



PIRELLI & C.
Società per Azioni

Share capital Euros 2,791,311,344.64 fully paid-in
Registered office in Milan, Via G. Negri 10
Milan Companies Register No. 00860340157

Reports of the Board of Directors and proposals of resolution to be submitted to the ordinary and extraordinary general meeting of shareholders of Pirelli & C. S.p.A. called on 11 and 12 December 2007

PIRELLI & C. S.p.A.

Board of Directors¹

Chairman ²	Marco Tronchetti Provera
Deputy Chairman ²	Alberto Pirelli
Deputy Chairman ²	Carlo Alessandro Puri Negri
Directors:	
	Carlo Acutis *
	Carlo Angelici * o
	Gilberto Benetton
	Alberto Bombassei *
	Franco Bruni * o
	Enrico Tommaso Cucchiani
	Gabriele Galateri di Genola
	Mario Garraffo *
	Dino Piero Giarda *
	Berardino Libonati * ^
	Giulia Maria Ligresti
	Massimo Moratti
	Giovanni Perissinotto
	Giampiero Pesenti * ^
	Luigi Roth *
	Aldo Roveri * ^
	Carlo Secchi * o

* Independent director

o Member of the Internal Control and Corporate Governance Committee

^ Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto
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Board of Statutory Auditors³

Chairman	Luigi Guatri
Standing members	Enrico Laghi
Alternate members	Paolo Francesco Lazzati
	Franco Ghiringhelli
	Luigi Guerra

General Managers⁴

Operations	Claudio De Conto
Finance and Strategic Planning	Luciano Gobbi

Independent Auditors⁵

PricewaterhouseCoopers S.p.A.

Manager responsible for financial reporting⁶

Claudio De Conto

1 Appointment: April 28, 2005. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2007.

Alberto Bombassei (co-opted by the board of directors on September 12, 2006) and Luigi Roth were appointed by the shareholders' meeting held on April 23, 2007; on July 26, 2007, the board of directors appointed Enrico Tommaso Cucchiani to replace Paolo Vagnone.

2 Post conferred by the board of directors' meeting held on April 28, 2005.

3 Appointment: April 21, 2006. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2008.

4 Until June 30, 2006, Francesco Gori was the general manager of the Tyres Sector. Beginning July 1, 2006, he is the CEO and general manager of Pirelli Tyre S.p.A..

5 Appointment conferred by the shareholders' meeting held on April 28, 2005.

6 Appointment: conferred by the board of directors' meeting held on May 10, 2007. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2007.

Pirelli & C. – Società per Azioni
Milan - Via G. Negri n. 10
Share capital Euro 2,791,311,344.64 fully paid in
Tax Code and Number of Registration with the Milan
Company Register n. 00860340157

CALL TO SHAREHOLDERS' MEETING

The ordinary shareholders of Pirelli & C. Società per Azioni (the "Company") are called to an ordinary and extraordinary general meeting to be held in Milan, Viale Sarca 214

- at 10.30 a.m. of 11th December, 2007 on first call
 - at 10.30 a.m. of 12th December, 2007 on second call
- to discuss and resolve upon the following

AGENDA

ORDINARY GENERAL MEETING

Appointment of one Director.

EXTRAORDINARY GENERAL MEETING

1. Voluntary reduction of the share capital from EUR 2,791,311,344.64 to EUR 1,556,692,865.28, according to the provisions of article 2445 of the Italian civil code, through reduction of the nominal value of the ordinary shares and of the saving shares, in order to partly repay the shareholders and partly optimize the financial structure of the Company. Consequent amendment of article 5 of the Company's By-Laws. Inherent and consequent resolutions. Granting of powers.
2. Amendment of Article 10 (Administration of the Company) and of Article 16 (Board of Statutory Auditors). Inherent and consequent resolutions. Granting of powers.

