ultimately produces an effect in the income statement. When the hedged item is no longer expected to produce an effect in the income statement, the cumulative gain or loss that was reported in equity is immediately recognized in the income statement. Purchases and sales of derivatives are recorded at settlement date.

Fair value estimation

The fair value of financial instruments traded in active markets is based on listed market prices at the balance sheet date. The listed market price used for financial assets is the current bid price; the appropriate listed market price for financial liabilities is the current ask price. The fair value of financial instruments that are not traded on an active market is determined by using valuation techniques with a variety of methods and assumptions that are based on market conditions existing at each balance sheet date.

The fair value of interest-rate swaps is calculated as the present value of estimated future cash flows.

The fair value of forward exchange contracts is determined using the forward rate at the balance sheet date.

INCOME TAXES

Current income taxes are determined on the basis of a realistic estimate of the tax expense payable under the current tax laws of the country.

Deferred taxes are calculated on temporary differences arising between the asset and liability amounts in the balance sheet and their tax bases (full liability method) and are classified in non-current assets and liabilities.

Deferred tax assets on tax loss carryforwards, as well as on temporary differences, are only recognized when there is a probability of future recovery.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, with reference to the jurisdictions where the Group operates.

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly to equity in the period or in previous periods.

EQUITY

Treasury shares

Treasury shares are classified as a deduction from equity.

In the event of sale, re-issue or cancellation, the gains and losses as a result thereof are classified in equity.

Costs of equity transactions

Costs directly attributable to equity transactions of the parent are recognized as a deduction from equity.

RECOGNITION OF REVENUES

Revenues are measured at the fair value of the consideration received for the sale of products or the rendering of services.

Sales of products

Revenues from sales of products are recognized when all the following conditions are met:

- the significant risks and the rewards of ownership of the goods are transferred to the buyer;
- the effective control over the goods has ceased;
- the amount of revenues is determined in a reliable manner;
- it is probable that the economic benefits deriving from the sale will be enjoyed by the enterprise;
- the costs incurred or to be incurred are determined in a reliable manner.

With specific reference to sales of properties, revenues are generally recognized at the time of transfer of ownership to the buyer which corresponds to the date of the deed of sale. If the nature and degree of involvement of the seller are such as to cause that the risks and rewards of ownership are not in fact transferred, then the recognition date of the revenues is deferred until such time as the transfer can be considered to have taken place.

Rendering of services

Revenues from rendering of services are recognized only when the results of the transaction can be measured reliably, by reference to the stage of completion of the transaction at the balance sheet date. The results of a transaction can be measured reliably only when the following conditions are met:

- the amount of the revenues can be determined reliably;
- it is probable that the company will enjoy economic benefits from the transaction;
- the stage of completion of the transaction at the balance sheet date can be measured reliably;
- the costs incurred for the transaction and the costs to be incurred to complete the transaction can be determined in a reliable manner.

Interest income

Interest income is recognized on a time-proportion basis which considers the effective return of the asset or liability.

Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

Dividend income

Dividend income is recognized when the right to receive payment is established, which normally corresponds to the resolution passed by the shareholders' meeting for the distribution of dividends.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the income attributable to the equity holders of the company by the weighted average number of outstanding ordinary shares during the year. To calculate diluted earnings per share, the weighted average number of outstanding shares is adjusted by assuming the conversion of all shares with a potentially dilutive effect.

SEGMENT INFORMATION

The business segment (primary reporting segment) is a distinctly identifiable part of the Group which supplies a single product or service or an aggregate of related products and services and is subject to risks and rewards different from those of the other business segments of the Group. The geographical segment (secondary reporting segment) is a distinctly identifiable part of the Group which supplies a single product or service or an aggregate of related products and services and is subject to risks and rewards different from those relating to components which operate in other economic environments.

4. Financial risk management policies

Financial risk management is an integral part of the management of the Group's operations. Risk management is carried out centrally using policies defined by the General Management. Such policies define the categories of risk and specify the procedures and operating limits for each type of transaction and/or instrument. In accordance with these policies, the Group uses derivative contracts in relation to underlying financial assets or liabilities or future transactions. Financial risk management is centralized at the Sector Treasuries which have the task of evaluating the risks and putting into place the relative hedges under the coordination of Group Treasury. The Sector Treasuries operate directly in the market on behalf of the Operating Units and, where they cannot operate directly because of external restrictions, they coordinate the activities of Local Treasury Units.

TYPES OF FINANCIAL RISKS

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk. This risk is managed by the Sector Treasuries and coordinated by Group Treasury.

The Operating Units are responsible for gathering all the information inherent to the positions subject to foreign exchange risk which are managed by forward contracts negotiated with the Sector Treasuries. The positions subject to exchange risk are mainly represented by sales and purchases invoices.

The Sector Treasuries are responsible for assessing and managing the net position for every currency, in accordance with policies and pre-set limits, by negotiating derivative contracts on the market, generally forward contracts.

As a result, a change in exchange rates will not generate any significant effect on the income statement.

Forward contracts between the Operating Units and the Sector Treasuries as well as those among the Sector Treasuries and the market are not designated as hedging instruments as defined by IAS 39 although they are in place for the purpose of managing risks.

Currency translation risk

The Group holds controlling investments in companies which prepare their financial statements in currencies other than the euro, which is the presentation currency of the Group. This exposes the Group to risk from currency translations since fluctuations in the exchange rates of certain foreign currencies against the presentation currency (euro) can cause changes in the amount of consolidated equity.

The principal exposures to currency translation risk are monitored but it is not the Group's policy to hedge this exposure.

About 61 percent (about 73 percent at December 31, 2007) of total consolidated equity at December 31, 2008 is expressed in Euro. The most important currencies for the Group other than the Euro are the Brazilian real (14 percent; 11 percent at December 31, 2007) and the Turkish lira (8 percent; 6 percent at December 31, 2007).

The effect on total consolidated equity resulting from a hypothetical increase or decrease in the value of the above currencies against the Euro – all other conditions being equal, is as follows:

(in thousands of euros)

	10% increase in value		10% decrease in value	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Brazilian real	36,633	45,744	(29,973)	(37,427)
Turkish lira	20,578	27,333	(16,836)	(22,364)
Total effect on consolidated equity	57,211	73,077	(46,809)	(59,791)

Interest rate risk

The Group's policy is to tend to maintain a correct balance between fixed-rate debt and floating-rate debt with the aim being fixed-rate debt at about 60 percent of total financial debt.

The Group manages the risk of an increase in floating-rate debt interest rates by compensation with floating-rate receivables and by the use of derivative contracts. The designation of such derivatives as hedging instruments under IAS 39 is decided case by case and authorized by the General Management.

The effects on the results for the year and directly on total equity resulting from an increase or decrease of 0.50 percent in the level of interest rates of all the currencies to which the Group is exposed – all other conditions being equal, are the following:

(in thousands of euros)

	+0.50% increase		-0.50% decrease	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Effect on the result for the year:				
- companies consolidated line-by-line	(3,850)	39	2,634	1,276
- companies accounted for using the equity method	(1,484)	7,052	3,045	670
Total effect on the result for the year	(5,334)	7,091	5,679	1,946
Direct effect on equity:				
- companies consolidated line-by-line	1,195	836	(1,970)	(838)
- companies accounted for using the equity method	8,472	8,924	(8,749)	(9,169)
Total direct effect on equity	9,667	9,760	(10,719)	(10,007)

The impact on the result for the year includes the effect on:

- financial income and expenses of floating-rate receivables and payables;
- liquidated income and expenses of interest rate derivatives;
- change in fair value of interest rate derivatives.

The direct impact on equity is connected with the change in fair value of cash flow hedge derivatives.

Price risk associated with financial assets

The Group is exposed to price risk to the extent of the volatility of financial assets such as listed and unlisted equity shares and bonds, listed real estate investment funds and unlisted closed-end real estate investment funds for an amount equal to about 9 percent of total consolidated assets at December 31, 2008 (12 percent at December 31, 2007); the change in fair value of these financial assets is recognized in equity or in the income statement in accordance with IAS 39.

Listed equity shares and listed real estate investment funds, whose change in fair value is recognized in equity, represent 59 percent of total financial assets subject to price risk (77 percent at December 31, 2007). A change of 1 percent in these listed securities, all other conditions being equal, would cause a change of Euros 3,641 thousand (Euros 8,233 thousand at December 31, 2007) in the equity of the Group.

Financial assets, whose change in fair value is recognized through profit or loss, refer to unlisted closed-end real estate investment funds, whose fair value is arrived by reference to a basket of similarly listed securities. A change in the reference index relating to listed closed-end real estate funds of 1 percent, all other conditions being equal, would cause an impact on the result for the year of Euros 296 thousand (Euros 319 thousand at December 31, 2007).

Credit risk

Credit risk represents the Group's exposure to potential losses due to the non-fulfillment of obligations undertaken by commercial and financial counterparts.

The Group does have significant concentrations of credit risk.

In order to limit this risk with commercial counterparts, the Group has put into place procedures to assess the potential and financial creditworthiness of the customers in order to monitor flows of estimated collections and for recovery actions, if any.

The aim of these procedures is to define the customer credit limits which, if exceeded, will activate the rule causing supplies to be blocked.

In some cases the client is asked to furnish guarantees; these will mainly be bank guarantees provided by high-credit standing banks or personal guarantees. Mortgages are requested less frequently. Another tool used to manage commercial credit risk are insurance policies taken out to forestall the risk of non-payment through a meticulous selection of the customer portfolio made together with the insurance company, which undertakes to guarantee compensation in the case of insolvency.

As for financial counterparts, for the management of temporary excess resources or for the negotiation of derivatives, the Group only uses high-credit worthy counterparts.

Receivables for shareholders' loans are evaluated together with the interest invested in the capital of the investment holding, using an analysis of cash flows generated by the relative underlying real estate projects.

The carrying amount of junior notes and non-performing loans is adjusted each time there is a change in the estimate of discounted cash flows expected and, in the case of impairment, is indirectly reduced through recognition of a specific provision account. In some cases, the customers are asked to furnish guarantees; these are mainly bank guarantees provided by high-credit standing banks, personal guarantees or mortgages.

Impairment losses on receivables are calculated on the basis of the risk of non-fulfillment by the counterpart determined by considering the information available on the solvency of the counterpart and historical experience. The carrying amount of receivables is indirectly reduced through recognition of a provision account.

Single significant positions, for which there is an objective condition of partial or total uncollectibility are written down individually. The amount of the impairment loss takes into account the estimate of future recoverable flows and the relative date of collection, recovery costs and expenses and the fair value of the guarantees, if any.

The positions which are not written down individually are included in groups with similar characteristics from the standpoint of credit risk and written down on a collective basis according to a percentage that increases as the overdue period increases. The collective impairment procedure also applies to receivables not yet due.

The writedown percentages are determined on the basis of historical experience and statistical data.

Liquidity risk

Liquidity risk represents the risk that available financial resources will not be sufficient to meet financial and commercial obligations within the prescribed time and due dates. The main instruments used by the Group to manage liquidity risk are three-year and annual financial plans and treasury plans that enable the Group to fully and correctly recognize and measure incoming and outgoing monetary flows. Variances between the plans and the actual figures are constantly analyzed.

Prudent liquidity risk management implies maintaining sufficient cash and/or short-term securities that can be readily converted into cash, the availability of funding through an adequate amount of committed credit facilities and/or the ability to close out market positions. Due to the dynamic nature of the businesses in which it operates, the Group aims to maintain flexibility in funding by using committed credit lines.

In order to optimize the management of financial resources and thus the liquidity risk, the Group has implemented a centralized system for managing collection and payment flows while respecting the different local currency and tax laws. The negotiation and management of banking relations is conducted centrally so that short-term and medium-term financial requirements are assured of coverage at the lowest cost possible. Even the funding of medium/long-term resources on the capital market is optimized by using centralized management.

At December 31, 2008, in addition to liquidity and securities held for trading, equal to Euros 369,705 thousand, the Group has unused committed credit facilities of Euros 785,000 thousand (Euros 2,672,000 thousand at December 31, 2007), with the following expiration dates:

(in thousands of euros)

2010	10.000
2011	136.000
2012	639.000
	785.000

The maturities of financial liabilities at December 31, 2008 can be summarized as follows:

(in thousands of euros)

	within 1 year	between 1 and 2 years	between 2 and 5 years	beyond 5 years	Total
Trade payables	1,108,573	-	-	-	1,108,573
Other payables	482,401	29,706	15,006	3,760	530,873
Derivative financial instruments	110,473	2,139	-	-	112,612
Borrowings from banks and other financial institutions	695,561	312,427	1,057,320	6,000	2,071,308
	2,397,008	344,272	1,072,326	9,760	3,823,366

The maturities of financial liabilities at December 31, 2007 can be summarized as follows:

(in thousands of euros)

	within 1 year	between 1 and 2 years	between 2 and 5 years	beyond 5 years	Total
Trade payables	1,323,588	-	-	-	1,323,588
Other payables	1,394,673	2,058	17,504	3,738	1,417,973
Derivative financial instruments	72,513	262	6,520	-	79,295
Borrowings from banks and other financial institutions	754,661	289,526	465,488	150,282	1,659,957
	3,545,435	291,846	489,512	154,020	4,480,813

Additional information: categories of financial assets and liabilities

The carrying amounts for every category of financial assets and liabilities identified in IAS 39 are reported as follows:

(in thousands of euros)

	Note	Carrying amount at December 31, 2008	Carrying amount at December 31, 2007
FINANCIAL ASSETS			
Financial assets at fair value through profit or loss			
- designated at the time of initial recognition			
Other financial assets - non-current	11	29,599	31,910
- held for trading			
Securities held for trading	17	115,800	114,039
Derivative financial instruments - non-current	27	3,161	3,849
Derivative financial instruments - current	27	92,108	56,116
Loans and receivables			
Other receivables - non-current	14	723,004	672,894
Trade receivables - current	13	787,951	1,098,927
Other receivables - current	14	239,956	241,475
Cash and cash equivalents	18	253,905	2,057,682
Available-for-sale financial assets			
Other financial assets - non-current	11	476,300	926,362
Hedging financial instruments			
Derivative financial instruments - current	27	1,934	2,210
Total financial assets		2,723,718	5,205,464
FINANCIAL LIABILITIES			
Financial liabilities at fair value through profit or loss			
- held for trading			
Derivative financial instruments - non-current	27	2,139	6,782
Derivative financial instruments - current	27	105,217	72,513
Financial liabilities measured at amortized cost			
Borrowings from bank and other financial institutions - non-current	24	1,375,747	905,296
Other payables - non-current	26	48,472	23,300
Borrowings from bank and other financial institutions - current	24	695,561	754,661
Trade payables - current	25	1,108,573	1,323,588
Other payables - current	26	482,401	1,394,673
Hedging financial instruments			
Derivative financial instruments - current	27	5,256	-
Total financial liabilities		3,823,366	4,480,813

5. Capital management policies

The objective of the Group is to maximize the return on net invested capital, maintaining the ability to operate over time and guaranteeing adequate returns for the shareholders and benefits for the other stakeholders, with a sustainable financial structure.

In order to achieve these objectives, in addition to pursuing satisfactory economic results and generating cash flows, the Group can take action on the dividend policy and the configuration of the Company's capital.

The main indicators used by the Group to manage capital are the following:

1. Ratio between operating profit, including earnings (losses) from investments and average net invested capital: the indicator represents the capacity of the company's results to remunerate net invested capital, this being understood as the sum of fixed assets and net working capital. The earnings (losses) of investments is included in the calculation as it is the most important measure representing the performance of the Real Estate sector. The objective of the Group is that this ratio should be higher than the average cost of capital (WACC);
2. Gearing: this is calculated as the ratio of net financial position and equity. It is an indicator of the sustainability of the debt to equity ratio, which takes into account the market situation and the trend of the cost of capital and debt at different times;
3. R.O.E (Return on equity): this is calculated as the ratio between the result for the year and average equity. It is an indicator representing the capacity of the Group to remunerate its shareholders. The objective is that the indicator should assume a value that is significantly higher than the rate of return on a risk-free investment, correlated to the nature of the businesses managed.

The amounts for the years 2008, 2007 and 2006 are as follows:

	2008	2007	2006
1 Ratio between operating profit, including earnings (losses) from investments and average net invested capital	(7.89%)	8.92%	15.93%
2 Gearing ratio	0.43	n/a *	0.42
3 R.O.E. (Return on Equity)	(13.35%)	7.61%	(20.37%)

* Not applicable as there is a positive net financial position

6. Estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions which, in some circumstances, are based on difficult and subjective judgments and estimates derived from historical experience and assumptions which, each time, are believed to be reasonable and realistic under the circumstances. Actual results could therefore differ from those estimates. Estimates and assumptions are periodically reviewed and the effect of each change made to them is reflected in the income statement in the period in which the estimate review is carried out if the review only has an effect on that period, or also in successive periods if the review has an effect on both the current and future periods.

With this in mind, it should be noted that the situation triggered by the current economic and financial crisis has prompted assumptions to be made about a future featuring a high degree of uncertainty. Therefore, it is not to be excluded that, next year, results could be different from estimates. As a result, even material adjustments to the carrying amounts of assets and liabilities might be required which today clearly cannot be either estimated or foreseen. Such

estimates affect the reported amounts of some assets and liabilities, costs and revenues, as well as the disclosure of contingent assets and liabilities at the balance sheet date.

The estimates and assumptions will generally refer to the measurement of the recoverable amounts of intangible assets, the definition of the useful lives of property, plant and equipment, the recoverability of receivables and the recognition and measurement of provisions. The estimates and assumptions are based upon data which reflects the current state of available knowledge.

ACCOUNTING POLICIES OF PARTICULAR IMPORTANCE REQUIRING A HIGHER DEGREE OF JUDGMENT

A brief description is provided below of the accounting policies which require a higher degree of subjective assumptions and judgments by management in making estimates and for which a change in the conditions underlying the assumptions could have a significant impact on the consolidated financial statements or for which there is the risk of material adjustment to the carrying amount of assets and liabilities in the year subsequent to the balance sheet date.

Goodwill

In accordance with the accounting policies applied in the preparation of the financial statements, goodwill is tested annually in order to assess whether there is an impairment that should be recorded in the income statement. In particular, the test involves the allocation of goodwill to cash-generating units and the determination of the relative recoverable amount, understood as being the higher of fair value and the value in use.

If the value in use is lower than the carrying amount of the cash-generating units, an impairment on the goodwill allocated to them should be recognized. The allocation of goodwill to cash-generating units and the determination of their value in use involves estimates which depend on subjective valuations as well as on factors which could change over time with consequent and possibly material effects compared to the assessments made by management.

Impairment of property, plant and equipment and intangible assets

In accordance with the accounting policies applied, property, plant and equipment and intangible assets are tested to ascertain if there is an impairment, which should be recognized, when there are indications that would imply difficulties in recovering the net carrying amount through the use of the asset. The verification of the existence of these indications requires management to make subjective judgments based on available internal or external information and historical experience. Moreover, when it has been determined that there could be a potential impairment, that impairment must be determined by reference to suitable valuation techniques. The proper identification of elements indicating the existence of a potential impairment and the estimates used to determine it depend on subjective judgments and factors which can vary over time and influence the assessments and estimates made by management.

In that context, for purposes of preparing the consolidated financial statements at December 31, 2008, and most particularly in conducting the impairment test, the various sectors of the Group took into account the estimated trends for 2009. The assumptions and results are consistent with those announced to the financial community upon presentation of the three-year 2009-2011 Industrial Plan. Based on the plan data as modified, there was no need to recognize an impairment loss.

Pension plans and other post-employment benefits

The companies of the Group have pension plans and medicare plans for its employees in various countries.

The main defined benefits plans of the Group are in the United States, the United Kingdom and Italy.

Management uses different actuarial assumptions to calculate the liability and the expected return on plan assets. The actuarial assumptions of financial nature refer to the discount rate, the expected return on plan assets, the rate of future compensation increases and the trend of medicare costs.

The actuarial assumptions of demographic nature mainly refer to mortality, disability and resignation rates.

With particular regard to the discount rates, in 2008, the rate curves showed high volatility as a consequence of the financial crisis and the relative effects on the return of high-quality corporate securities.

The Group identified discount rates which it deemed balanced, in view of the market context.

Deferred income taxes

The recognition of deferred tax assets is made on the basis of expectations of future income. The measurement of future income for purposes of recognizing deferred income taxes depends on factors which can vary over time and determine significant effects on the measurement of deferred tax assets.

In the determination of deferred taxes, budget results and plans consistent with those used for impairment testing and described in the previous paragraph in relation to the recoverable amount of non-current assets have been taken into account. It is also believed that the deferred taxes are congruous and cover the risk of a further worsening of the plan assumptions, considering that the net deferred tax assets recognized refer to temporary differences and tax losses which, to a significant degree, may be recovered over a very long period of time, therefore compatible with a scenario that shows that the crisis and economic recovery would extend beyond the time frame implicit in the above plans.

Provisions for other liabilities and charges

Accruals are made for legal and fiscal liabilities and charges that will probably require an outflow of resources. The amount of the provisions recorded in the financial statements relating to such liabilities and charges represents the best estimate at that time made by management for legal and tax actions covering various types of cases which are under the jurisdiction of different countries. This estimate involves assumptions which depend on factors which can change over time and which could therefore have material effects on the current estimates made by management in the preparation of the consolidated financial statements.

7. Segment information

For the Pirelli & C. Group, the business segment constitutes the primary segment whereas the geographical segment represents the secondary segment.

PRIMARY REPORTING FORMAT – BUSINESS SEGMENT

At December 31, 2008, continuing operations of the group are divided into the following segments:

- Tyre
- Real Estate
- Broadband Access
- Other Business

The remaining part comprises financial companies (including the Parent) and other service companies. None of these constitutes a reportable segment.

Segment results for the year ending December 31, 2008 are as follows:

(in thousands of euros)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total 2008
Sales to third parties	4,099,717	364,358	124,555	70,930	615	4,660,175
Sales to the Group	481	740	-	632	(1,853)	-
Total sales	4,100,198	365,098	124,555	71,562	(1,238)	4,660,175
Depreciation of property, plant and equipment/amortization of intangible assets	(190,452)	(9,415)	(896)	(1,063)	(6,854)	(208,680)
Impairment losses of property, plant and equipment/intangible assets	(9,815)	(60)	-	-	-	(9,875)
Operating profit (loss)	150,736	(71,237)	3,871	(18,372)	(21,743)	43,255
Share of earnings (losses) of companies accounted for by the equity method	481	(177,019)	-	(909)	1,770	(175,677)
Financial income (expenses)						(26,115)
Impairment losses on investments						(275,262)
Dividends						31,268
Gains (losses) from changes in fair value of financial assets						(796)
Loss before income taxes						(403,327)
Income taxes						(72,620)
Loss from continuing operations						(475,947)
Income (loss) from discontinued operations	-	74,628	(10,935)	-	(272)	63,421
Loss for the year						(412,526)

Segment results for the year ending December 31, 2007 were as follows:

(in thousands of euros)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total 2007
Sales to third parties	4,160,899	1,724,024	112,410	68,410	9,854	6,075,597
Sales to the Group	819	351	-	3,028	(4,198)	-
Total sales	4,161,718	1,724,375	112,410	71,438	5,656	6,075,597
Depreciation of property, plant and equipment/amortization of intangible assets	(190,465)	(7,646)	(1,048)	(883)	(8,870)	(208,912)
Impairment losses of property, plant and equipment/intangible assets	(811)	(3,823)	-	-	-	(4,634)
Operating profit (loss)	358,090	33,120	852	(8,497)	(19,565)	364,000
Share of earnings (losses) of companies accounted for by the equity method	159	114,977	-	-	1,407	116,543
Financial income (expenses)						(81,887)
Impairment losses on investments						(34,137)
Dividends						34,459
Gains (losses) from changes in fair value of financial assets						(20,097)
Income before income taxes						378,881
Income taxes						(123,028)
Income from continuing operations						255,853
Income (loss) from discontinued operations		49,455	(14,788)		33,070	67,737
Income for the year						323,590

Sales between business segments are carried out at market value.