With reference to item 1 of the agenda of the extraordinary general meeting, it is hereby specified that the proposal of reduction of the share capital will involve the reduction of the nominal value of the shares from EUR 0.52 to EUR 0.29. The reasons of the proposed reduction consist in the opportunity to partly redeem the share capital to repay the shareholders and moreover in the opportunity to optimize the financial structure of the Company.

In light of the composition of the Company's shareholders, the legal quorum for the constitution of the meeting will presumably be reached on the second call.

According to the provisions of law and to the Company's By-Laws, holders of ordinary shares for which the Company has received the communication provided for by article 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 the shareholders' meeting.

Each shareholder may request to his/her broker to withdraw such a communication, not being in this way anymore entitled to attend the meeting.

It can not been ascribed to the Company any requests from the brokers of any prior notice for the accomplishment of their duties in due time or any incidental impossibility to dispose of the deposited shares due to usual internal procedure of the brokers themselves.

The reports of the Board of Directors relevant to all the items of the agenda will be made available to the public at the Company head office and at Borsa Italiana S.p.A. within 23rd November, 2007 and published on the web site of the Company (www.pirelli.com).

for the Board of Directors
The Chairman
(Dr. Marco Tronchetti Provera)

This notice has been published on the Official Gazette of the Italian Republic dated 10th November, 2007 and on "Finanza & Mercati", "Il Sole 24 Ore" e "Milano Finanza" on 13th November, 2007

ORDINARY GENERAL MEETING

REPORT OF THE BOARD OF DIRECTORS

Curriculum Vitae of Mr. Enrico Tommaso Cucchiani

Appointment of one Director.

Dear Shareholders,

as you probably already know, during the meeting held on 26th July 2007 the Board of Directors has resolved to appoint Mr. Enrico Tommaso Cucchiani as Director of the Company, in substitution of Mr. Paolo Vagnone who resigned from his office in the same month of July 2007.

The office of Mr. Enrico Tommaso Cucchiani expires as of the date of today's Shareholders' Meeting, which is called to appoint one Director.

The Board of Directors submit to you the proposal to confirm Mr. Enrico Tommaso Cucchiani as Director of the Company.

The Board of Directors
Milan, 9th November, 2007

ENRICO TOMMASO CUCCHIANI

Director of Pirelli & C. S.p.A. from July 26, 2007.

Born in Milan in 1950.

Graduated in Economics and Business Administration at Bocconi University in Milan, he specialized in the United States doing researches, at Harvard University, on multinational corporations, obtaining a Master in Business Administration at Stanford University.

Since 1977 his career has been focusing mainly on the financial, banking, insurance and venture capital fields.

Later on, he joined McKinsey where he contributed to the development of the banking practice, numbering among his clients in Italy primary banking institutions; then he moved to the New York office where he became advisor for Merrill Lynch and Chase Manhattan Bank; after the experience at McKinsey he had an entrepreneurial activity in the sector of venture capital and M&A.

In 1996 he became General Manager in Lloyd Adriatico. In 1998 he was appointed Managing Director and CEO. In 2001 he was appointed Chairman.

Since 2005 he is member of the International Executive Committee of Allianz and since January 1, 2006 he is member of the “Vorstand” (Board of Management) of Allianz SE, acting as responsible for all Group companies operating in Italy, Spain, Portugal, Switzerland, Austria, Greece and Turkey as well as coordinating worldwide, the strategies and the operational development of the property branch. Furthermore he is Managing Director CEO of Allianz S.p.A. Chairman of Antonveneta Vita S.p.A. and he is member of the Board of Directors of Unicredit Group, IllyCaffé S.p.A. and Editoriale FVG S.p.A. - Divisione Il Piccolo (Gruppo Editoriale L'Espresso).La Vita S.p.A..

He is Chairman of holds offices at MIB School of Management (Trieste), Member of the Advisory Council of Stanford University (USA), and member of The Trilateral Commission Italy, Aspen Institute Italyia, US-Italy CouncilThe Board for the relationship between Italy and the United States, ISPI, Intercultura and Civita.

Recipient of the “Bocconiano dell’Anno 2006” award.

EXTRAORDINARY GENERAL MEETING

REPORT OF THE BOARD OF DIRECTORS

Report of the Board of Directors in accordance with Ministerial Decree no. 437 of November 5, 1998, and Article 72, paragraph 1, of Consob Regulation no. 11971/1999, as amended.

Dear Shareholders,

we have called you also on extraordinary general meeting in order to submit to your approval two proposals, the first one concerning the reduction of the share capital aimed partly to repay the shareholders and partly to optimize the financial structure of Pirelli & C. – Società per Azioni (the “**Company**”), the second one concerning certain amendments to the Company’s By-Laws required to adapt same By-Laws to certain implementing provisions issued by Consob, following Law no. 262/2005 and the coordination Legislative Decree no. 303/2006, in relation to the appointment of the Board of Directors and of the Board of Statutory Auditors.

With reference to the first proposal:

Voluntary reduction of the share capital from EUR 2,791,311,344.64 to EUR 1,556,692,865.28, according to the provisions of article 2445 of the Italian civil code, through reduction of the nominal value of the ordinary shares and of the savings shares, in order to partly repay the shareholders and partly optimize the financial structure of the Company. Consequent amendment of article 5 of the Company’s By-Laws. Inherent and consequent resolutions. Granting of powers.

The proposal to voluntarily reduce the share capital

The transaction subject to your approval involves the voluntary reduction of the share capital for a nominal amount equal to EUR 1,234,618,479.36, and therefore from EUR 2,791,311,344.64 to EUR 1,556,692,865.28, through reduction of the nominal value of each of the ordinary shares and of the savings shares from EUR 0.52 to EUR 0.29.

In connection with the reduction of the nominal share capital for an aggregate amount of EUR 1,234,618,479.36, the Board of Directors proposes to reimburse pro-rata to ordinary shareholders and savings shareholders an amount equal, in the aggregate, to EUR 826,657,590.53, corresponding to EUR 0.154 per each ordinary share and savings share held.

For the remaining amount equal to EUR 407,960,888.83, deriving from the reduction of the share capital but not destined to the reimbursement to shareholders, the Board of Directors proposes to create an *ad-hoc* reserve.

Therefore, the proposed reduction of the share capital, for an aggregate nominal amount equal to EUR 1,234,618,479.36, will be carried out, in summary, as follows:

- (i) as to EUR 826,657,590.53, through distribution to ordinary shareholders and savings shareholders of an amount of EUR 0.154 per each ordinary share and savings share;
- (ii) as to EUR 407,960,888.83, through the creation of an *ad-hoc* reserve.

Reasons for the proposal

The voluntary reduction of the share capital is intended to the repayment to shareholders of part of the financial resources resulting from the sale of the shareholding held in the stock of Olimpia S.p.A. and, through such company, in Telecom Italia S.p.A., as well as to optimize the

financial structure of the Company, in particular by revising the ratio between fixed capital and available reserves.

The sale of the shareholding held in the stock of Olimpia S.p.A., executed on October 25, 2007, allowed the Company to receive an amount equal to EUR 3.3 billion.

The effects on the consolidated net financial position are shown in the following chart:

	Total Group	of which Corporate	of which Pirelli & C.
Net financial position at September 30, 2007	2,329	1,246	1,695
Income from the transfer of 80% of Olimpia	(3,329)	(3,329)	(3,329)
Estimate of costs connected with the transfer of Olimpia	13	13	13
Net financial position pro-forma at September 30, 2007	(987)	(2,070)	(1,621)

The sale of the shareholding held in the stock of Olimpia S.p.A. implied the release of the Company from the telecommunication business and the re-focusing of the activities of the Group in the relevant core businesses – mainly tyres, real estate, broadband (in particular photonic) and environment – as well as the development in other possible business areas. In this new strategic scenario, the financial structure of the Company and, in particular, the relevant nominal share capital, results to be largely redundant, compared to the Company's strategies, and allows a partial reimbursement in favour of shareholders, through the payment of a so called "extraordinary dividend" for an amount deemed to be appropriate.