Segment assets, liabilities and capital expenditures at December 31, 2008 are as follows:

(in thousands of euros)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total 12/31/2008
Segment assets	3,727,998	568,827	57,895	64,199	124,909	4,543,828
Investments in associates and joint ventures	911	357,868	-	6,493	150,028	515,300
Total allocated assets	3,728,909	926,695	57,895	70,692	274,937	5,059,128
Unallocated assets						1,874,090
Total assets						6,933,218
Segment liabilities	1,628,707	355,252	58,864	26,640	158,450	2,227,913
Unallocated liabilities						2,330,943
Total liabilities						4,558,856
Capital expenditures - property, plant and equipment	285,415	6,101	1,892	15,837	1,479	310,724
Capital expenditures - intangible assets	459,777	13,702	164	75	2,986	476,704

Segment assets, liabilities and capital expenditures at December 31, 2007 were as follows:

(in thousands of euros)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total 12/31/2007
Segment assets	3,256,011	905,832	55,803	43,520	107,839	4,369,005
Investments in associates and joint ventures	718	480,341	-	2,410	50,725	534,194
Total allocated assets	3,256,729	1,386,173	55,803	45,930	158,564	4,903,199
Unallocated assets						4,050,041
Total assets						8,953,240
Segment liabilities	1,564,238	518,999	61,686	24,152	213,613	2,382,688
Unallocated liabilities						2,766,481
Total liabilities						5,149,169
Capital expenditures - property, plant and equipment	262,378	6,469	4,093	9,709	4,060	286,709
Capital expenditures - intangible assets	7,089	168,093	308	980	1,966	178,436

Segment assets mainly consist of property, plant and equipment, intangible assets, assets under finance leases, inventories, trade receivables and other receivables. They exclude financial receivables, cash and cash equivalents, other financial assets, securities held for trading and current and deferred tax assets.

Segment liabilities mainly include trade payables and other payables, advances from customers, provisions for other liabilities and charges and employee benefit obligations. They exclude financial payables and current and deferred tax liabilities.

Capital expenditures mainly refer to the purchase of plant and machinery.

SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENT

Sales by geographical area, allocated on the basis of the country in which the customer resides, are as follows:

(in millions of Euro)

	2008		2007 (*)	
Europe:				
- Italy	810.4	17.39%	829.4	13.65%
- Other European countries (*)	1,586.1	34.03%	3,077.9	50.66%
North America	287.5	6.17%	329.5	5.42%
Central and South America	1,323.8	28.41%	1,187.7	19.55%
Oceania, Africa and Asia	652.4	14.00%	651.1	10.72%
	4,660.2	100.00%	6,075.6	100.00%

* In 2007, this line included the effect of the deconsolidation of DGAG activities for an amount of Euros 1,295.6 million.

Assets by geographical area, allocated on the basis of the country in which the assets are located, are as follows:

(in thousands of euros)

	12/31/2008		12/31/2007	
Europe				
- Italy	2,438,070	35.16%	2,253,776	25.17%
- Other European countries	1,170,704	16.89%	1,216,412	13.59%
North America	142,676	2.06%	124,665	1.39%
Central and South America	788,841	11.38%	816,790	9.12%
Oceania, Africa and Asia	518,837	7.48%	491,556	5.49%
Total allocated assets	5,059,128	72.97%	4,903,199	54.76%
Unallocated assets	1,874,090	27.03%	4,050,041	45.24%
	6,933,218	100.00%	8,953,240	100.00%

Capital expenditures by geographical area, allocated on the basis of the country in which the factories are located, are as follows.

(in thousands of euros)

	12/31/2008		12/31/2007	
Europe				
- Italy	45,960	14.79%	43,530	15.18%
- Other European countries	121,585	39.13%	134,910	47.05%
North America	4,205	1.35%	2,746	0.97%
Central and South America	68,163	21.94%	40,607	14.16%
Oceania, Africa and Asia	70,811	22.79%	64,916	22.64%
	310,724	100.00%	286,709	100.00%

8. Property, plant and equipment

At December 31, 2008, the composition and movements in property, plant and equipment are as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Gross carrying amount	Accumulated depreciation	Net carrying amount
Land	83,456	-	83,456	83,511	-	83,511
Buildings	625,712	(296,474)	329,238	658,310	(301,584)	356,726
Plant and machinery	2,549,392	(1,537,876)	1,011,516	2,652,755	(1,624,730)	1,028,025
Industrial and commercial equipment	525,374	(410,590)	114,784	574,675	(448,876)	125,799
Other property, plant and equipment	226,136	(167,084)	59,052	236,540	(180,116)	56,424
	4,010,070	(2,412,024)	1,598,046	4,205,791	(2,555,306)	1,650,485

MOVEMENTS IN GROSS CARRYING AMOUNT (in thousands of euros)

	12/31/2007	Discontinued operations	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2008
Land	83,511	-	(7,077)	8,910	(4,496)	2,608	-	83,456
Buildings	658,310	(7,679)	(42,084)	26,014	(11,975)	3,119	7	625,712
Plant and machinery	2,652,755	(28,166)	(237,116)	205,862	(29,232)	(12,706)	(2,005)	2,549,392
Industrial and commercial equipment	574,675	(25,151)	(54,071)	37,938	(17,501)	9,180	304	525,374
Other property, plant and equipment	236,540	(12,031)	(16,265)	32,000	(13,135)	(2,201)	1,228	226,136
	4.205.791	(73.027)	(356.613)	310.724	(76.339)	-	(466)	4.010.070

MOVEMENTS IN ACCUMULATED DEPRECIATION (in thousands of euros)

	12/31/2007	Discontinued operations	Exchange difference	Reclass.	Decrease	Depreciation	Other	12/31/2008
Land	(301,584)	4,324	20,123	-	2,497	(21,041)	(793)	(296,474)
Plant and machinery	(1,624,730)	10,952	170,495	7,430	19,798	(122,152)	332	(1,537,876)
Industrial and commercial equipment	(448,876)	18,233	46,490	37	16,236	(41,187)	(1,523)	(410,590)
Other property, plant and equipment	(180,116)	9,235	13,925	(7,467)	11,345	(14,362)	356	(167,084)
	(2,555,306)	42,744	251,033	-	49,875	(198,742)	(1,628)	(2,412,024)

MOVEMENTS IN NET CARRYING AMOUNT (in thousands of euros)

	31/12/2007	Attività cedute	Diff. da conv.	Incr.	Decr.	Riclass.	Amm.ti	Altro	31/12/2008
Land	83,511	-	(7,077)	8,910	(4,496)	2,608	-	-	83,456
Buildings	356,726	(3,355)	(21,961)	26,014	(9,478)	3,119	(21,041)	(786)	329,238
Plant and machinery	1,028,025	(17,214)	(66,621)	205,862	(9,434)	(5,276)	(122,152)	(1,673)	1,011,517
Industrial and commercial equipment	125,799	(6,918)	(7,581)	37,938	(1,265)	9,217	(41,187)	(1,219)	114,784
Other property, plant and equipment	56,424	(2,796)	(2,340)	32,000	(1,791)	(9,668)	(14,362)	1,584	59,051
	1,650,485	(30,283)	(105,580)	310,724	(26,464)	-	(198,742)	(2,095)	1,598,046

At December 31, 2007, the movements in property, plant and equipment were as follows:

MOVEMENTS IN GROSS CARRYING AMOUNT (in thousands of euros)

	12/31/2006	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2007
Land	83,186	1,294	412	(1,544)	177	(14)	83,511
Buildings	636,102	1,989	18,208	(2,775)	4,528	258	658,310
Plant and machinery	2,449,874	36,890	198,458	(27,182)	(6,013)	728	2,652,755
Industrial and commercial equipment	530,916	9,413	32,568	(8,231)	11,202	(1,193)	574,675
Other property, plant and equipment	238,643	(685)	37,063	(23,203)	(9,894)	(5,384)	236,540
	3,938,721	48,901	286,709	(62,935)	-	(5,605)	4,205,791

MOVEMENTS IN ACCUMULATED DEPRECIATION (in thousands of euros)

	12/31/2006	Exchange difference	Reclass.	Decrease	Depreciation	Other	12/31/2007
Buildings	(279,163)	(2,964)	145	2,443	(21,753)	(292)	(301,584)
Plant and machinery	(1,498,088)	(24,864)	980	19,080	(122,206)	368	(1,624,730)
Industrial and commercial equipment	(405,039)	(7,706)	1,743	5,572	(43,377)	(69)	(448,876)
Other property, plant and equipment	(181,842)	574	(2,868)	15,682	(16,209)	4,547	(180,116)
	(2,364,132)	(34,960)	-	42,777	(203,545)	4,554	(2,555,306)

MOVEMENTS IN NET CARRYING AMOUNT (in thousands of euros)

	12/31/2007	Exchange differences	Increase	Decrease	Reclass.	Depreciation	Other	12/31/2008
Land	83,186	1,294	412	(1,544)	177	-	(14)	83,511
Buildings	356,939	(975)	18,208	(332)	4,673	(21,753)	(34)	356,726
Plant and machinery	951,786	12,026	198,458	(8,102)	(5,033)	(122,206)	1,096	1,028,025
Industrial and commercial equipment	125,877	1,707	32,568	(2,659)	12,945	(43,377)	(1,262)	125,799
Other property, plant and equipment	56,801	(111)	37,063	(7,521)	(12,762)	(16,209)	(837)	56,424
	1,574,589	13,941	286,708	(20,158)	-	(203,545)	(1,051)	1,650,485

Increases during the year 2008 mainly refer to additions in the Tyre sector, particularly the new operating units in Romania, China and Brazil.

The ratio of additions in 2008 to depreciation is 1.56.

Assets under construction at December 31, 2008 amount to Euros 115,454 thousand (Euros 72,828 thousand at December 31, 2007).

Impairment losses in 2008, included in the column “decrease” in the above table, amount to Euros 9,815 thousand (Euros 811 thousand in 2007) and are recognized in the income statement under “Amortization, depreciation and impairments” (Note 32).

Discontinued operations refer to the deconsolidation of the companies Integra FM B.V. group (formerly Pirelli RE Integrated Facility Management B.V.) and PGT Photonics S.p.A., following the sale of the stakes held to third parties.

Restrictions on the ownership of assets are as follow:

- the subsidiary Pirelli Tyres Alexandria Co. is using plant and machinery as collateral for an equivalent amount of Euros 10,844 thousand (Euros 11,679 thousand at December 31, 2007);
- the subsidiary Pirelli Pneus S.A. is using machinery and land as collateral for a total of Euros 50,248 thousand (Euros 78,958 thousand at December 31, 2007).

There were no borrowing costs capitalized to property, plant and equipment.

8.1. FINANCE LEASES

Land, buildings, plant, machinery and other assets purchased by the Group using finance leases are included in the respective categories of property, plant and equipment.

Details are as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Capitalized cost	Accumulated depreciation	Net carrying amount	Capitalized cost	Accumulated depreciation	Net carrying amount
Land leased	11,187	-	11,187	11,187	-	11,187
Buildings leased	61,842	(13,832)	48,010	63,469	(12,559)	50,910
Other property, plant and equipment leased	17,389	(7,623)	9,766	984	(574)	410
Plant and machinery leased	86	(86)	-	1,791	(846)	945
	90,504	(21,541)	68,963	77,431	(13,979)	63,452

Details of the most important contracts regarding land and buildings leased are as follows:

- Pirelli & C. S.p.A. has a lease contract with a syndicate of banks (DEUTSCHE BANK LEASING S.p.A. - now SG LEASING S.p.A. - Franfinance Leasing Italia; SOGELEASE ITALIA S.p.A. - now SG LEASING S.p.A. - Franfinance Leasing Italia; LOCAT S.p.A.) on the building which houses the structures and the R&D activities of the Tyre sector.
The contract, signed in May 2000, has a term of 13 years and a purchase option at expiration. The net book amount of the building is Euros 40,244 thousand (Euros 41,904 thousand at December 31, 2007) and that of the land is Euros 10,184 thousand (unchanged at December 31, 2007);
- the subsidiary Pirelli Deutschland GmbH has a lease contract with the company DAL-Florenta on the distribution warehouse located in Breuberg. The contract is divided into two terms: the first is for 15 years from January 1, 1995 to December 31, 2009 and the second is for another 7.5 years. The contract has a purchase option;
- the subsidiary Pneumobil GmbH has five lease contracts with the company DAL-Florenta on the buildings of five points of sale in Germany. The terms of the contracts are between 20 and 25 years and all of the contracts expire by 2010.

The net carrying amounts of the buildings of the German companies total Euros 6,785 thousand (Euros 7,250 thousand at December 31, 2007) and that of the related land is Euros 1,003 thousand (unchanged compared to December 31, 2007).

Other assets leased mainly include an airplane under a leaseback arrangement between the subsidiary Perseo S.r.l. and Intesa Leasing S.p.A.. The contract began in April 2005 and has a term of 7 years with a purchase option at expiration. The net carrying amount is Euros 9,520 thousand.

Finance lease payables are included in financial payables (Note 24).

The minimum lease payments (that is, the payments made by the lessee over the residual term of the lease) are detailed as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Due within 1 year	12,447	5,171
Due between 1 and 5 years	34,117	24,540
Due beyond 5 years	-	12,911
	46,564	42,622
Future financial expenses	(5,465)	(6,970)
Leases payable (note 24)	41,099	35,652

The following table presents the finance lease payable by expiration date:

(in thousands of euros)

	12/31/2008	12/31/2007
Due within 1 year	10,759	3,381
Due between 1 and 5 years	30,340	19,711
Due beyond 5 years	-	12,560
Leases payable (note 24)	41,099	35,652

9. Intangible assets

The composition and movements in intangible assets are as follows:

(in thousands of euros)

	12/31/2007	Exchange differences	Discontinued operations	Change in the scope of consolidation	Increase	Decrease	Amortization	Other	12/31/2008
Patents and intellectual property rights	574	-	(10)	553	-	-	(145)	(548)	424
Concessions, licenses and trademarks	22,356	(5)	(80)	(846)	6,470	(883)	(2,817)	875	25,070
Goodwill	634,953	20	(86,752)	(410)	462,025	(2,624)	-	473	1,007,685
Software	10,442	14	(288)	599	7,615	(79)	(6,841)	667	12,129
Other intangible assets	4,215	(8)	(3,508)	(1,533)	594	(231)	(135)	1,406	800
	672,540	21	(90,638)	(1,637)	476,704	(3,817)	(9,938)	2,873	1,046,108

(in thousands of euros)

	12/31/2006	Exchange differences	Increase	Decrease	Amortization	Other	12/31/2007
Patents and intellectual property rights	777	-	-	-	(198)	(5)	574
Concessions, licenses and trademarks	24,188	(5)	3,612	(3,823)	(2,401)	785	22,356
Goodwill	479,734	(88)	161,399	(6,619)	-	527	634,953
Software	10,117	(2)	8,337	(899)	(6,438)	(673)	10,442
Other intangible assets	1,558	17	5,088	(42)	(1,462)	(944)	4,215
	516,374	(78)	178,436	(11,383)	(10,499)	(310)	672,540

“Discontinued operations” refer almost entirely to the deconsolidation of Integra FM B.V. group (formerly Pirelli RE Integrated Facility Management B.V.).

The increase in **“Goodwill”** mainly refers to:

- the purchase of the 38.9 percent minority interest in Pirelli Tyre S.p.A. through the acquisition of Speed S.p.A. (Euros 450,920 thousand, corresponding to the difference between the price paid and the net assets acquired);
- the purchase of the shares of the subsidiary Pirelli & C. Real Estate S.p.A. for Euros 22,064 thousand (equal to 2.8 percent of the total), resulting in further goodwill of Euros 2,407 thousand, equal to the difference between the price paid and accounting net assets;
- the inclusion in Pirelli Real Estate Group's scope of consolidation of certain companies in the BauBeCon Group following the acquisition of stakes by Pirelli RE Netherlands B.V. and Pirelli & C. Real Estate Deutschland GmbH (Euros 4,466 thousand).

Accounting for this last business combination led to the recognition of assets and liabilities acquired at fair value, and also residual goodwill, as better detailed in the following table:

(in thousands of euros)

	Fair value	Carrying amount
A Purchase price (including costs directly attributable to the business combination)	19,139	
Property, plant and equipment	622	622
Intangible assets	2,505	2,505
Investments in associates and joint ventures	10,610	4,035
Deferred tax assets and deferred tax liabilities	(300)	(300)
Inventories	-	-
Trade receivables and trade payables	3,733	3,733
Other receivables and other payables	(779)	(779)
Provisions for other liabilities and charges and employee benefit obligations	(11,278)	(11,278)
Cash and cash equivalents	17,801	17,801
Financial payables	(7,291)	(7,291)
B Assets and liabilities acquired	15,623	9,048
C Equity attributable to minority interest	(950)	(950)
D Net assets and liabilities acquired (B + C)	14,673	8,098
E Goodwill (A - D)	4,466	

In September 2008, the Pirelli & C. Real Estate group sold 94.9 percent of the share capital of BauBeCon Sanierungstrager GmbH. Following the sale, goodwill was reduced by Euros 2,624 thousand (this reduction is shown in the column “**decrease**”); therefore, at December 31, 2008, the residual goodwill relating to this business combination amounts to Euros 1,842 thousand.

At December 31, 2008, the breakdown of goodwill according to business segment and cash-generating unit (or groups of cash-generating units) to which it was allocated for purposes of assessing impairment and the configuration of the recoverable amount are shown in the following table:

(in thousands of euros)

Business segment	Cash generating unit / groups of CGU	Amount	Recoverable amount
Tyre	Consumer	518,415	Value in use
Tyre	Industrial	313,668	Value in use
Other businesses	Eco Technology	4,860	Value in use
Real Estate	Real Estate	32,912	Value in use
Real Estate	Agency	5,719	Value in use
Real Estate	Credit Servicing	5,066	Value in use
Real Estate	Property	13,452	Value in use
Real Estate	Poland	3,257	Value in use
Real Estate	Fund management	29,042	Value in use
Real Estate	Germany - DGAG/BIB	81,142	Value in use
Real Estate	Non-Performing Loans	152	Value in use
		1,007,685	

The *impairment test* consists of estimating the recoverable amount of the cash-generating units and comparing it with the net carrying amount of the relative assets including goodwill.

The value in use corresponds to the present value of future cash flows which are expected to be associated with the cash-generating units, using a discount rate which reflects the risks specific to the individual cash-generating units at the measurement date.

Management uses many assumptions in applying this method, including the estimate of future increases in sales, operating cash flows, the growth rate of the end amounts and the weighted aver-

age cost of capital (discount rate). More to the point, the cash flows approved by management used in determining the value of use cover a period of three years.

For the Real Estate sector, the flows relating to the fourth and fifth year are extrapolated from the flows of the third year without applying growth assumptions.

Furthermore, consideration has been given to the cash flows generated from the sale of the cash-generating unit at the end of the explicit period (assumed to be equal to the present value of the return in perpetuity of cash flows generated in the last year of projection); for industrial operations, this flow has been extrapolated by applying a 2 percent growth factor to the flow of the last year (2 percent in 2007).

The discount rates, net of taxes, applied to the cash flow projections are as follows:

Business segment	Cash generating unit / groups of CGU	Discount rate	
		2008	2007
Tyre	Consumer	9.20%	8.20%
Tyre	Industrial	9.20%	8.20%
Other businesses	Eco Technology	15.00%	7.80%
Real Estate	Real Estate	6.50%	-
Real Estate	Agency	6.50%	6.20%
Real Estate	Credit Servicing	6.50%	6.20%
Real Estate	Property	6.50%	6.20%
Real Estate	Poland	6.50%	6.20%
Real Estate	Fund management	6.50%	6.20%
Real Estate	Germany - DGAG/BIB	6.50%	6.20%
Real Estate	Non-Performing Loans	6.50%	6.20%

As far as the Real Estate sector is concerned, the Group has indiscriminately allocated Euros 32.9 million being the difference between the purchase on the market over time of minority interests in listed securities and the relative net assets. This higher value recognized is supported by considering the recoverable amount of the sector as a whole.

On the basis of the results of the tests performed, there is no impairment.

A sensitivity analysis was also carried out: in all cases the value in use remains higher than the carrying amounts even assuming a change in the key parameters, such as:

- a change in the weighted average cost of capital by 50 basis point (hundredths of a percentage point) or
- for industrial operations, a change in the growth rate by 1 percentage point.

The **impairment losses** in 2008 on intangible assets other than goodwill, included in the column **decrease** in the table, amount to Euros 60 thousand (Euros 3,823 thousand in 2007). They are recognized in the income statement under “Amortization, depreciation and impairments” (Note 32).

10. Investments in associates and joint ventures

Investments in associates and joint ventures total Euros 515,300 thousand compared to Euros 534,194 thousand at December 31, 2007.

Movements during the year are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	534,194	3,825,928
Discontinued operations	(5,145)	-
Acquisition/change in share capital and reserves	119,082	260,103
Distribution of dividends and reserves	(30,831)	(164,562)
Impairments	(74,421)	-
Disposals and wind-ups	(25,696)	(3,352,603)
Share of earnings (losses)	(175,964)	118,608
Reclassifications and other	131,916	(159,359)
Movement in provisions for other liabilities and charges	42,165	6,079
Ending balance	515,300	534,194

The following table details the movements in investments in associates:

(in thousands of euros)

	12/31/2007	Discontinued operations	Acquisition / change in share capital and reserves / other	Distribution of dividends / reserves	Impairments	Share of earnings (losses)	Reclassifications and other	Movements in provisions for other liabilities and charges	12/31/2008
Dixia S.r.l.	5,452	-	25	-	-	(446)	-	-	5,031
Orione Immobiliare Prima S.p.A.	562	-	6,078	-	-	(6,587)	-	-	53
Sci Roev Texas Partners L.P.	1,224	-	-	-	-	(987)	-	-	237
Spazio Investment N.V.	69,026	-	4,153	(6,706)	-	(3,887)	-	-	62,586
Turismo e Immobiliare S.p.A.	5,769	-	2,539	-	-	(610)	-	-	7,698
Eurostazioni S.p.A.	53,686	-	-	(1,303)	-	1,952	-	-	54,335
CyOptics Inc.	-	-	38,279	-	(8,700)	-	-	-	29,579
RCS MediaGroup S.p.A.	-	-	-	-	(65,721)	-	132,171	-	66,450
Other PRE group companies	(2,821)	(98)	472	-	-	116	3,016	(468)	217
Other Group companies	1,524	-	842	-	-	194	(969)	93	1,684
Total investments in associates	134,422	(98)	52,388	(8,009)	(74,421)	(10,255)	134,218	(375)	227,870

Spazio Investment N.V. is listed on the Alternative Investment Market of the London Stock Exchange; the market price at December 31, 2008 is Euros 6 and is equivalent to a total investment value of Euros 30.4 million.

RCS Mediagroup S.p.A. is listed on the Milan Stock Exchange. The market price at December 31, 2008 is Euros 0.9772 and is equivalent to a total investment value of Euros 38.2 million.

The following table details the movements in investments in joint ventures:

(in thousands of euros)

	12/31/2007	Discontinued operations	Acquisition / change in share capital and reserves/other	Distribution of dividends / reserves	Disposals and wind-up	Share of earnings (losses)	Reclassifications and other	Movements in provisions for other liabilities and charges	12/31/2008
Afrodite S.à r.l.	2,950	-	-	-	-	(3,862)	-	912	-
Aida RE B.V.	-	-	(1,810)	-	-	(3,004)	-	4,814	-
Alceo B.V.	564	-	4,897	-	-	(4,879)	-	-	582
Alimede Luxembourg S.à r.l.	3,167	-	977	-	-	(7,662)	(135)	3,653	-
Alnitak S.à r.l.	2,358	-	-	-	-	319	-	-	2,677
Altair Zander Italia S.r.l.	152	(152)	-	-	-	-	-	-	-
Aree Urbane S.r.l.	6,782	-	-	-	-	(5,002)	-	-	1,780
Artemide S.à r.l.	1,696	-	-	-	-	(2,353)	-	657	-
Austin S.à r.l.	5,810	-	7	-	-	(1,863)	-	-	3,954
AVW Assekuranzvermittlung der Wohnungswirtschaft GmbH	-	-	(47)	(1,226)	-	1,273	-	-	-
Baubecon Sanierungsträger GmbH	-	-	3,430	-	(3,458)	-	28	-	-
Bicocca S.à r.l.	112	-	100	-	-	(592)	-	380	-
Bresso Energia S.r.l.	1	(1)	-	-	-	-	-	-	-
Capitol Immobiliare S.r.l.	68	-	(45)	-	-	(35)	-	12	-
Castello S.r.l.	197	-	-	-	-	(140)	-	-	57
Colombo S.à r.l.	18,940	-	(356)	-	-	(810)	-	-	17,774
Consorzio ARP	54	-	-	-	(54)	-	-	-	-
Consorzio G6 Advisor	22	-	-	-	-	-	-	-	22
Continuum S.r.l.	3,553	-	-	(1,400)	-	(218)	-	-	1,935
Dallas S.à r.l.	5,810	-	7	-	-	(1,863)	-	-	3,954
Delamain S.à r.l.	20,914	-	23	(11,709)	-	(9,024)	-	-	204
Dolcetto sei S.r.l.	-	-	34	-	-	-	-	-	34
Doria S.à r.l.	18,833	-	(356)	-	-	(805)	-	-	17,672
Elle Dieci S.c.a.r.l.	40	-	(40)	-	-	-	-	-	-
Elle Tre S.c.a.r.l.	40	-	(40)	-	-	-	-	-	-
Erice S.r.l.	1,477	-	-	(900)	-	(250)	-	-	327
Espelha - Serviços de Consultadoria L.d.A.	3,402	-	20	-	-	4,726	-	-	8,148
European NPL S.A.	21,758	-	(6,070)	-	-	2,346	-	-	18,034
Fattoria Medicea S.r.l.	484	-	-	-	(484)	-	-	-	-
Finprema S.r.l.	2	-	7,017	-	-	(1,841)	-	-	5,178
Galatea S.r.l.	70	-	(24)	(120)	(52)	(9)	135	-	-
Gamma RE B.V.	84,631	-	(2,396)	-	-	(2,950)	-	-	79,285
Gatus 372 GmbH	-	-	11	-	-	-	-	-	11
Golfo Aranci S.p.A. - Società di trasformazione urbana	2,736	-	824	-	-	(199)	-	-	3,361
Jamesmail B.V.	-	-	-	-	-	-	-	-	-
Immobiliare Prizia S.r.l.	5,949	-	-	-	-	-	(5,949)	-	-
IN Holdings I S.à r.l.	174	-	-	(410)	-	(107)	-	343	-
Induxia S.r.l.	1,108	-	(9)	-	-	(1,881)	-	782	-
Inimm Due S.à r.l.	1,330	-	-	(25)	-	820	-	-	2,125
Iniziative Immobiliari S.r.l.	4,015	-	(5)	-	-	(90)	-	-	3,920
Landgesellschaft Schleswing Holstein mbh	19,952	-	-	(1,158)	(19,571)	777	-	-	-
Localto ReoCo S.r.l.	4	-	-	-	-	(2)	-	-	2
Manifatture Milano S.p.A. (formerly Quadrifoglio Milano S.p.A.)	5,263	-	291	-	-	(2,357)	-	-	3,197
Maro S.r.l.	581	-	-	-	-	(245)	-	-	336

(in thousands of euros)

	12/31/2007	Discontinued operations	Acquisition / change in share capital and reserves/other	Distribution of dividends / reserves	Disposals and wind-up	Share of earnings (losses)	Reclassifications and other	Movements in provisions for other liabilities and charges	12/31/2008
Masaccio S.r.l.	195	-	-	-	(195)	-	-	-	-
Masetto I B.V.	305	-	-	-	-	(778)	-	473	-
Max B.V.	4,558	-	-	(4,998)	19	(140)	561	-	-
Mistral Real Estate B.V.	16,434	-	(127)	-	-	4,310	1,200	-	21,817
M.S.M.C. Italy Holding B.V.	9,933	-	58	-	-	(7,997)	(128)	-	1,866
MP Facility S.p.A.	3,840	(3,840)	-	-	-	-	-	-	-
Nashville S.à.r.l.	5,809	-	8	-	-	(1,864)	-	-	3,953
Patrimonio Casa - investment fund	12,395	-	-	-	-	(913)	-	-	11,482
Polish Investments Real Estate Holding B.V.	1,932	-	(481)	-	-	3,049	-	-	4,500
Polish Investments Real Estate Holding II B.V.	1,256	-	2,736	-	-	(2,686)	(6,848)	5,542	-
Popoy Holding B.V.	2,179	-	(1)	(550)	-	(1,177)	-	-	451
Progetto Bicocca La Piazza S.r.l.	1,072	-	(99)	-	-	899	-	-	1,872
Progetto Nuovo Sant'Anna S.r.l.	1,037	(1,037)	-	-	-	-	-	-	-
Progetto Gioberti S.r.l.	28	-	111	-	-	(95)	-	-	44
Resi S.r.l. (già Dolcetto Cinque S.r.l.)	6	-	-	-	-	(1)	-	-	5
Resident Baltic GmbH	262	-	4	-	-	(39)	-	-	227
Resident Berlin 1 P&K GmbH	4,238	-	(3)	-	-	(602)	-	-	3,633
Resident Brandenburg GmbH	1	-	(1)	-	-	-	-	-	-
Resident Sachsen P&K GmbH	159	-	35	-	-	(46)	-	-	148
Resident West GmbH	193	-	10	-	-	(126)	-	-	77
Rinascente/Upim S.r.l.	2,631	-	(111)	-	-	(5,961)	-	3,441	-
Riva dei Ronchi S.r.l.	553	-	2,022	-	-	(4,851)	-	2,276	-
Roca S.r.l.	2,699	-	-	-	-	(1,551)	-	-	1,148
S.AN.CO S.c.a.r.l.	2	(2)	-	-	-	-	-	-	-
Sigma RE B.V.	-	-	53,568	-	-	(44,931)	(29)	-	8,608
S.I.MA.GEST2 S.c.a.r.l.	15	(15)	-	-	-	-	-	-	-
Sicily Investments S.à.r.l.	820	-	-	-	-	(699)	-	-	121
Solaia RE S.à.r.l.	8,322	-	(4,351)	-	-	(11,248)	2,914	4,363	-
Solaris S.r.l.	2,598	-	(48)	(326)	-	(1,081)	-	-	1,143
S.I. Real Estate Holding B.V.	585	-	-	-	-	(603)	-	18	-
S.I.G. RE B.V.	3,006	-	-	-	-	(1,576)	-	-	1,430
Tamerice Immobiliare S.r.l.	3,877	-	-	-	-	129	-	-	4,006
Theta RE B.V.	31,975	-	(10,710)	-	-	(36,931)	-	15,666	-
Tizian Wohnen 1 GmbH	2,504	-	(3)	-	-	(268)	-	-	2,233
Tizian Wohnen 2 GmbH	1,051	-	24	-	-	(20)	-	-	1,055
Trinacria Capital S.à.r.l.	967	-	-	-	-	(839)	-	-	128
Trinoro S.à.r.l.	-	-	34	-	(12)	(19)	-	(3)	-
Trixia S.r.l.	-	-	1,368	-	-	(2,474)	5,949	(930)	3,913
Vespucci S.à.r.l.	18,949	-	(356)	-	-	(802)	-	-	17,791
Vesta Finance S.r.l.	12	-	-	-	-	-	-	-	12
Vivaldi - speculative real estate investment fund	-	-	9,072	-	-	(458)	-	-	8,614
Wameservice GmbH	-	-	1,663	-	(1,663)	-	-	-	-
Waterfront Flegreo S.p.A.	158	-	36	-	(175)	(19)	-	-	-
Other PRE Group companies	6,467	-	796	-	(51)	(610)	-	141	6,743
Solar Utility S.p.A.	1,750	-	5,000	-	-	(909)	-	-	5,841
Total investments in joint ventures	399,772	(5,047)	66,694	(22,822)	(25,696)	(165,709)	(2,302)	42,540	287,430

The column **discontinued operations** refers to the companies deconsolidated in 2008 following the sale of Integra FM B.V. (formerly Pirelli Real Estate Facility Management B.V.).

As regards the column **share of earnings**, reference should be made to Note 38 "Share of earnings (losses) of associates and joint ventures".

Reclassification and other largely refers to the investment in RCS Mediagroup S.p.A. which was reclassified at December 31, 2008 to the line item "Investments in associates and joint ventures" from the line item "Other financial assets".

The investment (equal to 5.3 percent of voting capital) forms part of the shareholders' agreement which aims to ensure the stability of the shareholder base and guide the management of the operations of the RCS Mediagroup S.p.A. in a single direction (the companies in the shareholders' agreement have contributed 63.5 percent of share capital). The reason for the reclassification lies in the fundamental strengthening of the single orientation within the shareholders' agreement and the intensification of other forms of exercising the rights of governance

The reclassification led to a writeback of the average purchase cost, equal to Euros 3.38 per share, which resulted in an increase in equity, the offsetting entry to the accumulated losses recognized in a specific equity reserve which at December 31, 2007 were equal to Euros 15,419 thousand and at June 30, 2008 to Euros 74,594 thousand.

At December 31, 2008, the investment was tested for impairment and was adjusted to its value in use (Euros 1.70 per share), determined, with the assistance of a independent appraiser, using a discounted cash flow model which takes into account the generalized decline in the profitability of the sector within the context of the negative trend of the financial markets, with a consequent impairment loss recognized in income equal to Euros 65,721 thousand.

The **impairment losses** also include Euros 8,700 thousand relating to CyOptics Inc..

Movements in **provisions for other liabilities and charges** are due to the equity method valuation of some companies in the Real Estate group. The movements also include the accrual to cover the losses in excess of the carrying amount.

Key data relating to associates and joint ventures (at 100 percent) at December 31, 2008 refer to those in the Real Estate sector are indicated as follows:

(in thousands of euros)

	Associates	Joint Ventures
Non-current assets	684,196	2,705,858
Current assets	517,415	12,884,993
Non-current liabilities	559,494	11,744,744
Current liabilities	124,815	2,265,838
Revenues from sales and services	111,100	1,382,626
Costs	(123,125)	(2,695,753)
Income	(33,491)	(540,717)

Lastly, the investments in associates and joint ventures are pledged for an amount of Euros 96,879 thousand.

11. Other financial assets

Other financial assets amount to Euros 505,899 thousand compared to Euros 958,272 thousand at December 31, 2007.

The movements during the year are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	958,272	1,006,898
Increase	31,864	107,939
Decrease	(30,696)	(24,173)
Impairments	(200,840)	(34,137)
(Gains) losses transferred to the income statement for disposals or impairment losses, previously recognized in equity	1,995	1,019
Changes in fair value	(138,015)	(91,842)
Reclassification	(132,171)	-
Reversal of reserve for reclassification of investments to associates	15,419	-
Reimbursement of shares	-	(7,374)
Other	71	(58)
Ending balance	505,899	958,272
of which:		
- financial assets measured at fair value through equity	476,300	926,362
- financial assets measured at fair value through profit or loss	29,599	31,910

Financial assets, whose change in fair value is recognized in the income statement under “Gains (losses) from changes in fair value of financial assets” (Euros 29,599 thousand compared to Euros 31,910 thousand in 2007) refer to shares corresponding to 13.32 percent of the Cloe Fondo Uffici – a reserved unlisted closed-end real estate investment fund, held by Pirelli Real Estate Netherlands B.V..

The classification of such shares in this line item reflects the purpose of the acquisition of the shares, which called for the shares to become part of a common investment platform for buildings intended for office use.

At December 31, 2008, financial assets, whose change in fair value is recognized in equity, are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Listed securities		
Telecom Italia S.p.A.	203,539	387,172
Mediobanca S.p.A.	108,979	210,990
RCS Mediagroup S.p.A.	-	112,786
Fin. Priv. S.r.l. (Mediobanca shares)	14,883	28,172
Vittoria Capital N.V. (Vittoria Assicurazioni shares)	6,469	10,320
Avanex Corporation	1,422	19,213
Other companies	105	5,831
	335,397	774,484
Unlisted securities		
Alcatel Submarine SA	44,805	44,805
Alitalia S.p.A.	20,000	-
Gruppo Banca Leonardo S.p.A.	8,444	8,197
Istituto Europeo di Oncologia S.r.l.	6,483	6,024
FC Internazionale S.p.A.	4,627	3,033
Ticom I LP	2,453	5,249
Equinox Two SCA	2,270	306
Equinox Investment Company S.c.p.A.	970	1,264
Other PRE Group companies	9,115	6,526
Other companies	5,213	5,264
	104,380	80,668
Closed-end real estate investment funds		
Olinda Fondo Shops	17,888	30,964
Berenice Fondo Uffici	-	18,182
Cloe Fondo Uffici	11,170	12,195
Tecla Fondo Uffici	5,122	7,630
Armillia	1,847	2,115
Fondo Abitare Sociale 1	496	124
	36,523	71,210
	476,300	926,362

The **increase** refers mainly to Pirelli & C. S.p.A.'s subscription to Alitalia S.p.A. shares (Euros 20,000 thousand), the purchase of RCS Mediagroup S.p.A. shares (Euros 3,966 thousand) and also the purchase of Equinox shares (Euros 2,146 thousand) on the part of Pirelli Finance (Luxembourg) S.A..

In addition to the increase, there was the **decrease** that refers mainly to the total sale of the investment in Intek S.p.A. held by Pirelli & C. S.p.A. (Euros 4,008 thousand), the sale of Telecom Italia S.p.A. ordinary shares held by Pirelli Finance (Luxembourg) S.A. (Euros 10,630 thousand) and the sale of shares of the closed real estate investment funds of the Real Estate group (Euros 14,635 thousand).

Impairments are largely in reference to the adjustment made to the 1.32 percent stake held in Telecom Italia S.p.A. (Euros 173,004 thousand) and to the Avanex shares (Euros 24,335 thousand).

Net losses transferred to the income statement refer to the net effect of gains, previously recognized in equity, relating to investments in Intek S.p.A. (Euros 1,152 thousand) and in Be-

renice Fondo Uffici (Euros 3,399 thousand), transferred to the income statement following the sale of these investments, and losses previously recognized in equity, relating to the investment in Avanex Co (Euros 6,545 thousand), transferred to the income statement as a result of the impairment.

The negative **changes in fair value** of Euros 138,015 thousand (Euros 136,408 thousand recognized in equity and Euros 1,607 thousand in the income statement) mainly regard the shares of Mediobanca S.p.A. (negative for Euros 102,011 thousand), Fin Priv S.r.l. (negative for Euros 13,289 thousand) and shares of the closed-end real estate funds of the Real Estate group (negative for Euros 17,163 thousand).

For listed securities and closed-end real estate investment funds, the fair value corresponds to the stock market price at December 31, 2008.

For unlisted securities and closed-end real estate investment funds, the fair value has been estimated using appropriate estimation techniques.

Reclassification (Euros 132,171 thousand) refers to the investment in RCS Mediagroup S.p.A., reclassified from “Other financial assets” to “Investments in associates” as described in the note and comment on the line item “Investments in associates and joint ventures”. The reclassification generated a reversal of the cumulative negative fair value changes recognized in equity up to December 31, 2007 (Euros 15,419 thousand).

12. Deferred tax assets and liabilities

The composition of deferred tax assets and liabilities is as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Deferred tax assets	72,426	58,524
Deferred tax liabilities	(38,372)	(44,625)
	34,054	13,899

Since deferred tax assets and liabilities are offset in the financial statements when the income taxes are levied by the same tax authority and where there is a legally enforceable right of offset, the composition of the gross amounts is presented below:

(in thousands of euros)

	12/31/2008	12/31/2007
Deferred tax assets:	150,959	156,211
- of which, recoverable within 12 months	37,813	55,188
- of which, recoverable beyond 12 months	113,146	101,023
Deferred tax liabilities:	(116,905)	(142,312)
- of which, recoverable within 12 months	(2,149)	(4,311)
- of which, recoverable beyond 12 months	(114,756)	(138,001)
	34,054	13,899

The tax effect of the temporary differences and tax loss carryforwards which make up deferred tax assets and liabilities at December 31, 2008 and 2007 is as follows:

DEFERRED TAX ASSETS (in thousands of euros)

	12/31/2008	12/31/2007
Provision for other liabilities and charges	25,082	27,370
Employee benefit obligations	35,156	25,486
Inventories	14,563	14,063
Tax loss carryforwards	40,786	26,679
Depreciation and amortization	5,547	6,785
Trade and other receivables	7,788	16,719
Trade and other payables	11,154	17,458
Intragroup transactions	3,688	8,650
Other	7,195	13,001
	150,959	156,211

DEFERRED TAX LIABILITIES (in thousands of euros)

	12/31/2008	12/31/2007
Depreciation and amortization	(100.962)	(123.037)
Other	(15.943)	(19.275)
	(116.905)	(142.312)

At December 31, 2008, deferred tax assets relating to temporary differences that have not been recognized amount to Euros 75,213 thousand (Euros 44,958 at December 31, 2007), and those relating to tax losses equal Euros 503,791 thousand (Euros 483,044 thousand at December 31, 2007): such amounts refer to situations in which recoverability is not considered probable.

Unused tax loss carryforwards, by expiration date, for which no deferred tax assets have been recognized, are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
2008	-	146,722
2009	288,667	288,531
2010	137,604	137,641
2011	62,922	96,895
2012	533,169	562,307
2013	36,293	547
2014	1,157	607
2015	26,318	-
2016	30,638	30,638
2017	62	-
2021	28,480	26,925
2022	52,807	48,988
2023	6,613	-
without expiration	609,504	397,970
	1,814,234	1,737,771

The tax effect of gains and losses recognized directly in equity is a positive Euros 11,281 thousand (negative Euros 2,856 thousand at December 31, 2007) and is shown in the statement of recognized income and expenses. Such movements are mainly due to the tax effect on actuarial gains/losses regarding employee benefits and the change in the fair value of available-for-sale financial assets.

13. Trade receivables

Trade receivables can be analyzed as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	76,237	-	76,237	122,802	-	122,802
Third parties	765,526	-	765,526	1,020,667	-	1,020,667
Receivables on construction contracts	6,177	-	6,177	9,330	-	9,330
	847,940	-	847,940	1,152,799	-	1,152,799
Provision for impairment of receivables	(59,989)	-	(59,989)	(53,872)	-	(53,872)
	787,951	-	787,951	1,098,927	-	1,098,927

Receivables on construction contracts, relating to the Real Estate sector, represent the excess of costs incurred and profit recognized using the percentage of completion method, equal to Euros 9,967 thousand at December 31, 2008 (Euros 9,780 thousand at December 31, 2007), over advances received against progress billings on contracts in progress, equal to Euros 3,790 thousand at December 31, 2008 (Euros 451 thousand at December 31, 2007).

Total gross trade receivables of Euros 847,940 thousand (Euros 1,152,799 thousand at December 31, 2007), Euros 164,149 thousand are past due (Euros 260,145 thousand at December 31, 2007). Writedowns for past due and current receivables are recognized according to the Group's policies described in the paragraph on credit risk under "Financial risk management policies". Receivables that are impaired include both significant single positions written down individually and positions with similar characteristics by group of credit risk written down on a collective basis.

The movements in the provision for impairment of trade receivables are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	53,872	57,068
Discontinued operations	(6,358)	-
Exchange differences	(2,374)	150
Accruals	26,264	15,290
Utilization/release	(10,990)	(20,110)
Change in scope of consolidation	94	1,474
Other	(519)	-
Ending balance	59,989	53,872

The accrual to the provision for writedowns of trade receivables is charged to the income statement in "Other expenses" (Note 33).

The carrying amounts of trade receivables are deemed to approximate fair value.

14. Other receivables

Other receivables can be analyzed as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures						
- financial receivables	582,259	564,492	17,767	535,999	520,079	15,920
- other receivables	6,826	891	5,935	4,292	965	3,327
Financial receivables from third parties	98,781	87,987	10,794	92,087	88,577	3,510
Trade and other accrued income and prepaid expenses/third parties	18,018	13	18,005	21,143	10	21,133
Financial accrued income and prepaid expenses	4,721	1,004	3,717	3,054	1,342	1,712
Receivables from employees	8,240	2,893	5,347	7,297	2,839	4,458
Receivables from social security agencies	4,391	-	4,391	2,923	-	2,923
Receivables from tax authorities unrelated to inc. taxes	83,897	12,717	71,180	99,353	8,860	90,493
Receivables for junior notes	21,330	21,330	-	11,307	11,307	-
Other receivables	142,576	31,677	110,899	143,369	42,525	100,844
	971,039	723,004	248,035	920,824	676,504	244,320
Provision for impairment of other receivables	(8,079)	-	(8,079)	(6,455)	(3,610)	(2,845)
	962,960	723,004	239,956	914,369	672,894	241,475

The carrying amount of **current and non-current other receivables** is regarded as approximating fair value. Particularly with regard to non-performing loans (included under "other receivables") that, as described under the accounting policies, are accounted for at amortized cost using the effective interest method, the amount recognized is equal to the present value of future cash flows according to the most recent business plan available discounted at the original effective interest rate.

It is regarded that the carrying amount of such receivables, calculated as described above, approximates their fair value at the date of December 31, 2008 since the ordinary effective interest rate used to compute the present value is today still representative of a market rate that would be applied by third parties to measure the portfolio. Such rate is determined by considering the characteristics (such as risk, markets, etc.) of this portfolio, which are elements that company management responsible for these valuations still now consider to be essentially valid.

Non-current financial receivables from associates and joint ventures, equal to Euros 564,492 thousand, mainly refer to the Real Estate group and are classified as non-current since the collection times, connected with the plans for the disposal of the properties held directly and indirectly by the companies, will be concluded on average over a period of between two and six years. These loans are made at rates in line with those applied by the major market operators except for non-interest bearing loans made to certain non-operating companies or companies in a stage of transition. At December 31, 2008, the present value of non-interest bearing shareholder loans, net of the effect of accrued interest, resulted in a reduction of the receivable for Euros 14,264 thousand.

Non-current financial receivables from third parties principally include amounts deposited as a guarantee for tax and legal disputes relating to the subsidiary Pirelli Pneus S.A. (Brazil), remunerated at the market rate.

Receivables for junior notes relate to the Real Estate sector. The increase from the end of 2007 can be ascribed to Class B junior notes from the securitization of a non-performing loan portfolio of the associate Vesta Finance S.r.l. taken over by Pirelli & C. Real Estate S.p.A..

Other current receivables refer to the non-performing loan portfolios of the Real Estate sector (Euros 18,575 thousand) from the acquisition of mortgages and unsecured debts in previous years mainly from Banca Popolare di Intra and Banca Antonveneta, and regional grants that will be made by the Campania Region to aid buyers of property units owned by the company Geolidro S.p.A. (Euros 8,479 thousand).

The gross amount of other receivables written down is Euros 26,884 thousand at December 31, 2008 (Euros 21,756 thousand at December 31, 2007).

The movements in the provision for writedowns of other receivables are as follows:

(in thousands of euros)

	12/31/2008		12/31/2007	
	Non-current	Current	Non-current	Current
Beginning balance	3,610	2,845	3,560	2,820
Exchange differences	-	(21)	-	(6)
Accruals	-	1,124	50	79
Utilization/release	-	(424)	-	(132)
Change in scope of consolidation	(3,610)	4,545	-	84
Other	-	10	-	-
Ending balance	-	8,079	3,610	2,845

15. Tax receivables

Tax receivables amount to Euros 56,510 thousand (of which Euros 10,264 thousand is non-current) compared to Euros 55,559 thousand at December 31, 2007 (of which Euros 12,278 thousand is non-current).

16. Inventories

Inventories can be analyzed as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Tyre	809,376	652,684
Real Estate	93,379	114,291
Other	18,355	9,499
	921,110	776,474

(in thousands of euros)

	12/31/2008	12/31/2007
Raw materials, auxiliaries and consumables	210,045	168,586
Sundry materials	771	4,782
Trading properties held for sale	17,775	32,882
Building under construction / in renovation	34,997	27,052
Work in process and semifinished products	63,385	58,593
Finished products	538,529	422,281
Merchandise purchased for resale	10,413	5,954
Land to be developed	40,525	49,955
Advances to suppliers	4,670	6,389
	921,110	776,474

Inventories include capitalized borrowing costs of Euros 1,598 thousand at December 31, 2008 (Euros 679 thousand at December 31, 2007).

The writedowns of inventories recorded in 2008 amount to Euros 27,321 thousand (Euros 1,337 thousand at December 31, 2007).

Inventories are not used as collateral.

17. Securities held for trading

Securities held for trading amount to Euros 115,800 thousand (Euros 114,039 thousand at December 31, 2007) and include the following:

- Euros 35,907 thousand of floating rate bonds issued and guaranteed by banking institutions;
- Euros 63,501 thousand of fixed rate bonds issued and guaranteed by banking institutions;
- Euros 4,410 thousand of listed fixed rate bonds;
- Euros 11,850 of equity shares, of which Euros 7,371 thousand relates to listed shares;
- Euros 132 thousand of other securities.

For listed securities, the fair value corresponds to the stock market price at December 31, 2008. For unlisted securities, the fair value was determined by reference to estimates based on the best information available.

Changes in fair value are recognized in the income statement under “gains (losses) from changes in fair value of financial assets” (Note 38).

18. Cash and cash equivalents

Cash and cash equivalents are concentrated in the financial companies, the holding companies and the subholding companies of the group. They are mainly invested in short-term deposits at leading banking counterparts primarily at interest rates reflecting market rates.

For purposes of the statement of cash flows, the balance of cash and cash equivalents is shown net of bank overdrafts, equal to Euros 26,828 thousand at December 31, 2008 and Euros 47,207 thousand at December 31, 2007.

19. Equity

19.1 EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Share capital amounts to Euros 1,554,269 thousand, and consists of 5,233,142,003 ordinary shares and 134,764,429 savings shares, all with a par value of Euros 0.29 each and normal dividend rights.