It is proposed that the part of the share capital reduction that is not going to be utilized for the repayment of the shareholders will be allocated to the creation of a reserve. Such reserve is aimed to allow an improvement of the Company's financial structure in the new strategic framework resulting from the sale of the shareholding held in the stock of Olimpia S.p.A. In particular, it is worth noting that the Company's net equity does not currently include retained earnings or reserves of other kind in excess of the nominal share capital.

Besides assuring a better structure of the equity of the Company, the reserve created following the reduction of the share capital might also be utilised in the future, if deemed advisable, in order to carry out buy-back plans, if any, with the timing and in the manner that will be considered more appropriate.

Balance sheet consequences of the reduction

The chart below shows the pro-forma consolidated and the statutory balance sheet of Pirelli & C. as of June 30, 2007, including the effects of the sale of the shareholding held in the stock of Olimpia S.p.A. and of the proposed reduction of the share capital and subsequent repayment to shareholders.

Based on the chart, it appears that the resulting financial condition allows the Company to continue to carry on its own activities and to pursue the achievement of its own plans¹.

¹ With reference to the accounting information contained in this chart, the manager responsible for preparing the company's financial reports has already issued the declaration provided by paragraph 2 of Article 154-bis of the Legislative Decree no. 58 of 24 February 1998.

<i>(in millions of euros)</i>	Interim consolidated financial statement at June 30, 2007	Adjustments	Interim consolidated financial statement at June 30, 2007
Consolidated balance sheet	Pirelli & C.	Pro-Forma	Pirelli & C.
	(Historical Data)	Olimpia Transfer	Share Capital Reduction
Property, plant and equipment	1,628		1,628
Intangible assets	630		630
Investments in associates and joint ventures	434		434
Available-for-sale financial assets	974		974
Deferred tax assets	77		77
Other receivables	501		501
Tax receivables	12		12
NON-CURRENT ASSETS	4,256	0	0
Inventories	1,485		1,485
Trade receivables	1,435		1,435
Other receivables	523		523
Securities held for trading	141		141
Cash and cash equivalents	591	3,316	(827)
Tax receivables	41		41
Financial instruments	41		41
CURRENT ASSETS	4,257	3,316	(827)
Non current assets held for sale (Olimpia)	3,310	(3,310)	0
TOTAL ASSETS	11,823	6	(827)
	11,002		
Attributable to the equity holders of the company:	3,859	19	(827)
Share Capital:	2,790		(1,235)
Other reserves	961	(55)	408
Retained earnings	-		0
Income for the period	108	74	182
Attributable to minority interest:	833	0	0
Reserves	743		743
Income for the period	90		90
TOTAL EQUITY	4,692	19	(827)
			3,884

Borrowings from banks and other financial institutions	1,791			1,791
Other payables	47			47
Provision for other liabilities and charges	162			162
Deferred tax liabilities	64			64
Employee benefit obligation	385			385
Tax payables	10			10
Financial Instruments	6			6
NON CURRENT LIABILITIES	2,465	0	0	2,465
Borrowings from banks and other financial institutions	2,574			2,574
Trade payables	1,264			1,264
Other payables	613	(13)		600
Provision for other liabilities and charges	82			82
Tax payables	70			70
Financial Instruments	63			63
CURRENT LIABILITIES	4,666	(13)	0	4,653
TOTAL EQUITY AND LIABILITIES	11,823	6	(827)	11,002

<i>(in millions of euros)</i>	Interim financial statement at June 30, 2007	Adjustments	Interim financial statement at June 30, 2007
	Pirelli & C.	Pro-Forma	Pirelli & C.
STATUTORY BALANCE SHEET	(Historical Data)	Olimpia Transfer	Share Capital Reduction (Pro-Forma)
Property, plant and equipment	99		99
Intangible assets	2		2
Investments in controlled	860		860
Investments in affiliated	53		53
Available-for-sale financial assets	566		566
Other receivables	3		3
NON-CURRENT ASSETS	1,583	0	0
Trade receivables	40		40
Other receivables	27		27
Securities held for trading	2		2
Cash and cash equivalents	1	3,316	(827)
Tax receivables	11		11