The changes in share capital are detailed below:

	Number of ordinary shares (*) (thousands)	Number of savings shares (**) (thousands)	Ordinary shares (€ thousands)	Savings shares (€ thousands)	Total (€ thousands)
Balance at 12/31/2007	5,230,524	134,764	1,516,852	39,082	1,555,934
Purchase of treasury shares	(1,250)	(4,492)	(362)	(1,303)	(1,665)
Balance at 12/31/2008	5,229,274	130,272	1,516,490	37,779	1,554,269

* Net of 3,867,500 treasury shares in portfolio

** Net of 4,491,769 treasury shares in portfolio

The number of **ordinary treasury shares in portfolio** increased from 2,617,500 last year to 3,867,500 and represent 0.07 percent of ordinary shares only. Furthermore, following the withdrawal rights exercised by the savings shareholders, envisaged in the case of a reduction in share capital, pursuant to the law, 4,491,769 **savings treasury shares** were purchased, representing 3.33 percent of savings shares only. Total treasury shares in portfolio represent 0.16 percent of share capital.

Changes in equity are as follows:

(in thousands of euros)

	Attributable to the equity holders of the company						Attributable to the minority interest	TOTAL
	Share capital	Share premium reserve	Legal reserve	Reserve for translation differences	Other reserves / Retained earnings	Total attributable to equity holders of company		
Balance at 12/31/2006	2,790	759	89	187	55	3,880	807	4,687
Income and expense recognized directly in equity	-	-	-	(68)	(152)	(220)	7	(213)
Income for the year	-	-	-	-	165	165	159	324
Appropriation of income as per resolution of 4/23/2007:								
- absorption of loss	-	(748)	-	-	748	-	-	-
- dividend payment	-	-	-	-	-	-	-	-
Other dividends paid to third parties	-	-	-	-	-	-	(74)	(74)
Reduction of share capital	(1,234)	408	-	-	-	(826)	-	(826)
Movements in Pirelli & C. Real Estate S.p.A. treasury shares	-	-	-	-	(30)	(30)	(24)	(54)
Purchase of Pirelli & C. Real Estate S.p.A. shares	-	-	-	-	-	-	(24)	(24)
PRE stock options exercised in the year	-	-	-	-	5	5	3	8
Acquisitions/sales of interests from minority interest	-	-	-	-	-	-	(26)	(26)
Other	-	-	-	-	6	6	(4)	2
Balance at 12/31/2007	1,556	419	89	119	797	2,980	824	3,804
Income and expenses recognized directly in equity	-	-	-	(135)	(221)	(356)	(31)	(387)
Loss for the year	-	-	-	-	(348)	(348)	(65)	(413)
Appropriation of income as per resolution of 4/29/2008:								
- legal reserve	-	-	5	-	(5)	-	-	-
- dividend payment	-	-	-	-	(93)	(93)	-	(93)
Other dividends paid to third parties						-	(75)	(75)
Movements in Pirelli & C. Real Estate S.p.A. treasury shares						-	(20)	(20)
Acquisition of Speed S.p.A.						-	(386)	(386)
Acquisition of minority interest Turkey						-	(74)	(74)
Acquisitions/sales of interests from minority interest						-	17	17
Other	(2)	(2)			(7)	(11)	12	1
Balance at 12/31/2008	1,554	417	94	(16)	123	2,172	202	2,374

19.2 EQUITY ATTRIBUTABLE TO THE MINORITY INTEREST

The minority interest in equity went from Euros 823,840 thousand at December 31, 2007 to Euros 202,825 thousand at December 31, 2008. The change is mainly due to the repurchase of the 38.9 percent interest in Pirelli Tyre S.p.A. in addition to the payment of dividends and the exchange effect of the translation of foreign currency financial statements to Euros.

The major percentages of investments held by minority interests are as follows:

	12/31/2008	12/31/2007
Drahtcord Saar Gmbh & Co. K.G. (Germany)	50.00%	50.00%
Pirelli & C. Eco Technology S.p.A. (Italy)	49.00%	49.00%
Pirelli & C. Ambiente S.p.A. (Italy)	49.00%	49.00%
Euro Driver Car S.L. (Spain)	48.85%	48.85%
Pirelli & C. Real Estate S.p.A. (Italy)	41.93%	44.64%
Driver Italy S.p.A. (Italy)	26.93%	26.93%
Pirelli Tyre Co. Ltd (China)	25.00%	25.00%
S.C. Cord Romania S.R.L (Romania)	20.00%	20.00%
Alexandria Tire Co. S.A.E. (Egypt)	10.90%	10.90%
Turk Pirelli Lastikleri A.S. (Turkey)	4.65%	30.41%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%
Celikord A.S. (Turkey)	-	49.00%
Pirelli Tyre S.p.A. (Italy)	-	38.94%

20. Stock option plans

PIRELLI & C. S.p.A. STOCK OPTION PLANS

During the year ended December 31, 2008, the company did not introduce any stock option plans.

Pirelli & C. S.p.A. has two stock option plans in place for senior executives and staff of Pirelli & C. S.p.A. and other companies of the group who were granted option rights, not transferable to third parties, for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.

IFRS 2 "Share-based payment" has not been applied to these plans, since the option rights were awarded prior to November 7, 2002.

The following disclosure is provided on the above-mentioned plans called Pirelli to People and Group Senior Executives.

	Pirelli to People	Group Senior Executives
Plan features	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..
Recipients at December 31, 2008	222 employees (senior executives, cadres, key employees) of the companies of the group. Originally 725 persons at the date of approval of the plan.	21 senior executives of the companies of the group. Originally 51 persons at the date of approval of the plan.
Conditions for exercising options	Continuance of employment.	(a) continuance of employment, and (b) the reaching, in the two-year period 2001-2002, of specific targets, assigned to each recipient.
Subscription/purchase price per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 (1).	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 (1).
Vesting period of options	Up to nine years from the date the options are granted (which took place on November 5, 2001), but not before one year has passed from that date for 50 percent of the options granted, two years for another 25 percent and three years for the remaining 25 percent.	As regards the options granted on November 5, 2001, up to nine years from the date the options are granted, but not before one year has passed from that date for 50 percent of the options, two years for another 25 percent and three years for the remaining 25 percent. For the options granted definitively on May 10, 2002 up to May 31, 2009, but not before June 1, 2002 for 50 percent of the options and not before January 1, 2003 for the remaining 50 percent.
Maximum number of options for which the offer was open at December 31, 2007	18,175,604 options equal to about 0.35 percent of outstanding ordinary shares destined for 255 recipients.	11,541,015 options equal to about 0.22 percent of outstanding ordinary shares destined for 25 recipients.
Maximum number of options for which the offer was open at December 31, 2008	15,697,334 options equal to about 0.3 percent of outstanding ordinary shares destined for 222 recipients.	N. 9,789,185 options equal to about 0.2 percent of outstanding ordinary shares destined for 21 recipients.
Options forfeit during 2008 as a result of persons leaving the group	2,478,270	1,751,830
Shared issued during the year	None	None

¹ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the regulations of those stock option plans in the event of transactions involving share capital.

The following table shows the changes in the above plans, the number of option rights and the exercise price.

Pirelli to people

TABLE 1

	Year 2008			Year 2007		
	Number of shares	Average exercise price in €	Market price in €	Number of shares	Average exercise price in €	Market price in €
Rights existing at 1/1/2008	18,175,604	1.15 ¹	0.75	20,389,204	1.15 ¹	0.75
Rights granted during year	-	-	-	-	-	-
(rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year as a result of persons leaving the Group)	2,478,270	-	-	2,213,600	-	-
Rights existing at 12/31/2008	15,697,334	0.996 ¹	0.26	18,175,604	1.15 ¹	0.75

TABLE 2

Exercise price	Rights granted – existing at December 31, 2008 Remaining contractual life		Of which exercisable
	> 1 year *	Total	From 11/5/2004
Euro 0.996 ¹	15,697,334	15,697,334	15,697,334

* until 11/5/2010

¹ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

Group Senior Executives

TABLE 1

	Year 2008			Year 2007		
	Number of shares	Average exercise price in €	Market price in €	Number of shares	Average exercise price in €	Market price in €
Rights existing at 1/1/2008	11,541,015	1.15 ¹	0.75	12,397,548	1.15 ¹	0.75
Rights granted during year	-	-	-	-	-	-
(rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year as a result of persons leaving the Group)	1,751,830	-	-	856,533	-	-
Rights existing at 12/31/2008	9,789,185	0.996 ¹	0.26	11,541,015	1.15 ¹	0.75

TABLE 2

Exercise price	Rights granted – existing at December 31, 2008 Remaining contractual life		Of which exercisable
	> 1 year *	Total	From 11/5/2004
Euro 0.996 ¹	4,416,001	9,789,185	9,789,185

* until 11/5/2010

¹ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

The following table indicates the number of rights granted under the above-described incentive plans, held at December 31, 2008, directly and indirectly, by the members of the board of directors, the board of statutory auditors, general managers and key managers of the company and the companies controlled by it.

Name	Rights held at 1/1/2008		Rights granted during year 2008		Rights exercised during year 2008		Rights held at 12/31/2008	
	No. of rights	Average exercise price	No. of rights	Average exercise price	No. of rights	Average exercise price	No. of rights	Average exercise price
Claudio De Conto	778,774 ¹	1.15 ³	-	-	-	-	778,774 ¹	0,996 ³
	410,667 ²	1.15 ³	-	-	-	-	410,667 ²	0,996 ³
Francesco Gori ⁴	533,334 ¹	1.15 ³	-	-	-	-	533,334 ¹	0,996 ³
	666,667 ²	1.15 ³	-	-	-	-	666,667 ²	0,996 ³

¹ Group Senior Executives incentive plan.

² Pirelli to People incentive plan.

³ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

⁴ Francesco Gori, starting from July 1, 2006, took over the post of chief executive officer and general manager of the subsidiary Pirelli Tyre S.p.A..

The deputy chairman Carlo Alessandro Puri Negri is the grantee of stock options as the Executive Vice President of Pirelli & C. Real Estate S.p.A..

Giovanni Ferrario (chief executive officer and general manager of the company to December 2004) holds 1,333,334 option rights granting the right to subscribe/purchase the same number of Pirelli & C. ordinary shares at the price of Euros 0.996 each.

Valerio Battista (general manager of the company to June 2005) holds 1,650,134 option rights granting the right to subscribe/purchase the same number of Pirelli & C. ordinary shares at the price of Euros 0.996 each.

Luciano Gobbi from the date of March 31, 2008 - after the termination of the executive relationship with Pirelli & C. S.p.A. - is no longer a recipient of any option rights.

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

Stock option/stock grant plans

- On March 6, 2008, the Pirelli & C. Real Estate S.p.A. board of directors, as proposed by the Remuneration Committee, approved the guidelines for two compensation plans based on financial instruments, later approved by the shareholders' meeting which convened on April 14, 2008 (together called the "Plans"):
- a stock option plan, which calls for granting stock options to grantees for the purchase of Pirelli & C. Real Estate S.p.A. ("Stock Option Plan 2008-2010" or "SOP 2008-2010").
- a stock grant plan, which calls for granting free Pirelli & C. Real Estate S.p.A. shares to grantees ("Stock Grant Plan 2008" or "SGP 2008");

On April 14, 2008, the shareholders' meeting approved the Plans, giving the board of directors a mandate to adopt the relative regulations and conferring to them all necessary and appropriate powers for their implementation.

On May 8, 2008, the board of directors, as recommended by the Remuneration Committee and in accordance with the guidelines approved by the shareholders' meeting and the mandates conferred to it, implemented the Plans and adopted the relative regulations.

Subsequently, on May 27, 2008, the board of directors, as recommended by the Remuneration Committee and following certain actions taken to simplify and modify the organizational structure based on new and changing demands to reflect growth prospects and business development, approved certain amendments regarding the options granted to the SOP 2008-2010 recipients, under the guidelines that had been approved by the shareholders' meeting and the mandates that it had conferred.

The above date of May 27, 2008 therefore represents a new grant date for the SOP 2008-2010 options for certain identified recipients.

For a description of the Plans, reference should be made to the Information Documents pursuant to ex art. 84-bis of the Consob Regulation for Issuers, posted to the company's website *www.pirellire.com* in the corporate governance section.

The following disclosure is provided on the above-mentioned Plans.

STOCK OPTION 2008-2010

Plan features	Option rights granted, non-transferable to third parties, for the purchase of Pirelli & C. Real Estate S.p.A. ordinary shares held by the company (treasury shares).
Recipients at December 31, 2008	51 persons (directors, general managers and other key resources) of Pirelli & C. Real Estate S.p.A. and its subsidiaries. Originally 58 persons at the date of approval of the plan. Two grants were made, respectively, on May 8, 2008 (1,240,000 options) and on May 27, 2008 (193,500 options).
Conditions for exercising options	(a) continuance of the employment relationship or status as a director in the companies of the Pirelli Group; (b) reaching/exceeding, when the rights are exercised, a minimum market price of the Pirelli RE share, not less than Euros 26.00 [market restriction]; (c) Pirelli RE has reached the performance targets that will be set by the board of directors upon approval of the 2008-2010 plan.
Subscription/purchase prices per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. Real Estate S.p.A. ordinary share at the price of Euros 21.23 for the options granted on May 8 and the price of Euros 18.88 for the options granted on May 27, which corresponds to the fair value of the share on the grant date; this price may vary as a result of share capital increases or other extraordinary transactions, but in every case ensuring the equivalent rights held by the grantees before those transactions.
Vesting period of options	40 percent (or a part thereof) of the options can be exercised from May 1, 2010 to December 31, 2011 (first tranche) and the remaining 60 percent from May 1, 2011 to December 31, 2011 (second tranche); all options must be exercised by December 31, 2011. The options may be exercised in advance, in the event of a "change of control" and, as a result of which, Pirelli & C. S.p.A. would no longer be the majority shareholder of the company. However, the market and operating restrictions remain in place, with predetermined criteria to be applied in relation to the exercise of the options if the event should occur.
Maximum number of options for which the offer was open at December 31, 2008	1,379,500 options equal to about 0.03 percent of outstanding ordinary shares destined for 51 recipients.
Options forfeit during 2008 as a result of persons leaving the Group	54,000
Shares issued during the period	None.

The fair value of the options at the grant date was determined using the Binomial valuation model and is equal to:

Grant date	First tranche	Second tranche
May 8, 2008	€ 2.26	€ 2.87
May 27, 2008	€ 1.76	€ 2.37

The assumptions that were considered in the valuation model can be summarized as follows:

- weighted average price of shares at the grant date equal to Euros 21.23 for the options granted on May 8 and Euros 18.88 for the options granted on May 27;
- estimated volatility of 30 percent determined on the basis of the historical volatility of the price of the shares from the time Pirelli & C. Real Estate S.p.A. was listed up to the grant date of this plan;
- estimated period of the rights is 1.98 years for the first tranche and 2.98 years for the second tranche for the options granted on May 8 (1.93 years and 2.93 years, respectively, for the first tranche and the second tranche for the options granted on May 27);
- estimated dividends equal to 4 percent;
- risk-free interest rate equal to 4.25 percent.

STOCK GRANT PLAN 2008

Plan features	Allotments of stock grants following the agreement for the consensual early termination of the Long-Term Incentive Plan 2006-2008 (LTI), with an amount corresponding to what has potentially accrued to the recipients in 2006 and divided among them on the basis of what they were respectively entitled. Instead of paying this amount in cash, the recipients were given the value in the form of shares
Recipients at December 31, 2008	55 persons (directors, general managers and other key resources) of Pirelli & C. Real Estate S.p.A. and its subsidiaries. The number of shares is equal to 109,860 allotted on the date of May 8, 2008.
Lock-up period	The Stock Grant Plan 2008 provides for a lock-up period (to April 30, 2009). During that time, each beneficiary is committed not to dispose of the shares assigned, or negotiate, with or without payment, for the transfer of ownership or other real right on the shares or pledge, restrict or encumber the shares in any other way.
Early end of lock-up period	The company may, before April 30, 2009, end the lock-up period in case of particular events or specific situations and without the recipients claiming any right even in the presence of the particular events or specific situations.
Call option	In the event of resignation, termination for cause and/or loss of director status during the lock-up period, the company has a call option to repurchase the recipient's shares.

The tables below – in conformity with Scheme 2 of Attachment 3C of Consob Regulation 11971/1999 – show the changes in the stock options held by the directors and general managers of Pirelli & C. Real Estate S.p.A. during 2008.

Name	Position	Rights held at 1/1/2008			Rights granted in 2008			Rights exercised in 2008			Rights expired/forfeit in 2008	Rights held at 12/31/2008	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		(11) =(1)+(4)- -(7)-(10)	(12)
		Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Due date	Number of options	Average exercise price	Average exercise market price	Number of options	Number of options	Average exercise price
Carlo Alessandro Puri Negri	Executive Deputy Chairman	300,000	46.50	12/15/2009	300,000	21.23	12/31/2011	-	-	-	300,000	300,000	21.23
Emilio Biffi	Delegated Officer - Chief Technical Officer	70,000	46.50	12/15/2009	30,000	21.23	12/31/2011	-	-	-	70,000	30,000	21.23
Olivier de Poulpique	Delegated Officer - Investment & Fund Raising	200,000	46.50	12/15/2009	200,000	21.23	12/31/2011	-	-	-	200,000	200,000	21.23
Carlo Bianco *	Deputy Chairman	140,000	46.50	12/15/2009	-	-	12/31/2011	-	-	-	140,000	-	-
Paolo Massimiliano Bottelli	General Manager Germany and Poland	140,000	46.50	12/15/2009	140,000	21.23	12/31/2011	-	-	-	140,000	140,000	21.23
				12/15/2009	33,500	18.88	12/31/2011					33,500	18.88
Wolfgang Weinschrod	Officer	-	-	12/15/2009	15,000	21.23	12/31/2011	-	-	-	-	15,000	21.23
Rodolfo Petrosino	General Manager Italy	140,000	46.50	12/15/2009	140,000	21.23	12/31/2011	-	-	-	140,000	140,000	21.23
				12/15/2009	33,500	18.88	12/31/2011					33,500	18.88
Gerardo Benuzzi	General Manager Finance & Human Resources	58,000	46.50	12/15/2009	65,000	21.23	12/31/2011	-	-	-	58,000	65,000	21.23
					12,500	18.88	12/31/2011					12,500	18.88

* Director in office from January 1, 2008 to April 14, 2008 and not repropoed by the shareholders' meeting held April 14, 2008

Name	Position	Rights held at 1/1/2008			Rights granted in 2008			Rights exercised in 2008			Rights expired/forfeited in 2008	Rights held at 12/31/2008	
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11) =(1)+(4)- -(7)-(10)	(12)
		Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Average exercise market price	Number of options	Number of options	Average exercise price
Emilio Biffi	Delegated Officer - Chief Technical Officer	-	-	-	5,203	-	n/a	5,203	-	19.37	-	-	-
Olivier de Poulpique	Delegated Officer - Investment & Fund Raising	-	-	-	16,283	-	n/a	16,283	-	19.37	-	-	-
Paolo Massimiliano Bottelli	General Manager Germany and Poland	-	-	-	7,400	-	n/a	7,400	-	19.37	-	-	-
Rodolfo Petrosino	General Manager Italy	-	-	-	7,400	-	n/a	7,400	-	19.37	-	-	-
Gerardo Benuzzi	General Manager Finance & Human Resources	-	-	-	4,607	-	n/a	4,607	-	19.37	-	-	-

These are option rights relating to the stock option plan for the three years 2006-2008 which was subsequently replaced by the stock option plan 2008-2010, as approved by the shareholders' meeting held on April 14, 2008 in view of the approval of the new three-year plan 2008-2010. The stock option plan is described in detail in the information document pursuant to ex art. 114-bis of the Consolidated Law on Finance and art. 84 of the Regulation for Issuers, published in accordance with the law. Consequent to the introduction of the new plan, the options relating to the previous plan are forfeit.

PIRELLI & C. AMBIENTE S.p.A. PLANS

Under the cash-settled stock options plan approved by the board of directors of Pirelli & C. Ambiente Renewable Energy S.p.A. and its parent Pirelli & C. Ambiente S.p.A. (which merged Pirelli & C. Ambiente Renewable Energy S.p.A. during the course of the year), in effect since January 2006, the specific corporate targets set as conditions precedent to the exercise of the option rights had not been met as at December 31, 2008. As a result the option rights were forfeit for all intents and purposes.

Therefore, the payable corresponding to the fair value of the plan, equal to Euros 501 thousand, was reversed to the income statement.

21. Tax payables

Tax payables amount to Euros 53,742 thousand (of which Euros 9,706 thousand is non-current) compared to Euros 56,918 thousand at December 31, 2007 (of which Euros 11,211 thousand is non-current).

22. Provisions for other liabilities and charges

The movements during the year in provisions for other liabilities and charges are presented in the following table:

PROVISIONS FOR OTHER LIABILITIES AND CHARGES - NON-CURRENT (in thousands of euros)

Beginning balance at 12/31/2007	146,331
Exchange differences	(16,437)
Increase	19,929
Utilization/release	(12,071)
Other	3,439
Ending balance at 12/31/2008	141,191

PROVISIONS FOR OTHER LIABILITIES AND CHARGES - CURRENT (in thousands of euros)

Beginning balance at 12/31/2007	71,340
Exchange differences	(834)
Increase	81,252
Utilization/release	(11,856)
Other	(4,252)
Ending balance at 12/31/2008	135,650

At December 31, 2008, the **non-current portion** mainly refers to the accruals for the legal and tax disputes of the subsidiary Pirelli Pneus S.A. in Brazil (Euros 72,201 thousand), risks of a tax nature (Euros 27,410 thousand) and other risks/expenses of a commercial nature and labor disputes (Euros 15,807 thousand) regarding the Parent, Pirelli & C. S.p.A., and contractual commitments undertaken for the performance of extraordinary maintenance work on buildings sold (Euros 17,533 thousand) and disputes under arbitration and pending litigation (Euros 5,666 thousand) regarding Pirelli & C. Real Estate S.p.A..

The increase for the year is largely in reference to adjustments connected with commercial risks, compensation and disputes (Euros 9,951 thousand for the Parent, Pirelli & C. S.p.A., and Euros 7,720 thousand for the Tyre sector).

The **current portion** includes accruals for contractual guarantees and product claims (Euros 33,514 thousand for the Tyre sector and Euros 14,831 thousand for the Broadband Access sector), accruals made by the Parent, Pirelli & C. S.p.A., for guarantees provided when Pirelli sold its activities in the Energy and Telecom Cables and Systems sectors to Goldman Sachs Capital Partners in July 2005 (Euros 10,000 thousand) and restructuring expenses for the internal reorganization of Pirelli & C. Real Estate S.p.A. (Euros 16,976 thousand) in addition to the provision for liabilities regarding investments accounted for by the equity method of Pirelli & C. Real Estate S.p.A. (Euros 48,670 thousand).

The **increase** mainly refers to the Real Estate sector for restructuring programs (Euros 17,900 thousand) and liabilities relating to the investments accounted for by the equity method in order to absorb the losses of the associates and joint ventures in excess of their carrying amount (Euros 48,670 thousand) in addition to an accrual by the Tyre sector (Euros 8,284 thousand) regarding contractual guarantees and product claims.

23. Employee benefit obligations

Employee benefit obligations include:

(in thousands of euros)

	12/31/2008	12/31/2007
Pension funds:		
- funded	157,368	118,234
- unfunded	88,752	88,050
Employees' leaving indemnity (Italian companies)	56,783	74,559
Medical care plans	18,442	21,839
Other benefits	45,190	46,460
	366,535	349,142

PENSION FUNDS

The composition of pension funds at December 31, 2008 is as follows:

(in thousands of euros)

	12/31/2008					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded						
Present value of funded obligations	-	-	128,035	598,155	2,615	728,805
Fair value of plan assets	-	-	(73,780)	(495,549)	(2,108)	(571,437)
Unfunded						
Present value of unfunded obligations	88,752	88,752	-	-	-	-
Net liability in the balance sheet	88,752	88,752	54,255	102,606	507	157,368
of which:						
- Tyre	83,310	83,310	54,255	62,157	507	116,919
- Real Estate	5,442	5,442				
- Other				40,449		40,449

The composition of pension funds at December 31, 2007 was as follows:

(in thousands of euros)

	12/31/2007					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded						
Present value of funded obligations	-	-	123,593	899,691	2,519	1,025,803
Fair value of plan assets	-	-	(103,933)	(801,632)	(2,004)	(907,569)
Unfunded						
Present value of unfunded obligations	88,050	88,050	-	-	-	-
Net liability in the balance sheet	88,050	88,050	19,660	98,059	515	118,234
of which:						
- Tyre	87,269	87,269	19,660	65,278	515	85,453
- Real Estate	781	781				
- Other				32,781		32,781

The principal features of the pension plans in existence at December 31, 2008 are as follows:

- Germany - Tyre sector: this is an unfunded defined benefit plan based on the most recent remuneration. It guarantees another pension besides the government pension. The plan was closed in October 1982; consequently, the participants in the plan are employees who were hired prior to that date;
- USA – Tyre sector: this is a funded defined benefit plan based on the most recent remuneration. It guarantees another pension besides the government pension. The plan is under the administration of a trust. The plan was closed in 2001 and frozen in 2003 for those employees who changed over to a defined contribution scheme. None of the current participants in the plan are in service;
- UK: these are funded defined benefit plans based on the most recent remuneration. They guarantee another pension besides the government pension. The plans are under the administration of a trust. The plans were closed in 2001; consequently, the participants in the plan are employees who were hired prior to that date.

The movements during the year in the present value of the liabilities for pension funds (funded and unfunded) are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	1,113,853	1,193,755
Exchange differences	(207,553)	(99,276)
Change in the scope of consolidation	3,986	-
Movements through the income statement:		
- current service cost	4,669	5,110
- interest cost	57,672	58,488
Actuarial (gains) losses recognized in equity	(111,992)	7,230
Employee contribution	1,323	1,620
Benefits paid	(48,146)	(53,760)
Other	3,745	686
Closing balance	817,557	1,113,853

The changes during the year in the fair value of the pension plan assets are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	(907,569)	(937,597)
Exchange differences	187,355	85,947
Movements through the income statement:		
- expected return of plan assets	(64,529)	(67,042)
Actuarial (gains) losses recognized in equity	195,456	(3,030)
Employer contribution	(22,453)	(31,288)
Employee contribution	(1,323)	(1,620)
Benefits paid	40,978	47,004
Other	648	57
Closing balance	(571,437)	(907,569)

The assumptions made to compute the expected return of the pension fund assets are based on the expected returns of the underlying assets (shares, bonds and deposits). The expected return originates from the general average of the expected returns by the assets for every class of separately identified investments, with reference to an effective or objective composition of the assets.

The expected return of each class of investment originates from the market yields available at the balance sheet date. Specifically, the expected return of equity shares originates from a risk-free rate of return with the addition of an adequate premium for the risk.

The composition of the funded pension plan assets is presented in the following table:

	12/31/2008			12/31/2007		
	UK	USA	Other countries	UK	USA	Other countries
Shares	64%	70%		82%	68%	
Bonds	33%	25%		14%	29%	
Deposits				1%	3%	
Other	3%	5%	100%	3%		100%
	100%	100%	100%	100%	100%	100%

The effective return of pension plan assets is as follows:

(in thousands of euros)

	USA	UK	Other countries	Total
Effective return 2008 - (gain)/loss	26,027	134,370	(51)	160,346
Effective return 2007 - (gain)/loss	(7,666)	(60,473)	251	(67,888)

The costs recognized in the income statement for pension funds are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Current service costs	4,669	5,110
Interest cost	57,672	58,488
Expected return on plan assets	(64,529)	(67,042)
	(2,188)	(3,444)

The amounts recognized in the income statement are included in "Personnel costs" (Note 31). The contributions which are expected to be paid for pension funds during 2009 amount to Euros 23,337 thousand.

EMPLOYEES' LEAVING INDEMNITY

The movements during the year in employees' leaving indemnity are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	74,559	96,824
Discontinued operations	(12,846)	-
Change in the scope of consolidation	-	(5,491)
Movements through the income statement (excluding curtailment)	3,565	8,270
Curtailment	-	(5,186)
Actuarial (gains) losses recognized in equity	1,959	(5,358)
Payments / advances	(10,798)	(14,467)
Other	344	(33)
Ending balance	56,783	74,559
of which:		
- Tyre	37,194	38,912
- Broadband	651	1,128
- Real Estate	7,327	21,283
- Other	11,611	13,236

Discontinued operations refer to the deconsolidation of the Integra FM B.V. group (formerly Pirelli RE Integrated Facility Management B.V.) and PGT Photonics S.p.A., after the stakes held in these companies were sold to third parties.

The movements through the income statement during 2008 relate only to the interest expense accrued on employees' leaving indemnity at December 31, 2007. Following the leaving indemnity reform introduced by Italian Budget Law 2007, employees' leaving indemnity was in fact transformed into a defined contribution plan.

Movements through the income statement are recorded in "Personnel costs" (Note 31).

MEDICAL CARE PLANS

The composition of medical care plans is as follows:

(in thousands of euros)

	USA
Liability in the balance sheet at 12/31/2008	18,442
Liability in the balance sheet at 12/31/2007	21,839

The medical care plan in existence in the United States (Tyre sector) covers white-collars and blue-collars, in service and retired.

The plan is structured according to "pre-medicare" and "post-medicare", with the latter referring to participants over the age of 65.

Contributions are paid in both by the employer and the employee.

The movements during the year in the liabilities recognized in the financial statements for medical care plans are the following:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	21,839	28,362
Exchange differences	1,333	(3,081)
Moviments through the income statement:		
- current service cost	7	7
- interest cost	1,217	1,366
Actuarial (gains) losses recognized in equity	(1,109)	(1,355)
Benefits paid	(1,591)	(1,863)
Other	(3,254)	(1,597)
Ending balance	18,442	21,839

The effect of a one percentage point increase or decrease in the estimated rates for the costs of medical care is as follows:

(in thousands of euros)

	1% increase		1% decrease	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Effect on current service cost and interest cost	55	55	(54)	(52)
Effect on liabilities recognized in the balance sheet	933	849	(908)	(805)

The costs recognized in the income statement for medical care plans are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Current service costs	7	7
Interest cost	1,217	1,366
	1,224	1,373

The amounts recognized in the income statement are included in "Personnel costs" (Note 31).

OTHER INFORMATION

Net actuarial losses referring to 2008 recognized directly in equity amount to Euros 85,058 thousand (net gains of Euros 2,589 thousand in 2007).

The cumulative amount at December 31, 2008, equal to a net loss of Euros 150,460 thousand (net loss of Euros 64,326 thousand in 2007), is made up as follows:

(in thousands of euros)

	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	8,670	(44,445)	(124,439)	(1,151)	(161,365)
Medical care plans	-	-	214	-	-	214
Employees' leaving indemnity	10,691	-	-	-	-	10,691
Total actuarial gains (losses) recognized in equity	10,691	8,670	(44,231)	(124,439)	(1,151)	(150,460)

The breakdown of the cumulative amount at December 31, 2007 by country was as follows:

(in thousands of euros)

	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	5,916	(10,607)	(72,315)	(515)	(77,521)
Medical care plans	-	-	(894)	-	-	(894)
Employees' leaving indemnity	14,089	-	-	-	-	14,089
Total actuarial gains (losses) recognized in equity	14,089	5,916	(11,501)	(72,315)	(515)	(64,326)

The main actuarial assumptions used at December 31, 2008 and also to determine the estimated cost for the year 2009 are as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.70%	5.70%	5.70%	6.20%-6.40%	6.25%
Inflation rate	2.00%	2.00%	2.00%	2.70%	-
Expected return on plan assets	-	-	-	6.65%	7.75%
Expected remuneration increase rate	3.5% - 4.5% *	2.50%	2.00%	3.15%	-
Medical care cost trend rate - initial	-	-	-	-	8.50%
Medical care cost trend rate - final	-	-	-	-	4.50%

* Indicators are only valid for companies with less than 50 employees.

The main actuarial assumptions used at December 31, 2007 and also to determine the estimated cost for the year 2008 were as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.50%	5.50%	5.50%	5.60%	6.00%
Inflation rate	2.00%	2.00%	2.00%	3.15%	-
Expected return on plan assets	-	-	-	7.78%	7.67%
Expected remuneration increase rate	3.5% - 4.5% *	2.50%	2.00%	3.15%	-
Medical care cost trend rate - initial	-	-	-	-	9.00%
Medical care cost trend rate - final	-	-	-	-	4.50%

* Indicators are only valid for companies with less than 50 employees.

The discount rates are used in the measurement of the obligation and the financial component of the net current expense. The Group has chosen such rates based on the yield curves of fixed-rate securities (corporate bonds) of leading companies (with an AA+ rating) at the measurement date of the plans.

The medical care cost trend rate represents the expected increase in medical care costs. The rate is determined on the basis of the specific experience of the sector and the various trends, including specific inflation projections in the health care sector.

The initial rate used represents a trend for a short-term period based on recent experience and the prevailing market conditions. The final rate used is an assumption of the long-term period which takes into account, among other things, inflation in the costs of health care on the basis of the general inflation trend, incremental medical inflation, technologies, new drugs, average age of the population and a different mix of medical services. The change in the average trend in the rate of growth of medical care costs in 2008 was determined based on the recent change in medical care costs.

The expected return on plan assets reflects the estimates on the medium- and long-term return performance of the pension fund assets for the entire duration of the obligation. The expected return is set for each class of assets (equity shares, bonds, cash and real estate) and is net of expected administrative costs. The historical trend and the correlation of returns, the estimate on future trends and other relevant financial factors are analyzed in order to check reasonableness and consistency.

The adjustments based on historical experience made to defined benefit plans are the following:

(in thousands of euros)

	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Adjustments to plan liabilities - (gains)/losses	(9,553)	16,097	(7,527)	46,038
Adjustments to plans assets - (gains)/losses	224,875	(744)	(32,733)	(75,756)

The adjustments to liabilities represent the change in the actuarial liability that is not generated by changes in the actuarial assumptions. These typically include changes in the demographic and remuneration structure. Experience adjustments do not include changes in the plan regulations (past service cost).

The adjustments to assets represent the difference between the effective return of the assets and the expected return at the start of the year.

24. Borrowings from banks and other financial institutions

Borrowings from banks and other financial institutions are analyzed as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	150,000	-	150,000	650,000	150,000	500,000
Borrowings from banks	1,780,681	1,279,470	501,211	872,768	653,714	219,054
Borrowing from other financial institutions	66,401	64,739	1,662	69,433	67,936	1,497
Finance lease payables	41,099	30,340	10,759	35,652	32,271	3,381
Financial accrued liabilities and deferred income	19,268	510	18,758	17,693	420	17,273
Other financial payables	13,859	688	13,171	14,411	955	13,456
	2,071,308	1,375,747	695,561	1,659,957	905,296	754,661

These payables are secured by real guarantees (liens and mortgages) for Euros 19,107 thousand (Euros 179,380 thousand at December 31, 2007).

If the negative fair value change of derivatives hedging the exchange rates of financial payables (classified in "Derivative financial instruments") of Euros 43 million is added to the total, the gross payable is equal to Euros 2,114 million, reported in the net financial position.

The carrying amount of current payables is regarded as approximating fair value. The current payables include the current portion of long-term financial payables of Euros 414,330 thousand (Euros 531,200 thousand at December 31, 2007).

The fair value of non-current payables, compared to the carrying amount, is as follows:

(in thousands of euros)

	12/31/2008		12/31/2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial payables	1,375,747	1,383,316	905,296	901,692

At December 31, 2008, the breakdown of payables by interest rate and currency of origin is as follows:

(in thousands of euros)

	Fixed rate		Floating rate		Total
EUR	301,418		228,896		530,314
USD	1,902		-		1,902
BRL (Brazilian real)	88,872		-		88,872
CNY (Chinese renminbi)	37,737		26,326		64,063
Other currencies	10,310		100		10,410
Current payables	440,239	63%	255,322	37%	695,561
EUR	313,321		989,192		1,302,513
USD	23,711		-		23,711
BRL (Brazilian real)	-		17,909		17,909
CNY (Chinese renminbi)	-		31,614		31,614
Non-current payables	337,032	24%	1,038,715	76%	1,375,747
	777,271	38%	1,294,037	62%	2,071,308

The percentage of floating-rate payables at December 31, 2008 increased compared to the prior year mainly as a result of repayments of fixed-rate bond issues (Euros 500,000 thousand) in October 2008. However, the intention is to bring the fixed/floating ratio in line with the Group's policies which call for an objective 60/40 proportion for fixed-/floating-rate payables.

At December 31, 2007, the situation was as follows:

(in thousands of euros)

	Fixed rate		Floating rate		Total
EUR	541,682		103,843		645,525
USD	19,970		-		19,970
BRL (Brazilian real)	30,754		-		30,754
CNY (Chinese renminbi)	58,112		-		58,112
Other currencies	300		-		300
Current payables	650,818	86%	103,843	14%	754,661
EUR	485,671		370,683		856,354
USD	23,532		-		23,532
BRL (Brazilian real)	10,085		15,227		25,312
EGP (Egyptian pound)	98		-		98
Non-current payables	519,386	57%	385,910	43%	905,296
	1,170,204	70%	489,753	30%	1,659,957

The fixed-rate payables above include payables denominated by contract at fixed rates and payables denominated by contract at floating rates hedged by derivatives.

The Group's exposure to interest rate changes on financial payables in terms of either the type of rate or the date of resetting the rate can be summarized as follow:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Total	Fixed rate	Floating rate	Total	Fixed rate	Floating rate
Up to 6 months	850,480	378,539	471,941	756,652	266,899	489,753
Between 6 and 12 months	61,700	61,700	-	500,367	500,367	-
Between 1 and 5 years	1,151,637	329,541	822,096	394,745	394,745	-
Beyond 5 years	7,491	7,491	-	8,193	8,193	-
	2,071,308	777,271	1,294,037	1,659,957	1,170,204	489,753

Bonds refer to those issued in 1999 by Pirelli & C. S.p.A. for Euros 150,000 thousand at a fixed rate of 5.125 percent, maturing April 7, 2009.

The reduction from 2007 is due to the repayment of the bonds issued on October 21, 1998 by Pirelli & C. S.p.A. for Euros 500,000 thousand at a fixed rate of 4.875 percent and repaid in a one-off payment at maturity on October 21, 2008.

The bonds are not covered by financial covenants or clauses which could cause the early repayment of the bonds due to events other than insolvency.

With regard to negative pledge clauses, there is a commitment on the bonds requiring that real guarantees are not to be provided on the Relevant Debt (bonds and similar securities destined for listing) with the exception for real guarantees on existing debt.

With regard to the existence of financial covenants on credit lines drawn down (included in payables to banks) the following financing lines should be noted, all of which are revolving lines:

Corporate:

- Barclays Capital, BNP Paribas, HSBC Bank plc, J.P. Morgan plc, The Royal Bank of Scotland plc (as the Mandated Lead Arrangers), for Euros 800,000 thousand, drawn down for Euros 100,000 thousand, expiring December 2011 for Euros 155,000 thousand and December 2012 for Euros 645,000 thousand, for which Pirelli & C must maintain a specific level of consolidated debt and a specific ratio between consolidated net debt and gross operating profit. These parameters are complied with at December 31, 2008.

As far as negative pledges are concerned, real guarantees must not be granted above the ceiling of Euros 75,000 thousand, relating to the Relevant Debt (bonds and similar destined for listing), with the exception for real guarantees on existing debt or debt which replaces it, to be provided by law, relating to export and project finance arrangements and low-rate financing;

Tyre:

- syndicated line (granted to Pirelli Tyre S.p.A. and Pirelli International Limited), in which 12 banks participate for a total of Euros 675,000 thousand, drawn down for Euros 600,000 thousand, expiring February 2012, carries no financial covenants. There is a negative pledge clause not to grant real guarantees, beyond a set ceiling defined as the higher of Euros 100,000 thousand and 3 percent of total assets (as defined in the consolidated financial statements of Pirelli Tyre S.p.A.), relating to the Relevant Debt (bonds and similar destined for listing) with the exception for real guarantees on existing debt or debt which replaces it, to be provided by law, relating to export and project finance arrangements and low-rate financing;

Real Estate:

- The Royal Bank of Scotland plc, for Euros 50,000 thousand, completely drawn down, expiring December 2009, for which Pirelli & C. Real Estate S.p.A. must maintain, in reference to the consolidated financial statements, a specific amount of net tangible assets (defined as the difference between total equity and the amount resulting from the sum of intangible assets and any asset balance between deferred tax assets and liabilities);
- West LB AG, for Euros 50,000 thousand, fully drawn down, expiring May 2011, for which Pirelli & C. Real Estate S.p.A. must maintain a specific level of consolidated equity;
- Unicredit Corporate Banking S.p.A., for Euros 100,000 thousand, fully drawn down, expiring January 2010, which can be renewed for another 18 months, for which Pirelli & C. Real Estate S.p.A. must maintain a specific level of consolidated equity.

As for the financing lines granted to Pirelli Real Estate, the fact of considering the capital increase described in the report on operations and previously announced to the financial community brings the balance sheet requirement and conventional requirement of net tangible assets, which can be influenced by the group's performance in the absence of the above capital increase, above the minimum contractually agreed levels.

On the other credit lines, Pirelli Real Estate is not required to comply with any covenants.

The other financial payables in existence are not covered by financial covenants or clauses which could cause their early repayment due to events other than insolvency.

There are no significant negative pledge clauses.

In addition to liquidity and securities held for trading of Euros 369,705 thousand, at December 31, 2008 the Group has unused committed credit lines for Euros 785,000 thousand (Euros 2,672,000 thousand at December 31, 2007). Expiration dates are the following:

(in thousands of euros)

2010	10,000
2011	136,000
2012	639,000
	785,000

As for finance lease payables, reference should be made to Note 8.1 "Finance leases".

25. Trade payables

Trade payables are analyzed as follows:

(in thousands of euros)

	12/31/2007			12/31/2006		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	21,704	-	21,704	24,458	-	24,458
Third parties	1,079,800	-	1,079,800	1,198,417	-	1,198,417
Notes payable	3,043	-	3,043	97,073	-	97,073
Payables on construction contracts	4,026	-	4,026	3,640	-	3,640
	1,108,573	-	1,108,573	1,323,588	-	1,323,588

The carrying amount of trade payables is regarded as approximating fair value.

The reduction in **notes payables** at December 31, 2008 is mainly due to the change in the terms for the purchase of natural rubber on the part of the Tyre sector. The reduction is basically compensated by the increase in trade receivables from third parties.

Payables on construction contracts relating to the Real Estate sector represent the advances received on progress billings for contracts, equal to Euros 30,266 thousand at December 31, 2008 (Euros 26,818 thousand at December 31, 2007), in excess of costs incurred and margins recognized on the basis of the percentage of completion method, equal to Euros 26,240 thousand at December 31, 2008 (Euros 23,178 thousand at December 31, 2007).

26. Other payables

Other payables can be analyzed as follows:

(in thousands of euros)

	12/31/2007			12/31/2006		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	7,344	-	7,344	21,466	-	21,466
Trade and other accrued liabilities and deferred income	72,253	3,712	68,541	130,776	4,869	125,907
Tax payables	53,986	8,167	45,819	98,433	10,288	88,145
Payables to employees	168,244	277	167,967	131,031	77	130,954
Payables to social security agencies	38,256	3,052	35,204	48,308	2,934	45,374
Payables for stock options	10	-	10	494	-	494
Dividends payable	920	-	920	827,252	-	827,252
Advances from customers	2,284	10	2,274	4,979	-	4,979
Other payables	187,576	33,254	154,322	155,234	5,132	150,102
	530,873	48,472	482,401	1,417,973	23,300	1,394,673

Dividends payable declared last year referred to the reimbursement of share capital to the shareholders of Pirelli & C. S.p.A. for Euros 826,254 thousand, approved by the shareholders' meeting held on December 12, 2007.

Other non-current payables mainly include the payables for the acquisition of stakes in Polish companies (Euros 11,210 thousand) and payables for the non-performing loan portfolio (Euros 17,661 thousand), both relating to the Real Estate sector.

Other current payables comprise:

- Payables for claims under warranty arising from defects on the products marketed for Euros 26,597 thousand;
- payables for the purchase of property, plant and equipment for Euros 27,649 thousand, relating to the Tyre sector;
- payables for down-payments and advances relating to the Real Estate sector for Euros 1,763 thousand;
- payables to sales representatives, agents, professionals and consultants for Euros 9,429 thousand;
- payables of the Parent, Pirelli & C. S.p.A., to Alitalia S.p.A. for the capital subscribed by not yet paid for Euros 8,871 thousand;
- advances disbursed by the European Union to the Tyre sector for research projects for Euros 1,678 thousand;
- payables for withholding taxes at source on income of the Tyre sector for Euros 3,405 thousand.

The carrying amount of other current and non-current payables is regarded as approximating fair value.

27. Derivative financial instruments

This item includes the measurement at fair value of derivatives outstanding at December 31, 2008. In particular, the portion of the fair value measurement included in current assets comprises:

- Euros 90,535 thousand (Euros 56,116 thousand at December 31, 2007) relating to the fair value measurement of forward currency purchases and sales in place at December 31, 2008.

These are derivative transactions hedging commercial and financial transactions of the Group; the hedge accounting option was not adopted. The fair value is determined by using the forward exchange rate at the balance sheet date;

- Euros 3,507 thousand (Euros 2,210 thousand at December 31, 2007) relating principally to the measurement of other derivatives at fair value. In particular, Euros 1,934 thousand refers to the fair value measurement of futures contracts purchased on natural rubber on which the Tyre sector uses hedge accounting in accordance with IAS 39.

The above hedge put into place in the last quarter of 2008 by the Tyre sector aims to limit exposure to the economic effects of an increase in natural rubber prices and contain the cost of the future provisioning of natural rubber for a limited part of the total requirements for the first half of 2009.

In order to avoid fluctuations in economic results due to the volatility of the relative fair value, hedge accounting was adopted under IAS 39.

The amount recognized in equity at December 31, 2008 is a positive Euros 1,934 thousand.

The portion of the fair value measurement included in current liabilities comprises:

- Euros 104,106 thousand (Euros 72,513 thousand at December 31, 2007) relating to the fair value measurement of forward currency purchases and sales in place at the closing date. These are derivative transactions hedging commercial and financial transactions of the Group; the hedge accounting option was not adopted. The fair value is determined by using the forward exchange rate at the balance sheet date;
- Euros 6,367 thousand (Euros 2,210 thousand in financial instruments recorded in assets at December 31, 2007) relating to the fair value measurement of interest rate derivatives, referring mainly to the Real Estate sector for Euros 264 thousand (a positive Euros 2,210 thousand at December 31, 2007) and the Tyre sector for Euros 4,992 thousand.

As far as the Real Estate sector is concerned, the line item includes the measurement of the plain vanilla interest rate collar purchased in 2006 with a notional amount of Euros 120 million to hedge an increase in interest rates. The derivative qualified for hedge accounting under IAS 39. Hedge accounting is only applied to the intrinsic value while the change in the time value is recognized in the income statement.

In 2008, the amount recognized in equity is a negative Euros 2,038 thousand (a positive Euros 875 thousand at December 31, 2007), whereas that recognized in the income statement is a negative Euros 432 thousand.

Details relating to the derivative financial instruments in place at December 31, 2008 are as follows:

Type of financial instrument	Interest rate collar	Interest rate collar	Interest rate collar
Counterpart	SoGen	Barclays	Morgan Stanley
Notional amount for the period December 31, 2008 to March 31, 2009	40,000,000	40,000,000	40,000,000
Premium paid	360,000	333,000	360,000
Date of contracts	1/27/2006	1/30/2006	1/31/2006
Date of expiration	8/3/2010	8/3/2010	8/3/2010
Interest rate cap	3.75%	3.75%	3.75%
Interest rate floor	2.20%	2.20%	2.20%
Fair value at December 31, 2008	(88,150)	(88,150)	(88,150)

As far as the Tyre sector is concerned, the line item includes the measurement of plain vanilla interest rate swaps purchased during the year to hedge an increase in the interest rates on a notional amount of Euros 100 million. The derivative qualifies for hedge accounting under IAS 39. In 2008, the amount recognized in equity is a negative Euros 4,992 thousand.

The amounts included in non-current assets (equal to Euros 3,161 thousand, Euros 3,849 thousand at December 31, 2007) and in non-current liabilities (equal to Euros 2,139 thousand, Euros 6,782 thousand at December 31, 2007) refer to the fair value measurement of forward currency purchases and sales in place at December 31, 2008. These are derivative transactions hedging commercial and financial transactions of the Group; the hedge accounting option was not adopted. The fair value is determined by using the forward exchange rate at the balance sheet date.

28. Commitments and contingencies

SURETIES

Sureties were provided by banking institutions and insurance companies to third parties and in the interests of companies of the Pirelli & C. Real Estate S.p.A. group mainly to fulfill contractual obligations for a total of Euros 156,966 thousand.

Moreover, guarantees and comfort letters were provided by Pirelli & C. Real Estate in the interests of investments holdings for a total of Euros 161,896 thousand, principally among which are the following:

- joint insurance obligations to third parties for various reasons for a total of Euros 9,644 thousand;
- guarantees for loans made by credit institutions to associates and joint ventures for a total of Euros 23,957 thousand;
- guarantees provided in favor of Hypo Real Estate, the financing bank in the acquisition of the DGAG, to cover any tax liabilities associated with the period of the duration of the loan. These guarantees involve an exposure for the Group quantified in Euros 29,616 thousand;
- guarantees provided, as part of securitization transactions conducted by vehicle companies for the correct and precise fulfillment of payment obligations for a total of Euros 52,896 thousand;
- guarantees provided, as part of the transaction for the sale of junior notes relating to a non-performing loan portfolio of ex-Banco di Sicilia, to third parties on behalf of joint ventures. These guarantees, counter-guaranteed by the partner in the venture, involve a net exposure for the group of Euros 26,009 thousand;
- guarantees provided, mainly for the fulfillment of payment obligations by International Credit Recovery 8 S.r.l. for the purchase price of a non-performing loan portfolio for an amount of Euros 13,773 thousand.