CURRENT ASSETS	81	3,316	(827)	2,570
Non current assets held for sale (Olimpia)	3,310	(3,310)		0
TOTAL ASSETS	4,974	6	(827)	4,153
Attributable to the equity holders of the company:	3,012	19	(827)	2,204
Share Capital	2,790		(1,235)	1,555
Other reserves	83	(146)	408	345
Retained earnings	-			0
Income for the period	139	165		304
TOTAL EQUITY	3,012	19	(827)	2,204
Borrowings from banks and other financial institutions	1,076			1,076
Provision for other liabilities and charges	147			147
Employee benefit obligation	7			7
NON CURRENT LIABILITIES	1,230	0	0	1,230
Borrowings from banks and other financial institutions	601			601
Trade payables	60			60
Other payables	39	(13)		26
Provision for other liabilities and charges	26			26
Tax payables	6			6
CURRENT LIABILITIES	732	(13)	0	719
TOTAL EQUITY AND LIABILITIES	4,974	6	(827)	4,153

Terms of the capital reduction

In terms of process, the transaction, if approved by the extraordinary general meeting of the Company, shall be submitted also to the approval of the special meeting of savings shareholders, called on 12, 13 and 14 December, 2007 (respectively on first, second and third call), as the same transaction affects the nominal value of the shares, on the basis of which the preferential treatment attributed to the class is calculated.

Moreover, the execution of the reduction of share capital shall be carried out, according to article 2445, paragraph 3, of Italian civil code, only upon expiration of a term of 90 days from the date of registration of the resolution of the extraordinary general meeting in the Company Register, provided that no creditors of the Company prior to the registration have raised objection within such term. According to article 2445, paragraph 4, of Italian civil code, in the event that any objections are raised within said term, the Tribunal will be empowered to provide that the reduction of share capital may be in any event carried out if it deems that the

risk of a prejudice for creditors is not grounded or if the Company provides an adequate guarantee.

The reduction of share capital will be carried out through reduction of the nominal value of each of the ordinary shares and of the savings shares, from the current value of EUR 0.52 to EUR 0.29. The aggregate number of shares will remain unchanged, since no cancellation of shares will take place.

Considering the relevant terms, the reduction of share capital will not affect the percentage of the Company's own shares, equal to approximately 0.05% of the share capital, which, further to the transaction, will remain the same and in accordance with the limits stated by article 2357 of Italian civil code. Moreover, the transaction will not affect the bonds issued by the Company or by its subsidiaries with a guarantee of same Company. In connection with the stock option plans (named "*Pirelli to People*" and "*Group Senior Executives*"), the voluntary reduction of share capital and, in particular, the repayment in favour of shareholders, will involve, according to the terms and conditions of the plans, a variation of the relevant strike price.

Therefore it is proposed to add a new second paragraph in article 5 of the Company's By-Laws, as follows:

EXISTING TEXT	PROPOSED TEXT
Article 5	Article 5
<p>The Company shall have a subscribed and paid-in share capital of EUR 2,791,311,344.64 (twobillions-sevenhundredandninetyonemillions-threehundredandeleventhousands-threehundredandfourtyfourpoint sixtyfour) divided into no. 5,367,906,432 (fivebillions-threehundredsixtysevenmillions-ninehundredandsixthousands-fourhundredandthirtytwo) shares with a par value of EUR 0.52 (fiftytwo cents) each, consisting of 5,233,142,003 (fivebillions-twohundredandthirtythreemillions-onehundredandfourtytwothousandsthree) ordinary shares and 134,764,429 (onehundredandthirtyfourmillions-sevenhundredandsixtyfourthousands-fourhundredandtwentynine) savings shares.</p>	<p>[<i>unchanged</i>]</p> <p>By resolution of the extraordinary shareholders' meeting held on December 2007, a voluntary reduction of the share capital was approved from EUR 2,791,311,344.64 (twobillions-sevenhundredandninetyonemillions-threehundredandeleventhousands-threehundredandfourtyfourpoint sixtyfour) to EUR 1,556,692,865.28 (onebillion-fiveundredandfiftysixmillions-sixhundredandninetytwothousands-eighthundredandsixtyfive point twentyeight) through reduction of the par value of the ordinary shares and of the savings shares from EUR 0.52 (fiftytwo cents) to EUR 0.29 (twentynine cents) each, with allocation to an available reserve of the amount of EUR 407,960,888.83 (fourhundredandsevenmillions-ninehundredandsixtythousands-eighthundredandeightyeight point eightythree); this reduction shall be carried out in compliance with</p>