Finally, Pirelli & C. Real Estate S.p.A. has a commitment to proportionally cover any negative difference between the flows from rental income and interest expenses payable by the joint venture Tiglio I S.r.l. to the lending banking institutions on credit lines expiring in 2009; at this time, based on available information, revenue flows are higher than estimated interest expenses.

SECURITIES PLEDGED

Securities of associates and joint ventures of the Real Estate sector are pledged for an amount of Euros 96,879 thousand.

COMMITMENTS FOR PURCHASES OF PROPERTIES

Commitments for the purchase of properties refer to the Pirelli & C. Real Estate S.p.A. obligation to purchase certain buildings if they remain unsold, owned by Imser 60 S.r.l., for a maximum amount of Euros 288,600 thousand. The purchase prices of these buildings are established by contract at a fraction of their market value. This option may be exercised by the counterpart between November 12, 2021 and May 31, 2022.

COMMITMENTS FOR PURCHASES OF PROPERTY, PLANT AND EQUIPMENT

Commitments for the purchase of property, plant and equipment mainly refer to the Tyre sector and total Euros 84.4 million (Euros 85.8 million at December 31, 2007), principally in reference to the companies in Brazil, China, Egypt, Italy and Germany.

COMMITMENTS FOR PURCHASES OF INVESTMENTS / FUND SHARES

These refer to purchase options and commitments undertaken:

- by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. to subscribe to shares of Fondo Abitare Sociale 1 - Closed-end Ethical Real Estate Investment Fund for Qualified Investors for a total amount of Euros 1,913 thousand;
- by Pirelli & C. Real Estate S.p.A. to subscribe to, through its investment holding, Alimede Luxembourg S.a.r.l., shares of Fondo Social & Public Initiatives – Closed-end Speculative Real Estate Investment Fund for a total maximum amount of Euros 7,000 thousand;
- by Pirelli RE Netherlands B.V. to subscribe to shares of Fondo Vivaldi – Closed-end Speculative Real Estate Investment Fund for a total maximum amount of Euros 3,000 thousand;
- by Pirelli Finance (Luxembourg) S.A. to subscribe to shares of the company Equinox Two S.c.a., a private equity company specialized in investments in listed and unlisted companies with a high potential for growth, for an equivalent maximum amount of Euros 7,550 thousand.

GUARANTEES PROVIDED AT THE TIME OF THE SALE OF OLIMPIA

At the time of the sale of the investment in Olimpia S.p.A., the sellers (Pirelli and Sintonia) remained responsible for all tax risks for the periods up to the date of sale.

The litigation currently pending can be summarized in the following terms.

On December 27, 2006, the Tax Revenues Agency had notified Olimpia S.p.A. of an assessment for IRAP taxes regarding 2001.

Briefly, with regard to the year 2001, an assessment was received for the alleged financial income on the Bell bonds repayable in Olivetti shares, with a consequent IRAP tax of Euros 26.5 million, in addition to penalties of the same amount.

The company opposed the assessment and filed suit on administrative grounds and against the evident unfounded grounds of the tax assessment.

In September 2007, the Tax Commission of the First Instance, by motivated decision 654/01/07 of November 25, 2007, ruled in favor of the appeal filed by the company and completely canceled the above-mentioned assessment.

The Tax Revenues Agency appealed this decision. Counter-arguments were filed with the Regional Tax Commission. The hearing for discussion is fixed for this May 29.

With regard to the assessment for the year 2002, with which Olimpia was attributed the status of a “shell company”, the appeal was discussed on November 18, 2008. The relative IRPEG tax amounts to Euros 29.3 million, besides penalties for the same amount.

Even though the ruling has not yet been filed, the company is confident of the outcome, considering the unfounded grounds, the solid foundation of the argumentation and the positive direction of the discussion.

On December 9, 2008, another assessment was notified relating to 2003, with which Olimpia was again identified as a “shell company”. The relative IRPEG tax amounts to Euros 28.5 million, besides penalties for same amount.

This assessment, like the preceding one, is considered completely groundless and the company has lodged an appeal with the Tax Commission of the First Instance. The first instance ruling can reasonably be expected to be handed down by the end of 2009.

For this second dispute, as well, since the nature is the same as the previous one, there is reason to trust that the company's arguments, supported by qualified experts, will be upheld in court, without resulting in any increase in tax.

PROCEEDINGS FOR UNLAWFUL ADMINISTRATIVE RESPONSIBILITY PURSUANT TO LAW 231/2001

As to the investigation conducted by the Milan district attorney's office regarding matters which involved two former employees of the company's Security Function, reference should be made to the Report on Corporate Governance, included with the financial statements, in which this issue is discussed at length.

With regard to the valuation of the possible effects of this matter, even though the company has recourse to special procedure for the application of sanctions by request, it is noted that the risk associated with the competent Judicial Authority's confirmation of the existence of responsibility pursuant to Legislative Decree 231/2001 is constituted by the payment of a pecuniary penalty of limited amount. It is believed that in this case the risk of the application of interdicting sanctions is low.

The company, with the assistance of highly-qualified experts in this area, has also examined the possibility of third-party liability resulting from the activities conducted by the above-mentioned parties.

The company – although considering and reiterating its non-involvement with the acts committed, moreover also to the company's detriment – consistent with the values of loyalty and correctness that are the basis of its action and the importance that Pirelli has always recognized in the wealth of its human resources, it deemed it proper to offer immediately an economic contribution as an act of solidarity. The extent of the contribution was determined on the basis of an equitable evaluation supported also by the above-noted experts, and is offered to all employees or former employees of the Pirelli Group who were the target of "intrusive activities" according to what has emerged from the acts of the proceedings.

With regard to contingent liabilities, should the parties indicated in the lists contained in the notice of conclusion of the investigation bring action against the former employees of the company, who are the authors of the acts for which the company is responsible under ex article 2049 of the Italian Civil Code, the company is of the opinion that this risk is possible but not quantifiable at this time.

Lastly, it should be noted that the company is continuing with the civil suits against the suppliers of the security service involved in the investigations, with the aim of being reimbursed for the payment of services rendered since they are considered as not having been carried out or illegal.

29. Revenues from sales and services

Revenues from sales and services can be analyzed as follows:

(in thousands of euros)

	2008	2007
Revenues from sales of products	4,342,434	5,672,612
Revenues from services	304,711	402,390
Revenues on construction contracts	13,030	595
	4,660,175	6,075,597

30. Other income

“Other income” amounts to Euros 175,928 thousand compared to Euros 274,939 thousand in 2007 and includes income from rent, commissions, royalties, compensation, insurance refunds and other minor items.

The decrease compared to 2007 is mainly in reference the subsidiary Shared Service Center, which was sold at the end of 2007 (Euros 110,011 thousand).

Total other income includes income from nonrecurring events for Euros 17,000 thousand for the consideration received by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. on the sale of the management of Fondo Berenice to another SGR, which, in fact, represents an advance on what would have been due as fees in future years. The percentage of income from nonrecurring events to total other income is equal to 9.7 percent. Last year, income from nonrecurring events amounted to Euros 2,818 thousand and included compensation for the expropriation of land located in Settimo Torinese for Euros 1,746 thousand and the refund of the events tax for the periods it was not due for Euros 1,072 thousand.

31. Personnel costs

Personnel costs consist of the following:

(in thousands of euros)

	2008	2007
Salaries and wages	851,374	843,801
Social security costs	173,956	183,843
Leaving indemnity and similar costs (*)	30,136	25,191
Defined contribution pension fund costs	18,906	17,164
Defined benefit pension fund costs	(2,188)	(3,444)
Defined benefit medical care plan costs	1,224	1,373
Long-service bonus costs	782	984
Defined contribution medical care plan costs	23,739	20,120
Other costs	76,922	6,913
	1,174,851	1,095,945

* Includes Italian and foreign companies.

With regard to amounts relating to employees' leaving indemnity, pension funds and medical care defined benefit plans, reference should be made to “Employee benefit obligations” (Note 23).

Personnel costs include Euros 132,352 thousand of costs from nonrecurring events, equal to 11.2 percent of total personnel costs. They refer to special employee termination benefit incentives for Euros 41,252 thousand put into place by the Real Estate sector and Euros 91,100 thousand by the Tyre sector.

In 2007, costs from nonrecurring events included Euros 5,186 thousand relating to income for curtailment relating to the provision for employees' leaving indemnity following legislative changes which altered the nature of the provision to a defined contribution plan.

32. Amortization, depreciation and impairments

Amortization, depreciation and impairments are as follows:

(in thousands of euros)

	2008	2007
Amortization of intangible assets	9,938	8,927
Depreciation of property, plant and equipment	198,742	199,985
Impairment loss on intangible assets	105	3,823
Impairment loss on property, plant and equipment	9,770	811
	218,555	213,546

Amortization, depreciation and impairments include Euros 7,100 thousand of impairments associated with the restructuring plans of the Tyre sector which qualify as a nonrecurring event. The percentage of impairments to the total line item is 3.2 percent.

33. Other expenses

Other expenses include the following:

(in thousands of euros)

	2008	2007
Selling expenses	279,052	307,408
Purchases of merchandise for resale	200,801	221,819
Utilities and power	188,907	171,658
Advertising expenses	148,813	127,480
Consulting fees	95,816	140,480
Maintenance	69,892	67,756
Rent and hires	73,473	78,464
Commissioned work by third parties	60,362	93,680
Traveling expenses	41,875	48,582
Software and information services expenses	35,831	40,252
Other accruals	36,129	35,666
Revenues stamps, duties and local taxes	27,549	25,369
Receivables impairment	27,389	15,009
Insurance	26,853	28,919
Contract work expenses	24,149	23,296
Operating lease payments	17,121	9,032
Cleaning expenses	12,127	10,932
Security expenses	12,981	18,307
Telephone expenses	11,681	13,922
Urbanization fees	4,946	5,479
Other	291,822	220,347
	1,687,569	1,703,857

Research expenses went from Euros 173 million in 2007 (3.6 percent of sales net of the DGAG deconsolidation) to Euros 156 million in 2008 (3.3 percent of sales). These are expensed to income since they do not meet the conditions for capitalization under IFRS.

Other expenses include costs from nonrecurring events totaling Euros 4,764 thousand (0.3 percent of total operating expenses) for the restructuring plans of the Tyre sector (Euros 1,800 thousand) and the Real Estate sector (Euros 2,964 thousand).

34. Financial income

Financial income includes the following:

(in thousands of euros)

	2008	2007
Interest	81,957	89,419
Other financial income	46,637	12,914
Gains on exchange	420,497	171,800
Gains on disposal of available-for-sale financial assets	6,855	9,922
Gains on disposal of investments in subsidiaries	21,391	11,234
	577,337	295,289

Other financial income includes the gain of Euros 27,300 thousand realized on the difference between the purchase value of the minority stakes in Turkey, recognized in the third quarter of 2008, and the corresponding accounting equity drawn up according to Group accounting principles.

Gains on exchange include the adjustment to the year-end exchange rates for open positions at the end of the year expressed in currencies other than the functional currency and the gains realized on closed positions.

Gains on the disposal of available-for-sale financial assets mainly include Euros 5,584 thousand from the sale of the fund shares of Berenice Fondo Uffici –Closed-end real estate investment fund held by the subsidiary Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. and the sale of Intek S.p.A. shares by the Parent, Pirelli & C. S.p.A., for Euros 1,151 thousand.

Gains on the disposal of investments in subsidiaries refer to the release of amounts set aside following the sale, in 2006, of the 38.9 percent stake in Pirelli Tyre S.p.A. which are no longer due under the contractual agreements with the counterparts. In 2007, the amount of Euros 11,234 thousand referred to the gain realized by the Real Estate sector on the sale of the 20 percent interest in the German-registered company Mertus AchtunddreiBigste GmbH.

The total includes Euros 48,691 thousand (equal to 8.4 percent of financial income) which qualifies as a **nonrecurring event**, of which Euros 21,391 thousand is for the “gains on the disposal of investments in subsidiaries” described above and Euros 27,300 thousand from the positive impact of the minority stakes purchased in the Turkish subsidiaries where the cost of acquisition was below the accounting equity, as mentioned previously.

35. Financial expenses

Financial expenses include the following:

(in thousands of euros)

	2008	2007
Bank interest	106,500	195,905
Other financial expenses	41,908	31,019
Losses on exchange	450,235	150,252
Losses on disposal of available-for-sale financial assets	4,809	-
	603,452	377,176

Other financial expenses mainly include Euros 11,353 thousand for impairment losses on the junior notes generated by the adjustment of their carrying amount to the present value of future cash flows discounted at the original effective interest rate and Euros 4,606 thousand for banking fees, listing rights and other financial expenses.

Losses on exchange include the adjustment to the year-end exchange rates of open positions at the end of the year expressed in currencies other than the functional currency and losses realized on closed positions.

Losses on disposal of available-for-sale financial assets refer to the sale of 5,000,000 Telecom Italia S.p.A. ordinary shares.

36. Impairment losses on investments

This line item includes impairment losses on listed companies for Euros 263,060 thousand, in particular RCS Mediagroup S.p.A. for Euros 65,721 thousand and Telecom Italia S.p.A. for Euros 173,004 thousand, and Avanex for Euros 24,335 thousand and also impairment losses in other unlisted companies for Euros 12,202 thousand, mainly CyOptics Inc. (Euros 8,700 thousand). Last year, impairment losses on investments referred to those taken on Telecom Italia S.p.A. (Euros 21,929 thousand), Avanex (Euros 7,670 thousand) and Equinox (Euros 3,362 thousand).

37. Dividends

Dividends principally refer to those received from Telecom Italia S.p.A. (Euros 14,569 thousand), RCS Mediagroup S.p.A. (Euros 4,300 thousand), Mediobanca (Euros 9,752 thousand), Fin. Priv. S.r.l. (Euros 1,269 thousand) and Banca Leonardo (Euros 278 thousand).

In 2007, dividends included those received from Telecom Italia S.p.A. (Euros 6,602 thousand), RCS Mediagroup S.p.A. (Euros 3,871 thousand), Mediobanca S.p.A. (Euros 9,752 thousand), Equinox (Euros 9,022 thousand), Fin. Priv. S.r.l. (Euros 1,269 thousand) and Servizio Titoli S.r.l. (Euros 873 thousand).

38. Gains (losses) from changes in fair value of financial assets

The gains (losses) from changes in the fair value of financial assets refer to:

(in thousands of euros)

	2008	2007
Measurement of financial assets at fair value through profit or loss	(7,671)	1,537
Measurement of currency derivatives at fair value	4,821	(31,205)
Measurement of other derivatives at fair value	2,054	9,571
	(796)	(20,097)

The **measurement of financial assets at fair value through profit or loss** includes a loss of Euros 6,055 thousand for the negative fair value change in securities classified in the financial statements as “Securities held for trading” (a negative Euros 2,989 thousand in 2007) and a loss of Euros 1,616 thousand for the negative fair value change of other financial assets designated at fair value through profit or loss (Cloe Fondo Uffici – Closed-end unlisted reserved real estate investment fund, relating to the Real Estate sector) and classified in the financial statements in “Non-current other financial assets” (a positive Euros 4,526 thousand in 2007).

The **measurement of currency derivatives at fair value** refers to forward currency purchases and sales hedging trading and financial transactions and is affected by the volatility of the exchange rates which marked the entire year 2008. For open items at December 31, 2008, the fair value is determined by applying the forward exchange rate at the balance sheet date. The fair value measurement is divided into two components: the interest component associated with the interest rates differential between the two currencies in the individual hedges, equal to a net hedging cost of Euros 19,879 thousand and the exchange rate component, equal to a net income of Euros 24,808 thousand.

Comparing the latter with the exchange difference on the items in foreign currency, equal to a net loss of Euros 29,738 thousand (exchange losses of Euros 450,236 thousand, included in financial expenses, and exchange gains of Euros 420,498 thousand, included in financial income), it can be said that the management of exchange risks is basically at a breakeven.

The **measurement of other derivatives at fair value** shows a gain of Euros 2,054 thousand compared to a gain of Euros 9,571 for 2007. It refers almost entirely to the fair value measurement of derivatives in connection with interest rate risk.

39. Share of earnings (losses) of associates and joint ventures

The share of earnings (losses) of associates and joint ventures accounted for using the equity method is a loss of Euros 175,677 thousand (earnings of Euros 116,543 thousand in 2007). The line item mainly includes the results of investments accounted for using the equity method of the Pirelli & C. Real Estate group which shows a loss of Euros 177,019 thousand (earnings of Euros 114,977 thousand in 2007).

40. Income taxes

Income taxes for the period are composed as follows:

(in thousands of euros)

	2008	2007
Current income taxes	86,557	115,682
Deferred income taxes	(13,937)	7,346
	72,620	123,028

The reconciliation between theoretical and effective taxes is as follows:

(in thousands of euros)

	2008	2007
Income (loss) before income taxes	(403,327)	378,881
Income (loss) from discontinued operations	63,421	67,737
Reversal of share of earnings (losses) of associates and joint ventures	175,677	(116,543)
Total taxable amount	(164,229)	330,075
Theoretical income taxes	33,528	(81,874)
Principal reasons giving rise to differences in theoretical and effective income taxes:		
Non-taxable income	87,214	169,795
Non-deductible costs	(119,236)	(74,226)
Utilization of tax loss carryforwards	31,513	32,788
Unrecognized deferred tax assets	(60,812)	(137,676)
Other	(44,827)	(31,835)
Effective income taxes	(72,620)	(123,028)

The effective tax change of the Group in 2008 (equal to Euros 72.6 million) on a total negative taxable income, is largely attributable to the tax charges of the Tyre sector (equal to Euros 70.1 million) on taxable income of the relative investees.

This also reflects the presence of income taxes unrelated to income components, including IRAP taxes on labor costs, as well as the non-recognition of deferred tax assets on tax losses, mainly referring to the investment holdings of the Corporate sector.

The amount of income taxes includes the recognition, by Pirelli & C. S.p.A. of positive tax effects generated by the national consolidated tax return.

The theoretical tax charge of the Group is calculated by taking into account the nominal tax rates in the countries in which the major companies of the Group operate, as indicated in the following table:

	2008	2007
Europe:		
Italy	31.40%	37.25%
Spain	30.00%	32.50%
Germany	29.51%	38.36%
United Kingdom	28.50%	30.00%
Turkey	20.00%	20.00%
North America:		
USA	40.00%	40.00%
South America:		
Argentina	35.00%	35.00%
Brazil	34.00%	34.00%
Venezuela	34.00%	34.00%

41. Income (loss) from discontinued operations

The income (loss) from discontinued operations and the cash flows provided by and used for such operations are detailed as follows:

(in thousands of euros)

	2008		2007	
		of which related parties		of which related parties
Revenues from sales and services	233,482	41,986	428,940	91,973
Other income	7,656		11,422	
Raw materials and consumables used (net of change in inventories)	(12,623)		(28,216)	
Personnel costs	(35,589)		(60,225)	
Amortization, depreciation and impairments	(2,980)		(5,132)	
Other expenses	(192,663)	(11,217)	(362,936)	(26,471)
Increase in property, plant and equipment from internal work	73		901	
Operating loss	(2,644)		(15,246)	
Financial income	325	75	91,452	101
Financial expenses	(4,585)		(44,644)	(2)
Gains (losses) from changes in fair value of financial assets	117		(82)	
Share of earnings (losses) of associates and joint ventures	1,802	1,802	2,065	2,065
Income (loss) before income taxes	(4,985)		33,545	
Income taxes	(4,137)		(7,225)	
Income (loss) for the year	(9,122)		26,320	
Net gain realized	72,543		41,417	
Total income from discontinued operations	63,421		67,737	
A Net cash flows provided by (used for) operating activities	57,672		58,794	
B Net cash flows provided by (used for) investing activities	103,082		70,783	
C Net cash flows provided by (used for) financing activities	(119,022)		(63,568)	
D Total cash flows provided (used) during year (A+B+C)	41,732		66,009	
E Cash and cash equivalents + bank overdrafts at beginning of year	39,461		382	
F Cash and cash equivalents + bank overdrafts at end of year (D+E)	81,193		66,391	

Discontinued operations in 2008 are described as follows:

- on July 24, 2008, an agreement was signed between Pirelli and CyOptics Inc. to integrate PGT Photonics S.p.A., a photonics company in the Pirelli Group, resulting from the spin-off of Pirelli Broadband Solutions and Pirelli Labs activities, in CyOptics, a privately-owned American company which is a leader in the field of optical components based on indium phosphide technology. At the same time, Pirelli subscribed to a CyOptics capital increase with a cash contribution of U.S. dollars 20 million.
Following the operation, Pirelli holds about a 30 percent stake in the new CyOptics. The loss from the discontinued operation is Euros 11,207 thousand (a loss of Euros 14,788 thousand in 2007);
- on November 5, 2008, the Pirelli RE board of directors approved the terms and conditions of the contract for the sale, to Manutencoop Facility Management, of its 50 percent stake in Pirelli Re Integrated Facility Management, a 50-50 joint venture with Intesa Sanpaolo which, through its investment holdings, supplies project management and facility management services. The closing of the transaction and the announcement to the market, once all the conditions precedent had been satisfied and the necessary authorization were obtained

from the Antitrust Authority, took place on December 23, 2008. The sales price of 100 percent of Pirelli RE Integrated Facility Management, including the 50 percent interest held by Intesa Sanpaolo, was equal to Euros 137.5 million and equally divided between the two seller companies Pirelli RE and Intesa Sanpaolo, against an Enterprise Value of Euros 270 million. For the Pirelli RE Group, the impact on the net financial position, excluding Pirelli RE shareholder loans, was an approximate positive Euros 90 million.

The total income from the discontinued operation is Euros 74,628 thousand (Euros 49,455 thousand in 2007), including a gain realized for Euros 71,371 thousand (Euros 41,417 thousand in 2007).

As for the year **2007**, the income (loss) from discontinued operations, in addition to what was described above, included:

- the gain of Euros 91,000 thousand on the sale of the warrants obtained under the agreement for the sale of the Energy and Telecom Cables and Systems activities in July 2005 to Goldman Sachs and linked to the economic benefits on Prysmian (Lux) S.a.r.l. (included in “financial income” in the table above);
- the accrual relating to the adjustment of the value of the guarantees provided to Goldman Sachs (costs of Euros 4,125 thousand, included in “other expenses” in the table above);
- the effect of the sale of Olimpia S.p.A. (a loss of Euros 53,805 thousand, of which Euros 39,794 thousand is included in “financial expenses” and Euros 14,011 thousand included in “other expenses” in the table above).

42. Earnings per share

Basic earnings per share is calculated by dividing the income attributable to the equity holders of the company (adjusted to take into account the minimum dividends due to savings shares) by the weighted average number of outstanding ordinary shares during the year, excluding ordinary treasury shares.

	2008	2007
Income (loss) from continuing operations for the year attributable to the equity holders of the company (in millions of Euro)	(379)	119
Income (loss) attributable to savings shares considering the extra 2% (in millions of euros)	9	(3)
Income (loss) from adjusted continuing operations for the year attributable to the equity holders of the company (in millions of Euro)	(370)	116
Weighted average number of outstanding ordinary shares (in thousands)	5,230,244	5,230,525
Basic earnings per ordinary share from continuing operations (in Euros per thousand of shares)	(70.65)	22.09
Income (loss) from discontinued operations for the year attributable to the equity holders of the company (in millions of Euro)	31	46
Income (loss) attributable to savings shares considering the extra 2% (in millions of euros)	(1)	(1)
Income (loss) from discontinued operations for the year attributable to the equity holders of the company (in millions of Euro)	30	45
Weighted average number of outstanding ordinary shares (in thousands)	5,230,244	5,230,525
Basic earnings per ordinary share from discontinued operations (in Euros per thousand of shares)	5.74	8.60

Diluted earnings per share has not been calculated since the company, at both December 31, 2008 and December 31, 2007, has only one category of potentially dilutive ordinary shares: shares from exercising stock options. However, since the price to exercise the stock options is higher than market value, the stock options have not been considered as exercised.

43. Dividends per share

Pirelli & C. S.p.A., paid dividends based on 2007 earnings to its shareholders equal to Euros 0.0160 per each 5,230,524,503 ordinary share (excluding treasury shares) and Euros 0.0728 per each 130,272,660 savings shares (excluding treasury shares).

Total dividends paid out amounted to Euros 93.2 million.

44. Related party disclosures

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the ordinary course of business of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

The following table summarizes the balance sheet and income statement line items which include related party transactions and the relative incidence of the total:

(in millions of Euro)

	Total in financial statements at 12/31/2008	Of which related parties	% of total	Total in financial statements at 12/31/2007	Of which related parties	% of total
BALANCE SHEET						
Non-current assets						
Other receivables	723.0	565.2	78.2%	672.9	520.8	77.4%
Current assets						
Trade receivables	788.0	77.1	9.8%	1,098.9	123.7	11.3%
Other receivables	240.0	23.9	10.0%	241.5	22.1	9.1%
Current liabilities						
Borrowings from banks and other financial institutions	693.6	5.2	0.8%	754.7	2.9	0.4%
Trade payables	1,108.6	23.8	2.2%	1,323.6	29.1	2.2%
Other payables	482.4	7.7	1.6%	1,394.7	21.5	1.5%
Tax payables	44.0	1.1	2.4%	45.7	-	-
INCOME STATEMENT						
Revenues from sales and services	4,660.2	138.1	3.0%	6,075.6	195.9	3.2%
Other income	175.9	-	-	274.9	72.7	26.4%
Personnel costs	(1,174.9)	(3.1)	0.3%	(1,095.9)	(14.5)	1.3%
Other expenses	(1,687.6)	(42.9)	2.5%	(1,703.9)	(88.9)	5.2%
Financial income	577.3	34.1	5.9%	295.3	31.2	10.6%
Financial expenses	(603.5)	(0.2)	-	(377.2)	(4.5)	1.2%
Dividends	31.3	-	-	34.5	6.6	19.2%

Related party transactions relating to discontinued operations are detailed in Note 41.

The income statement, balance sheet and cash flow effects of transactions with related parties on the consolidated financial statements of the Pirelli & C. Group for the year ended December 31, 2008 are as follows.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES:

(in millions of Euro)

Revenues for goods and services	136.5	These mainly refer to mandates with the associates and JV of the Real Estate relating to fund and asset management and technical and commercial services.
Other expenses	25.3	These mainly refer to Pirelli & C. Real Estate sundry types of amounts recharged, connected, among other things, also to consortium expenses, and to the purchase of an area located in Pioletto by a Pirelli Real Estate company.
Financial income	34.1	This mainly includes interest income relating to financial receivables from associates and joint ventures of Pirelli & C. Real Estate.
Financial expenses	0.2	
Current trade receivables	76.4	These mainly refer to receivables for services rendered to associates and joint ventures of Pirelli & C. Real Estate
Non-current other receivables	0.9	
Non-current financial receivables	564.3	These mainly refer to loans made for real estate initiatives managed by the individual companies of the Pirelli & C. Real Estate Group.
Current other receivables	7.0	These refer to Pirelli & C. Real Estate and mainly include a receivable to be collected for dividends declared.
Current financial receivables	16.9	These mainly refer to current account balances with the new companies that hold real estate assets in Germany.
Current trade payables	21.7	These mainly refer to Pirelli & C. Real Estate sundry types of amounts recharged.
Current other payables	7.7	These mainly include Pirelli & C. Real Estate companies' sundry types of amounts recharged.
Current borrowings from banks and other financial institutions	5.2	These mainly include the liability balances on the intercompany current accounts of the companies of Pirelli & C. Real Estate.
Current tax payables	1.1	These refer to the payable of Pirelli & C. Real Estate S.p.A. to Trixia S.r.l. for expenses arising from this company's participation in the regime for fiscal transparency under art. 115 of TUIR, by virtue of which taxable income and loss of the company are allocated to the shareholders.

TRANSACTIONS WITH PARTIES RELATED TO PIRELLI THROUGH DIRECTORS

(in millions of Euro)

Revenues for goods and services	1.6	These refer to services rendered by Pirelli & C. Real Estate S.p.A. and Pirelli & C. S.p.A. to the Camfin group
Other expenses	9.0	These refer to costs for the sponsorship of F.C. Internazionale Milano S.p.A.
Current trade receivables	0.7	These refer to receivables for the supply of the above services to the Camfin.
Current trade payables	2.2	These refer to payables for the supply of the above services to F.C. Internazionale Milano S.p.A.
Dividends paid (cash flows)	22.7	These are dividends to Camfin S.p.A. (Euros 21.9 million) and C.M.C. S.p.A. (Euros 0.8 million) from Pirelli & C. S.p.A..
Change in financial payables (cash flows)	218.9	Capital reimbursed to Camfin S.p.A (Euros 211.1 million) and C.M.C. S.p.A. (Euros 7.8 million) by Pirelli & C. S.p.A..

BENEFITS TO KEY EXECUTIVES

In 2008, the compensation due to key executives, being those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the activities of Pirelli & C. S.p.A., including executive and non-executive directors, amounts to Euros 11,707 thousand (Euros 26,505 thousand in 2007). Of that amount, "Personnel costs" were charged for Euros 3,097 thousand in 2008 (long-term part is equal to Euros 608 thousand) and Euros 14,504 thousand in 2007 (long-term part is equal to Euros 490 thousand) and "Other expenses" for Euros 8,610 thousand (Euros 12,001 thousand in 2007).

To the chairman of Pirelli & C. S.p.A. and the executive deputy chairman of Pirelli & C. Real Estate, for the offices held in those companies, besides severance indemnity (similar to employ-

ees' leaving indemnity and included in the amount in the previous paragraph) a further annual component of severance indemnity is paid pursuant to ex art. 17, paragraph 1, letter c), of D.P.R. 917/1986 (TUIR), starting from age 62, or eventually predeceasing that age, as a result of insurance policies taken out with leading insurance companies. The annual premium is borne by the companies and corresponds to the amounts that would be due by the companies to the social security agencies or benefit funds had those persons been classified in the "manager" employment category of those companies.

45. Significant subsequent events

On January 27, 2009, Brembo, Magneti Marelli and Pirelli announced that they had launched a technological cooperation initiative with the aim of developing hi-tech solutions for the Italian and international automotive industry.

The Cyber Tyre, the intelligent tyre developed by Pirelli, will be integrated with Magneti Marelli's electronic control systems and Brembo's hi-tech braking systems to create special technological solutions which will meet the performance and safety requirements of every kind of user.

The competence and expertise of the three Italian groups is recognized at an international level. By combining their experience, they aim to create important synergies and to develop applications, especially in the field of car safety systems. Another aim of the project is to reduce environmental impact, and develop applications that are in line with international regulations and which reflect the new CO₂ limits established by the EU, scheduled to come into force in 2012.

On February 11, 2009, the Pirelli Group presented the guidelines of its 2009-2011 Industrial Plan.

On March 5, 2009, the Pirelli & C. Real Estate S.p.A. board of directors confirmed the resolutions passed in February authorizing a share capital increase against payment, divisible, to be offered as option rights to the shareholders for a maximum amount of Euros 400 million. The transaction is aimed at strengthening the company's equity structure and supporting its new business model.

The share capital increase is expected to be completed by the end of the first half of the current year, assuming that it will be approved by the special session of the shareholders' meeting called at the same time as the ordinary session of the shareholders' meeting that, among other things, will resolve on the approval of the financial statements for the year ended December 31, 2008, and that the necessary authorizations will also be obtained from the relevant authorities.

Pirelli & C. S.p.A. has given its full support to the capital increase and has made a commitment to subscribe to its share equal to Euros 226 million. The company has also stated that it will subscribe to any unsubscribed shares that remain at the end of the offer period for a total amount of Euros 174 million. Pirelli & C. S.p.A. will fulfill its obligation by converting into equity a part of the financial receivable due from Pirelli & C. Real Estate S.p.A., amounting to Euros 491 million at December 31, 2008.

On March 24, 2009, Pirelli and Alcatel-Lucent reached an agreement for the sale to Alcatel-Lucent by Pirelli of its investment in Alcatel-Lucent Submarine Networks, a telecommunications submarine systems company. The deal took place after Pirelli exercised the put option contracted between the two companies in 2004 when the agreement had been sealed with Alcatel for the acquisition of some of Pirelli's activities in submarine systems. The sale, for a total amount of Euros 56 million, will be paid in three tranches by the end of 2009. Pirelli's divestiture is consistent with its strategy of focusing on the core business as announced by the Group upon presentation of the Industrial Plan 2009-2011.

46. Other information

COMPENSATION TO DIRECTORS AND STATUTORY AUDITORS

Compensation to directors and statutory auditors of Pirelli & C. S.p.A. to carry out these functions also in other companies included in the scope of consolidation is as follows:

(in thousands of euros)

	2008	2007
Directors	8,840	13,620
Statutory auditors	157	266
	8,997	13,886

HEADCOUNT

The average number of employees of the companies included in consolidation, by category, is the following:

	2008	2007
Executives and white collars	7,808	8,396
Blue collars	20,254	18,426
Temporary workers	3,438	3,958
	31,500	30,780

COMPENSATION TO AUDIT FIRMS

The following schedule, prepared in accordance with art. 149 – duodecies of the Consob Regulation for Issuers, presents the fees paid for the year 2008 for the audit services and services other than audit rendered by the audit firm of Reconta Ernst & Young S.p.A. and by the entities belonging to its network:

(in thousands of euros)

Audit services	Pirelli & C S.p.A.	235		
	Subsidiaries	3,325	3,560	87,8%
Certification services	Pirelli & C S.p.A.	23		
	Subsidiaries	226 *	249	6,1%
Tax consulting services	Pirelli & C S.p.A.	-		
	Subsidiaries	240	240	5,9%
Services other than audit	Pirelli & C S.p.A.	-		
	Subsidiaries	7	7	0,2%
			4,056	100%

* Of which Euros 173 thousand refers to professional services rendered in respect of the engagement for the audit of the consolidated financial statements at October 31, 2008 as part of the sale of the investment in Pirelli & C. Real Estate Facility Management B.V., in addition to the professional services relating to the examination of the pro-forma data of Pirelli & C. Real Estate S.p.A. for the half year ended June 30, 2008 to be included in the Information Document, prepared in accordance with art. 71 of the Regulation for Issuers adopted by Consob resolution 11971/1999 and subsequent amendments and additions.

TRANSACTIONS GENERATED BY UNUSUAL AND/OR EXCEPTIONAL TRANSACTIONS¹

In accordance with Consob Communication of July 28, 2006, a statement is made to the effect that during 2008 the Group did not carry out any unusual and/or exceptional transactions as defined by that same Communication.

EXCHANGE RATES

The main exchange rates used for consolidation purposes are as follows:

(local currency against Euros)

	Year-end		Change in %	Average		Change in %
	12/31/2008	12/31/2007		2008	2007	
British pound	0.9525	0.7334	29.87%	0.7961	0.6765	17.68%
Swiss franc	1.4850	1.6547	(10.26%)	1.5873	1.6370	(3.04%)
Slovakian koruna	30.1260	33.5830	(10.29%)	31.2771	33.8864	(7.70%)
American dollar	1.3917	1.4721	(5.46%)	1.4716	1.3443	9.47%
Canadian dollar	1.6998	1.4449	17.64%	1.5596	1.4846	5.05%
Brazilian real	3.2524	2.6075	24.73%	2.7041	2.6910	0.49%
Venezuela bolivar	2.9922	3.1650	(5.46%)	3.1640	2.8900	9.48%
Argentine peso	4.8055	4.6356	3.67%	4.6535	4.1757	11.44%
Australian dollar	2.0274	1.6757	20.99%	1.7411	1.6372	6.35%
Chinese renminbi	9.4991	10.7516	(11.65%)	10.2270	10.3024	(0.73%)
Singapore dollar	2.0040	2.1163	(5.31%)	2.0769	2.0492	1.35%
Egyptian pound	7.6544	8.1039	(5.55%)	7.9888	7.6286	4.72%
Turkish lira	2.1511	1.7102	25.78%	1.9062	1.7989	5.96%

NET FINANCIAL POSITION

(Non-GAAP Alternative Performance Measure)

(in millions of Euro)

	12/31/2008		12/31/2007	
		of which related parties		of which related parties
Borrowings from banks and other financial institutions - current	677	5	737	3
Financial accrued liabilities and deferred income - current	59		46	
Borrowings from banks and other financial institutions - non-current	1,378		912	
Payables to shareholders for capital reduction	-		826	
Total gross debt	2,114		2,521	
Cash and cash equivalents	(254)		(2,058)	
Securities held for trading	(116)		(114)	
Financial receivables - current	(29)	(17)	(19)	(16)
Financial accrued income and prepaid expenses - current	(31)		(18)	
Net financial debt (*)	1,684		312	
Financial receivables - non-current	(652)	(565)	(609)	(520)
Financial accrued income and prepaid expenses - non-current	(4)		(5)	
Total net financial (liquidity)/debt position	1,028		(302)	

* In accordance with Consob Communication of July 28, 2006 and in conformity with the CESR recommendation of February 10, 2005 "Recommendation on Alternative Performance Measures".

The main events which had an impact on the net financial position are the following:

- Acquisition of Speed S.p.A. (Euros 835.5 million)
- Investment in Highstreet – Pirelli Real Estate (Euros 59.8 million)
- Investment in CyOptics (Euros 12.7 million)
- Purchase of Pirelli & C. Real Estate S.p.A. treasury shares (Euros 22.1 million)
- Purchase of net assets of minority interests relating to the Turkish companies of Pirelli Tyre (Euros 43.3 million)
- Dividends paid (Euros 168 million).

At December 31, 2008, the Group has, besides cash and securities held for trading totaling Euros 369,705 thousand, unused committed credit lines of Euros 785,000 thousand (Euros 2,672,000 thousand at December 31, 2007).

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarters	Share	Capital	% holding	Held by
Europe						
Austria						
ECOI-Immobilien Gmbh	Real Estate	Vienna	Euro	35,000	100.00%	Pirelli RE Residential Investments Gmbh
Pirelli Gmbh	Tyre	Vienna	Euro	726,728	100.00%	Pirelli Tyre (Europe) S.A.
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Europe) S.A.
Bulgaria						
Pirelli RE Bulgaria AD	Real Estate	Sofia	Bgn	50,000	75.00%	Pirelli RE Netherlands B.V.
France						
Gecam France S.a.S	Sustainable mobility	Villepinte	Euro	750,000	70.00%	Pirelli & C. Eco Technology S.p.A.
Pirelli Broadband Solutions France S.a.r.l.	Telecommunications	Villepinte	Euro	10,000	99.00%	Pirelli Broadband Solutions S.p.A.
					1.00%	Maristel S.p.A.
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre (Europe) S.A.
Germany						
BauBeCon Asset Management Gmbh	Real Estate	Hannover	Euro	125,000	100.00%	Pirelli RE Agency Deutschland Gmbh
BauBeCon Corporate Services Gmbh	Real Estate	Hannover	Euro	125,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
BauBeCon Treuhand Gmbh	Real Estate	Hannover	Euro	530,000	100.00%	Pirelli RE Property Management Deutschland Gmbh
Deutsche Pirelli Reifen Holding Gmbh	Financial	Breuberg/Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
DGAG Grundstücksbeteiligung Gmbh	Real Estate	Kiel	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Drahtcord Saar Geschaftsfuehrungs Gmbh	Tyre	Merzig	Deut. Mark	60,000	50.00%	Pirelli Deutschland Gmbh
Drahtcord Saar Gmbh & Co. K.G.	Tyre	Merzig	Deut. Mark	30,000,000	50.00%	Pirelli Deutschland Gmbh
Driver Handelssysteme Gmbh (ex-Driver Fleet Solution GmbH)	Tyre	Breuberg/Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pirelli & C. Real Estate Deutschland Gmbh	Real Estate	Hamburg	Euro	5,000,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Deutschland Gmbh	Tyre	Breuberg/Odenwald	Euro	26,334,100	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pirelli Personal Service Gmbh	Tyre	Breuberg/Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pirelli RE Agency Deutschland Gmbh	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Asset Management Deutschland Gmbh (ex- Mertus Achtunddreissigste Gmbh)	Real Estate	Frankfurt	Euro	25,000	80.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE AM NPL Deutschland Gmbh (ex- Pirelli RE Asset Management Gmbh)	Real Estate	Berlin	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Development Deutschland Gmbh (ex-DGAG Shopping Immobilien Gmbh)	Real Estate	Hamburg	Euro	153,400	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Facility Management Deutschland Gmbh (ex- PSG Parkhaus Service Gmbh)	Real Estate	Hamburg	Euro	25,600	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Hausmeister Service Deutschland Gmbh	Real Estate	Kiel	Euro	25,000	100.00%	Pirelli RE Facility Management Deutschland Gmbh (ex- PSG Parkhaus Service Gmbh)

Company	Business	Headquarters	Share	Capital	% holding	Held by
Pirelli RE Management Services Deutschland GmbH	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Property Management Deutschland GmbH	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Residential Investments GmbH	Real Estate	Hamburg	Euro	570,000	100.00%	Pirelli & C. Real Estate S.p.A.
PK Grundstücksverwaltungs GmbH	Tyre	Hoechst/Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pneumobil GmbH	Tyre	Breuberg/Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Projekt Bahnhof Hamburg-Altona Verwaltungs GmbH	Real Estate	Hamburg	Euro	25,000	100.00%	Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG
Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	Real Estate	Hamburg	Euro	8,000,000	74.90%	Pirelli & C. Real Estate Deutschland GmbH
Greece						
Elastika Pirelli S.A.	Tyre	Athens	Euro	1,192,000	99.90%	Pirelli Tyre (Europe) S.A.
					0.10%	Pirelli Tyre S.p.A.
Pirelli Hellas S.A. (in liquidation)	Sundry	Athens	US \$	22,050,000	79.86%	Pirelli Holding N.V.
The Expert in Wheels - Driver Hellas S.A.	Tyre	Athens	Euro	100,000	72.00%	Elastika Pirelli S.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre (Europe) S.A.
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US \$	7,150,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Italy						
Acquario S.r.l. (in liquidation)	Real Estate	Genoa	Euro	255,000	100.00%	Pirelli & C. Real Estate S.p.A.
Alfa S.r.l.	Real Estate	Milan	Euro	2,600,000	100.00%	Pirelli & C. Real Estate S.p.A.
Beta S.r.l.	Real Estate	Milan	Euro	26,000	100.00%	Pirelli & C. Real Estate S.p.A.
Botticino S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Pirelli & C. Real Estate S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro	299,000	100.00%	Pirelli & C. Real Estate Agency S.p.A.
Centrale Immobiliare S.p.A.	Real Estate	Milan	Euro	5,200,000	100.00%	Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51,000	34.00%	Pirelli & C. S.p.A.
					33.00%	Pirelli Tyre S.p.A.
					33.00%	Pirelli & C. Real Estate S.p.A.
CFT Finanziaria S.p.A.	Real Estate	Milan	Euro	20,110,324	100.00%	Pirelli & C. Real Estate S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	350,000	72.37%	Pirelli Tyre S.p.A.
Edilnord Gestioni S.r.l. (in liquidation) (ex-Edilnord Gestioni S.p.A.)	Real Estate	Milan	Euro	517,000	100.00%	Pirelli & C. Real Estate S.p.A.
Elle Dieci Società Consortile a.r.l.	Real Estate	Milan	Euro	100,000	100.00%	Edilnord Gestioni S.r.l. (in liquidation) (ex-Edilnord Gestioni S.p.A.)
Elle Tre Società Consortile a.r.l.	Real Estate	Milan	Euro	100,000	100.00%	Edilnord Gestioni S.r.l. (in liquidation) (ex-Edilnord Gestioni S.p.A.)
Elle Uno Società Consortile a.r.l. (in liquidation)	Real Estate	Milan	Euro	100,000	100.00%	Edilnord Gestioni S.r.l. (in liquidation) (ex-Edilnord Gestioni S.p.A.)
Erato Finance S.r.l. (in liquidation)	Real Estate	Milan	Euro	600,000	53.85%	Pirelli & C. Real Estate S.p.A.
Geolidro S.p.A.	Real Estate	Naples	Euro	3,099,096	100.00%	Centrale Immobiliare S.p.A.
Iniziative Immobiliari 3 S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Iniziative Immobiliari 3 B.V.
Kappa S.r.l.	Real Estate	Milan	Euro	10,400	100.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Lambda S.r.l.	Real Estate	Milan	Euro	578,760	100.00%	Pirelli & C. Real Estate S.p.A.
Maristel S.p.A.	Telecommunications	Milan	Euro	1,020,000	100.00%	Pirelli Broadband Solutions S.p.A.
NewCo RE 1 S.r.l.	Real Estate	Milan	Euro	30,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 4 S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 5 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 6 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 8 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 9 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
Parcheggi Bicocca S.r.l.	Real Estate	Milan	Euro	1,500,000	75.00%	Pirelli & C. Real Estate S.p.A.
P.A. Società di Gestione del Risparmio S.p.A.	Financial	Milan	Euro	1,000,000	100.00%	Pirelli & C. Ambiente S.p.A.
PBS S.C a r.l.	Real Estate	Milan	Euro	100,000	60.00%	Pirelli & C. Real Estate Property Management S.p.A.
Perseo S.r.l.	Services	Milan	Euro	20,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro	6,120,000	51.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Environment	Milan	Euro	155,700	100.00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Eco Technology S.p.A.	Sustainable mobility	Milan	Euro	33,120,000	51.00%	Pirelli & C. S.p.A.
Pirelli & C. Opere Generali S.p.A.	Real Estate	Milan	Euro	104,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro	1,000,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Finance S.p.A. (ex- Pirelli & C. Real Estate Franchising Servizi Finanziari S.r.l.)	Real Estate	Milan	Euro	120,000	100.00%	Pirelli & C. Real Estate Agency S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114,400	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro	21,298,616	56.45%	Pirelli & C. S.p.A.
					2.79%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	24,458,763	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Broadband Solutions S.p.A.	Telecommunications	Milan	Euro	9,120,000	100.00%	Pirelli & C. S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	21,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384,642	100.00%	Pirelli & C. S.p.A.
Pirelli RE Credit Servicing S.p.A.	Real Estate	Milan	Euro	1,809,500	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro	1,976,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	256,820,000	100.00%	Pirelli & C. S.p.A.
Progetto Bicocca Università S.r.l.	Real Estate	Milan	Euro	50,360	50.50%	Pirelli & C. Real Estate S.p.A.
Progetto Perugia S.r.l.	Real Estate	Perugia	Euro	100,000	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Vallata S.r.l.	Real Estate	Milan	Euro	1,500,000	80.00%	Pirelli & C. Real Estate S.p.A.
Pzero S.r.l.	Sundry	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Sarca 222 S.r.l.	Travel Agency	Milan	Euro	46,800	100.00%	Pirelli & C. S.p.A.
Servizi Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro	520,000	100.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	89.30%	Pirelli & C. S.p.A.
					2.00%	Pirelli Tyre S.p.A.
					2.00%	Pirelli & C. Real Estate S.p.A.
					1.00%	Pirelli & C. Ambiente S.p.A.
					0.95%	Centro Servizi Amministrativi Pirelli S.r.l.
					0.95%	Pirelli Broadband Solution S.p.A.
					0.95%	Pirelli Labs S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	Pzero S.r.l.
					0.95%	Pirelli & C. Eco Technology S.p.A.
SIB S.r.l.	Real Estate	Milan	Euro	10,100	100.00%	Pirelli RE Credit Servicing S.p.A.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	270,228,168	100.00%	Pirelli & C. S.p.A.
Mistral RE S.à.r.l.	Real Estate	Luxembourg	Euro	12,500	100.00%	Pirelli & C. Real Estate S.p.A.
Sigma RE S.à.r.l.	Real Estate	Luxembourg	Euro	12,500	100.00%	Pirelli RE Netherlands B.V.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100,000	68.50%	Pirelli Polska Sp.ZO.O.
Pirelli Pekao Real Estate Sp.ZO.O.	Real Estate	Warsaw	Pol. Zloty	35,430,000	75.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre (Europe) S.A.
Romania						
S.C. Pirelli & C. Eco Technology RO S.R.L.(ex- Pirelli & C. Eco Technology RO S.A.)	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	50,000,000	100.00%	Pirelli & C. Eco Technology S.p.A.
Pirelli RE Romania S.A.	Real Estate	Bucarest	Rom. Leu	100,000	80.00%	Pirelli RE Netherlands B.V.
S.C. Cord Romania S.R.L.	Tyre	Slatina	Rom. Leu	36,492,150	80.00%	Pirelli Tyre Holland N.V.
S.C. Pirelli Tyres Romania S.R.L.	Tyre	Slatina	Rom. Leu	242,169,800	95.00%	Pirelli Tyre Holland N.V.
					5.00%	Pirelli Tyre S.p.A.
Russia						
000 Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	50,485,259	95.00%	Pirelli Tyre (Europe) S.A.
					5.00%	Pirelli Tyre Holland N.V.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Slov. Koruna	200,000	100.00%	Pirelli Tyre (Europe) S.A.
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	804,000	25.00%	Pirelli Neumaticos S.A.
					26.12%	Proneus S.L.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	45,075,908	100.00%	Pirelli Tyre Holland N.V.
Proneus S.L.	Tyre	Barcelona	Euro	3,005	100.00%	Pirelli Neumaticos S.A.
Tyre & Fleet S.L.	Tyre	Barcelona	Euro	20,000	100.00%	Pirelli Neumaticos S.A.
Sweden						
Pirelli Tyre Nordic A.B.	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre (Europe) S.A.
Switzerland						
Agom S.A.	Tyre	Conthey	Swiss Franc	50,000	80.00%	Pirelli Tyre (Europe) S.A.
Agom S.A. Bioggio	Tyre	Bioggio	Swiss Franc	590,000	100.00%	Pirelli Tyre (Europe) S.A.
Pirelli Société de Services S.à r.l.	Financial	Basel	Swiss Franc	50,000	100.00%	Pirelli Tyre (Europe) S.A.
Pirelli Société Générale S.A.	Financial	Basel	Swiss Franc	28,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Europe) S.A.	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre Holland N.V.
The Netherlands						
Iniziativa immobiliari 3 B.V.	Real Estate	Amsterdam	Euro	4,500,000	100.00%	Pirelli & C. Real Estate S.p.A.
P.A.E.T. B.V. (In Liquidation)	Sustainable mobility	Amsterdam	Euro	18,000	100.00%	Pirelli & C. Eco Technology S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	38,045,000	100.00%	Pirelli Tyre Holland N.V.
Pirelli Holding N.V.	Holding Company	Heinenoord	Euro	60,000,000	100.00%	Pirelli & C. S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Pirelli RE Agency Netherlands B.V.	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli RE Netherlands B.V.
Pirelli RE Netherlands B.V.	Real Estate	Amsterdam	Euro	21,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli RE Property Management Netherlands B.V.	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Tyre Holland N.V.	Tyre	Heinenoord	Euro	3,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18,152	100.00%	Pirelli Tyre (Europe) S.A.
Spir Finance N.V.	Financial	Heinenoord	Euro	13,021,222	100.00%	Pirelli & C. S.p.A.
Turkey						
Celikord A.S.	Tyre	Istanbul	YTL	29,000,000	98.733%	Pirelli Tyre Holland N.V.
					0.632%	Pirelli UK Tyre Holding Ltd
					0.367%	Pirelli UK Tyre Ltd
					0.267%	Pirelli Tyre S.p.A.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	YTL	140,000,000	95.19%	Pirelli Tyre Holland N.V.
					0.15%	Pirelli Tyre S.p.A.
United Kingdom						
CTC 2008 Limited (ex- Central Tyre Ltd)	Tyre	London	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyre	London	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	London	British Pound	984	100.00%	CTC 2008 Limited (ex- Central Tyre Ltd)
Pirelli International Ltd	Financial	London	Euro	250,000,000	75.00%	Pirelli UK Tyre Holding Ltd
					25.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Ltd	Tyre	London	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
	Finance Holding Company	London	British Pound	97,161,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Ltd	Holding Company	London	British Pound	96,331,000	100.00%	Pirelli Tyre Holland N.V.
Pirelli UK Tyres Ltd	Tyre	London	British Pound	85,000,000	75.00%	Pirelli UK Tyre Holding Ltd
North America						
Canada						
Pirelli Tire Inc.	Tyre	Fredericton (New Brunswick)	Can. \$	6,000,000	100.00%	Pirelli Tyre (Europe) S.A.
U.S.A.						
Pirelli North America Inc.	Tyre	Atlanta	US \$	10	100.00%	Pirelli Tyre Holland N.V.
Pirelli Tire LLC	Tyre	Wilmington (Delaware)	US \$	1	100.00%	Pirelli North America Inc.
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101,325,176	95.00%	Pirelli Tyre Holland N.V.
					5.00%	Pirelli Tyre S.p.A.
Pirelli Soluciones Tecnologicas S.A.	Telecommunications	Buenos Aires	Arg. Peso	1,283,070	95.00%	Pirelli Broadband Solution S.p.A.
					5.00%	Pirelli & C. S.p.A.
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	12,913,526	100.00%	Pirelli Pneus Ltda
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Tyre	Santo André	Bra. Real	84,784,342	100.00%	Pirelli Pneus Ltda
Pirelli Broadband Soluções em Telecomunicações Ltda (ex- Pirelli & C. Real Estate Ltda)	Real Estate	Santo André	Bra. Real	2,000,000	100.00%	Pirelli Ltda
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	49,189,271	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Feira de Santana	Bra. Real	341,145,811	100.00%	Pirelli Tyre S.p.A.
TLM - Total Logistic Management Serviços de Logística Ltda	Holding Company	Santo André	Bra. Real	1,006,000	99.98%	Pirelli Pneus Ltda
					0.02%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda

Company	Business	Headquarters	Share	Capital	% holding	Held by
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso	1,918,451	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3,315,069	92.91%	Pirelli Pneus Ltda
					2.28%	Pirelli de Venezuela C.A.
					1.60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
					1.60%	TLM - Total Logistic Management Serviços de Logistica Ltda
					1.60%	Comercial e Importadora de Pneus Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35,098,400	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50,000	99.00%	Pirelli Pneus Ltda
					1.00%	Comercial e Importadora de Pneus Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre Holland N.V.
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393,000,000	89.08%	Pirelli Tyre S.p.A
					0.03%	Pirelli Tyre (Europe) S.A.
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50,000	99.80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Sandton	S.A. Rand	1	100.00%	Pirelli Tyre (Europe) S.A.
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. \$	150,000	100.00%	Pirelli Tyre (Europe) S.A.
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Wellington	N.Z. \$	100	100.00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Scientific and Technological Consulting (Shanghai) Co. Ltd	Tyre	Shanghai	US \$	200,000	100.00%	Pirelli China Tyre N.V.
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	China Renmimbi	1,041,150,000	75.00%	Pirelli China Tyre N.V.
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,700,000,000	100.00%	Pirelli Tyre Holland N.V.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100.00%	Pirelli Tyre (Europe) S.A.

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Company	Business	Headquarters	Share	Capital	% holding	Held by
Europe						
Germany						
Beteiligungsgesellschaft Einkaufszentrum Mülheim Gmbh	Real Estate	Hamburg	Euro	31,000	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
City Center Mülheim Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	47,805,791	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
Einkaufszentrum Mülheim Gmbh & Co. KG	Real Estate	Hamburg	Euro	26,075,856	41.18%	Pirelli & C. Real Estate Deutschland Gmbh
Gatus 372. Gmbh	Real Estate	Berlin	Euro	25,000	40.00%	Pirelli RE Residential Investment Gmbh
Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG	Real Estate	Hamburg	Euro	22,905,876	33.75%	Pirelli & C. Real Estate Deutschland Gmbh
Industriekraftwerk Breuberg Gmbh	Cogeneration	Hoechst/Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland Gmbh
Kurpromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	6,237,761	50.00%	Pirelli & C. Real Estate Deutschland Gmbh
Resident Berlin 1 P&K Gmbh	Real Estate	Berlin	Euro	125,000	40.00%	Pirelli RE Residential Investments Gmbh
Tizian Wohnen 1 Gmbh	Real Estate	Berlin	Euro	1,114,400	40.00%	Pirelli RE Residential Investments Gmbh
Tizian Wohnen 2 Gmbh	Real Estate	Berlin	Euro	347,450	40.00%	Pirelli RE Residential Investments Gmbh
Verwaltung Büro - und Lichtspielhaus Hansaallee Gmbh	Real Estate	Hamburg	Euro	50,000	27.00%	Pirelli & C. Real Estate Deutschland Gmbh
					20.00%	Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG
Verwaltung City Center Mülheim Grundstücksgesellschaft mbh	Real Estate	Hamburg	Euro	31,000	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Kurpromenade 12 Timmendorfer Strand Grundstücks- gesellschaft mbh & Co. KG	Real Estate	Hamburg	Deut. Mark	50,000	50.00%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbh	Real Estate	Hamburg	Deut. Mark	50,000	44.00%	Pirelli RE Netherlands B.V.
					50.00%	Mistral Real Estate B.V.
Italy						
A.P.I.C.E. - società per azioni	Enviroment	Rome	Euro	200,000	50.00%	Pirelli & C. Ambiente S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro	307,717	34.60%	Pirelli & C. Real Estate S.p.A.
					0.28%	Pirelli & C. S.p.A.
Cairoli Finance S.r.l.	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Capitol Immobiliare S.r.l.	Real Estate	Milan	Euro	10,000	33.00%	Pirelli & C. Real Estate S.p.A.
Castello S.r.l. (in liquidation)	Real Estate	Milan	Euro	1,170,000	49.10%	Pirelli & C. Real Estate S.p.A.
Consorzio G6 Advisor	Real Estate	Milan	Euro	50,000	42.30%	Pirelli & C. Real Estate Agency S.p.A.
Continuum S.r.l.	Real Estate	Milan	Euro	500,000	40.00%	Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro	2,500,000	30.00%	Pirelli & C. Real Estate S.p.A.
Dolcetto sei S.r.l.	Real Estate	Milan	Euro	10,000	50.00%	Pirelli & C. Real Estate S.p.A.
Erice S.r.l.	Real Estate	Milan	Euro	10,000	40.00%	Pirelli & C. Real Estate S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Finprema S.p.A.	Real Estate	Milan	Euro	120,000	35.00%	Pirelli & C. Real Estate S.p.A.
Golfo Aranci S.p.A. - Società di Trasformazione Urbana	Real Estate	Golfo Aranci (Ot)	Euro	1,000,000	43.80%	Pirelli & C. Real Estate S.p.A.
					5.00%	Centrale Immobiliare S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro	1,292,500	49.00%	Pirelli & C. Ambiente S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro	836,300	18.00%	Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Milan	Euro	5,000,000	49.46%	Pirelli & C. Real Estate S.p.A.
Le Case di Capalbio S.r.l.	Real Estate	Milan	Euro	10,000	20.00%	Pirelli & C. Real Estate S.p.A.
Localto ReoCo S.r.l. (in liquidation)	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Manifatture Milano S.p.A. (ex- Quadrifoglio Milano S.p.A.)	Real Estate	Rome	Euro	11,230,000	50.00%	Pirelli & C. Real Estate S.p.A.
Maro S.r.l.	Real Estate	Milan	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro	104,000	40.10%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca la Piazza S.r.l.	Real Estate	Milan	Euro	3,151,800	26.00%	Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro	100,000	49.00%	Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan	Euro	10,000	23.00%	Pirelli & C. Real Estate S.p.A.
Progetto Gioberti S.r.l.	Real Estate	Milan	Euro	100,000	50.00%	Pirelli & C. Real Estate S.p.A.
RCS MediaGroup S.p.A.	Finance Holding Company	Milan	Euro	762,019,050	5.33%	Pirelli & C. S.p.A.
Resi S.r.l. (in liquidation)	Real Estate	Milan	Euro	10,000	25.00%	Pirelli & C. Real Estate S.p.A.
Rinascete/Upim S.r.l.	Real Estate	Rozzano (Milan)	Euro	10,000	20.00%	Pirelli & C. Real Estate S.p.A.
Riva dei Ronchi S.r.l.	Real Estate	Milan	Euro	100,000	35.00%	Pirelli & C. Real Estate S.p.A.
Roca S.r.l.	Real Estate	Milan	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Serenergy S.r.l.	Enviroment	Milan	Euro	25,500	50.00%	Pirelli & C. Ambiente S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro	20,000	40.00%	Pirelli & C. Real Estate S.p.A.
Solar Utility S.p.A.	Enviroment	Milan	Euro	14,000,000	50.00%	Pirelli & C. Ambiente S.p.A.
Tamerice Immobiliare S.r.l.	Real Estate	Milan	Euro	500,000	20.00%	Pirelli & C. Real Estate S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro	1,209,700	36.00%	Pirelli & C. Real Estate S.p.A.
Turismo e Immobiliare S.p.A.	Real Estate	Milan	Euro	120,000	33.30%	Pirelli & C. Real Estate S.p.A.
Vesta Finance S.r.l.	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Luxembourg						
Afrodite S.à r.l.	Real Estate	Luxembourg	Euro	4,129,475	40.00%	Pirelli & C. Real Estate S.p.A.
Alimede Luxembourg S.à r.l.	Real Estate	Luxembourg	Euro	12,945	35.00%	Pirelli & C. Real Estate S.p.A.
Alnitak S.à r.l.	Real Estate	Luxembourg	Euro	4,452,500	35.00%	Pirelli & C. Real Estate S.p.A.
Artemide S.à r.l.	Real Estate	Luxembourg	Euro	2,857,050	35.00%	Pirelli & C. Real Estate S.p.A.
Austin S.à r.l.	Real Estate	Luxembourg	Euro	125,000	28.46%	Pirelli & C. Real Estate S.p.A.
Bicocca S.à r.l.	Real Estate	Luxembourg	Euro	12,500	35.00%	Pirelli & C. Real Estate S.p.A.
Colombo S.à r.l.	Real Estate	Luxembourg	Euro	960,150	35.00%	Pirelli & C. Real Estate S.p.A.
Dallas S.à r.l.	Real Estate	Luxembourg	Euro	125,000	28.46%	Pirelli & C. Real Estate S.p.A.
Delamain S.à r.l.	Real Estate	Luxembourg	Euro	12,500	49.00%	Pirelli & C. Real Estate S.p.A.
Doria S.à r.l.	Real Estate	Luxembourg	Euro	992,850	35.00%	Pirelli & C. Real Estate S.p.A.
European NPL S.A.	Real Estate	Luxembourg	Euro	2,528,738	33.00%	Pirelli & C. Real Estate S.p.A.
IN Holdings I S.à r.l.	Real Estate	Luxembourg	Euro	2,595,725	20.50%	Pirelli & C. Real Estate S.p.A.
Inimm Due S.à r.l.	Real Estate	Luxembourg	Euro	240,950	25.00%	Pirelli & C. Real Estate S.p.A.
Nashville S.à r.l.	Real Estate	Luxembourg	Euro	125,000	28.46%	Pirelli & C. Real Estate S.p.A.
Sicily Investments S.à r.l.	Real Estate	Luxembourg	Euro	12,500	40.00%	Pirelli & C. Real Estate S.p.A.
Solaia RE S.à r.l.	Real Estate	Luxembourg	Euro	12,500	35.00%	Pirelli & C. Real Estate S.p.A.
Trinacria Capital S.à r.l.	Real Estate	Luxembourg	Euro	12,500	40.00%	Pirelli & C. Real Estate S.p.A.
Trinoro S.à r.l. (in liquidation)	Real Estate	Luxembourg	Euro	30,000	35.00%	Pirelli & C. Real Estate S.p.A.
Vespucci S.à r.l.	Real Estate	Luxembourg	Euro	960,150	35.00%	Pirelli & C. Real Estate S.p.A.
Portugal						
Espeha - Serviços de Consultadoria Lda	Real Estate	Madeira	Euro	5,000	49.00%	Pirelli & C. Real Estate S.p.A.
Romania						
SC Eco Anvelope S.A.	Tyre	Bucarest	Ron	160,000	20.00%	S.C. Pirelli Tyres Romania S.R.L.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pireli Neumaticos S.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
The Netherlands						
Aida RE B.V.	Real Estate	Amsterdam	Euro	18,000	40.00%	Pirelli RE Netherlands B.V.
Alceo B.V.	Real Estate	Amsterdam	Euro	18,000	33.00%	Pirelli & C. Real Estate S.p.A.
Gamma RE B.V.	Real Estate	Amsterdam	Euro	18,000	49.00%	Pirelli RE Netherlands B.V.
M.S.M.C. Italy Holding B.V.	RE Holding	Amsterdam	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Masseto 1 B.V.	Real Estate	Amsterdam	Euro	19,000	33.00%	Pirelli & C. Real Estate S.p.A.
Mistral Real Estate B.V.	Real Estate	Amsterdam	Euro	18,000	35.00%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate B.V.	RE Holding	Amsterdam	Euro	20,000	40.00%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding II B.V.	RE Holding	Amsterdam	Euro	18,000	40.00%	Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	RE Holding	Amsterdam	Euro	26,550	25.00%	Pirelli & C. Real Estate S.p.A.
S.I.G. RE B.V.	Real Estate	Amsterdam	Euro	18,000	36.70%	Pirelli RE Netherlands B.V.
Sigma RE B.V.	Real Estate	Amsterdam	Euro	18,000	24.66%	Pirelli RE Netherlands B.V.
SI Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	763,077	25.00%	Pirelli & C. Real Estate S.p.A.
Theta RE B.V.	Real Estate	Amsterdam	Euro	18,005	40.00%	Pirelli RE Netherlands B.V.
North America						
U.S.A.						
Sci Roev Texas Partners L.P.	Real Estate	Dallas	US \$	12,000,000	10.00%	Pirelli & C. Real Estate S.p.A.
CyOptics Inc	Fotonica	Wilmington	US \$	629,392,744	34.52%	Pirelli & C. S.p.A.
Central/South America						
Argentina						
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Services	Buenos Aires	Arg. Peso	12,000	20.00%	Pirelli Soluciones Tecnologicas S.A.

OTHER INVESTMENTS CONSIDERED SIGNIFICANT AS PER CONSOB RESOLUTION NO. 11971 OF MAY 14,1999

Company	Business	Headquarters	Share	Capital	% holding	Held by
Belgium						
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84,861,116	17.79%	Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro	262,500	14.29%	Pirelli Tyre S.p.A
Germany						
WoWiMedia Gmbh & Co. KG	Real Estate	Hamburg	Euro	2,500,000	18.85%	Pirelli RE Netherlands B.V.
AVW Assekuranzvermittlung der Wohnungswirtschaft GmbH & Co. KG.	Real Estate	Hamburg	Euro	260,000	10.50%	Pirelli RE Netherlands B.V.
					0.20%	Pirelli & C. Real Estate Deutschland Gmbh
Hungary						
HUREC Tyre Recycling Non-Profit Company	Tyre	Budapest	Hun. Forint	50,000,000	17.00%	Pirelli Hungary Tyre Trading and Services Ltd
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	14.29%	Pirelli & C. S.p.A.
Tecnocittà S.r.l. (in liquidation)	Real Estate	Milan	Euro	547,612	12.00%	Pirelli & C. Real Estate S.p.A.
Poland						
Centrum Utylizacji Opon Organizacja Odzyseu S.A.	Tyre	Warsaw	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
The Netherlands						
Spazio Investment N.V.	Financial	Amsterdam	Euro	6,096,020	18.42%	Pirelli RE Netherlands B.V.
Tunisia						
Société Tunisienne des Industries de Pneumatiques S.A.	Tyre	Tunis	Tun. Dinar	42,078,240	15.83%	Pirelli Tyre S.p.A
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,204	12.98%	Pirelli Finance (Luxembourg) S.A.
U.S.A.						
Avanex Corporation	Telecommunication	Fremont	US \$	226,793,103	12.48%	Pirelli Finance (Luxembourg) S.A.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO ART. 81-TER OF CONSOB REGULATION 11971 OF MAY 14, 1999, WITH AMENDMENTS AND ADDITIONS

1. We, the undersigned, Marco Tronchetti Provera, Chairman of the board of directors, and Claudio De Conto – Operations General Manager and Manager responsible for the preparation of the financial reports of the company, Pirelli & C. S.p.A., certify, having also considered the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 58 dated February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application,

of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the fiscal year ended December 31, 2008.

2. To this end:

- there have been no situations of particular interest in terms of operations or strategies to report nor have there been any problems and/or anomalies noted also with regard to the effective application of the procedures;
- the evaluation of the adequacy of the administrative and accounting procedures used in the preparation of the consolidated financial statements at December 31, 2008 is based upon an assessment of the system of internal control. This assessment is based upon a process defined by Pirelli & C. S.p.A. consistently with the “Internal Control – Integrated Framework” model issued by the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO), an internationally-accepted reference framework.

3. We also certify that:

3.1. the consolidated financial statements:

- (a) are prepared in accordance with the applicable international financial reporting standards endorsed by the European Union pursuant to EC regulation 1606/2002 of the European Parliament and Council dated July 19, 2002;
- (b) agree with the results of the accounting records and entries;
- (c) are prepared in conformity with art. 154-ter of Legislative Decree 58/1998 as well as the provisions of Consob on the subject and are suitable for fairly and correctly presenting the financial condition, results of operations and cash flows of the company and the aggregate of the companies included in consolidation;

3.2. the report on operations includes a reliable analysis of the performance and results of operations, as well as the condition of the issuer and the aggregate of the companies included in consolidation, together with a description of exposure to major risks and uncertainties.

March 10, 2009

Chairman of the Board of Directors

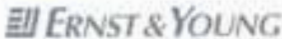
Marco Tronchetti Provera

Manager responsible for the preparation
of the financial reports of the company

Claudio De Conto

Independent auditors' report

261



Reconta Ernst & Young S.p.A.
102 della Chiave 2
20123 Milano
Tel. (+39) 02 722121
Fax (+39) 02 72312017
www.ey.com

Independent auditors' report
pursuant to Article 156 of Legislative Decree No. 58 of February 24, 1998
(Translation from the original Italian text)

To the Shareholders
of Pirelli & C. S.p.A.

1. We have audited the consolidated financial statements of Pirelli & C. S.p.A. and its subsidiaries, (the "Pirelli & C. Group") as of and for the year ended December 31, 2008, comprising the balance sheet, the income statement, the statement of recognized income and expense, the statement of cash flows and the related notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005 is the responsibility of the Pirelli & C. S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to the auditors' report dated April 9, 2008, issued by other auditors.

3. In our opinion, the consolidated financial statements of Pirelli & C. Group as of December 31, 2008, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations, the income and expense recognized in equity and the cash flows of Pirelli & C. Group for the year then ended.
4. The management of Pirelli & C. S.p.A. is responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements as required by art. 156, paragraph 4-bis, letter d) of the Legislative Decree 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Report on Operations is consistent with the consolidated financial statements of Pirelli & C. Group as of December 31, 2008.

Milan, April 2, 2009

Reconta Ernst & Young S.p.A.
signed by: Pellegrino Libroia, Partner

Reconta Ernst & Young S.p.A.
Data Registrazione: 20.08.2008 Registro Imprese di Milano, n° 20808000123
Capitale Sociale: € 1.000.000,00 i.v.
Sede: Milano, C.A. 102 della Chiave 2, 20123 Milano
Codice Fiscale: 02080800123
P.IVA: 02080800123
Autore della Relazione: Pellegrino Libroia, Partner
Firma: C.A. 102 della Chiave 2, 20123 Milano
Autore della Relazione: Pellegrino Libroia, Partner
Firma: C.A. 102 della Chiave 2, 20123 Milano
Firma del Relatore: Pellegrino Libroia, Partner
Firma del Relatore: Pellegrino Libroia, Partner



Extraordinary session

Report prepared by the directors

in accordance with M. D. 437 dated November 5, 1998.

REDUCTION OF THE REVALUATION RESERVES LAW 72/1983 AND LAW 413/1991 TO THE EXTENT USED TO COVER THE LOSSES RESULTING IN THE FINANCIAL STATEMENTS AT DECEMBER 31, 2008

Shareholders,

In the ordinary session of the shareholders' meeting, a motion was presented to fully utilize the following reserves:

- Revaluation reserve 72/1983 for Euros 972,216.00;
- Revaluation reserve 413/1991 for Euros 707,349.00,

to absorb the losses resulting in the financial statements of the company for the year ended December 31, 2008, as allowed by the specific law.

This would however mean that dividends are prohibited from being distributed until these reserves are replenished up to their original amounts. The regulations which govern revaluations under the laws noted above provide, as an alternative, that the reserves be reduced definitely, without any obligation regarding their replenishment, to the extent of the amount used on condition that the relative resolution is passed by the extraordinary session of the shareholders' meeting.

In view of the content of art. 6, paragraph 2, of Law 72/1983 and art. 26, paragraph 2, of Law 413/1991, the board of directors motions to proceed to definitively reduce such reserves (which show a nil balance after withdrawing the amounts above), excluding them from the obligation of being replenished for the future distribution of profits.

If you are in agreement with this motion, we ask you to assume the following.

RESOLUTION

“The shareholders’ meeting:

- having taken note that by resolution of the ordinary session of the shareholders’ meeting upon approval of the financial statements for the year ended December 31, 2008, among other things, the following reserves have been fully utilized to absorb the loss for the year 2008,:
 - 1) Revaluation reserve 72/1983 for Euros 972,216.00;
 - 2) Revaluation reserve 413/1991 for Euros 707,349.00,
- taking into account the provisions of the special applicable discipline,

RESOLVES

- a. to definitively reduce the Revaluation reserve Law 72/1983 to the extent of the amount of Euros 972,216.00 used to cover the loss for the year 2008, and therefore proceed to reduce such reserve to nil, without any obligation for replenishment, pursuant to art. 6, paragraph 2 of Law 72/1983;
- b. to definitively reduce the Revaluation reserve Law 413/1991 to the extent of the amount of Euros 707,349.00 used to cover the loss for the year 2008, and therefore proceed to reduce such reserve to nil, without any obligation for replenishment, pursuant to art. 26, paragraph 2 of Law 413/1991.”

The Board of Directors
Milan, March, 10, 2009

Designed by

Leftloft

Printed by

Arti Grafiche Mario Bazzi S.p.A.

Printed on GardaPat 13 Kiara paper



Website

www.pirelli.com