<p>[omissis]</p>	<p>article 2445, para 3, of Italian civil code. <i>[remaining paragraphs unchanged]</i></p>
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It is proposed also, further to the execution of the reduction of share capital, to update the figures in article 5 of the Company's By-Laws, in light of the new nominal value of the shares and of the share capital.

Right of withdrawal

The amendment to the By-laws that is submitted to the approval of shareholders, if approved, will entitle savings shareholders who did not concur to the approval of the resolution to exercise a withdrawal right from the Company, in light of the substantial modifications that the amendment will imply as regards the participation rights granted to their class.

Further to the amendment to the By-Laws, the right of withdrawal will pertain to savings shareholders who did not concur to the approval of the resolution of the special savings shareholders' meeting, provided that the withdrawing shareholders result to be holding the Pirelli & C. savings shares in relation to which the right of withdrawal is exercised from a date prior to the one of the extraordinary general meeting resolving upon the reduction of share capital until the Certification (as defined below) is obtained.

The statement regarding the exercise of the withdrawal right shall be sent to Pirelli & C. by registered mail, by entitled savings shareholders, within 15 days from the date of registration in the Company Register of the resolution grounding the right to withdraw. Said withdrawal statement, which shall indicate the personal particulars and domicile of the withdrawing shareholder and the number of shares for which the right of withdrawal is exercised, shall be sent together with the *ad-hoc* certification issued by a broker member of the centralised administration system of Monte Titoli S.p.A., certifying that: (i) the ownership of the savings shares, and therefore the capacity as shareholder, lasts uninterruptedly from a date prior to the one of the extraordinary general meeting resolution regarding the reduction of share capital and, (ii) the savings share have been transferred to an *ad-hoc* tied-up account in view of the payment of the withdrawal price (the "**Certification**"). If the Certification may not be attached to the withdrawal statement, the same shall be received by the Company within the deadline which will be specified in the notice published on newspapers, otherwise the withdrawal statement shall not be considered acceptable.

The consideration due to savings shareholders exercising the withdrawal right shall be equal to the arithmetic mean of the official stock exchange prices of the Pirelli & C. savings shares in the 6 months preceding the date of publication of the notice of call of the extraordinary general meeting, i.e. November 10, 2007. Therefore, such amount is equal to EUR 0.8055 per each savings share.

Information concerning the manner and terms for the exercise of the withdrawal right which may not be determined before the date of the shareholders' meeting, including the actual date of registration of the resolution in the Company Register, will be made known by the Company – together with details on the terms of the withdrawal right and the payment of the relevant price – through *ad-hoc* notices published on newspapers – at least on "Il Sole 24 Ore" – after the registration of the resolution in the Company Register.

Tax aspects of the transaction

With regard to the tax implication that may arise from the proposed resolutions, being the transaction a capital reimbursement, the same is tax neutral both for the Company and the relevant shareholder.

Proposal of resolution

On the basis of the above, the Board of Directors submits to your approval the following proposals:

"The extraordinary general meeting of Pirelli & C. S.p.A., having examined the report of the Board of Directors:

RESOLVES

- 1) to reduce the share capital from EUR 2,791,311,344.64 to EUR 1,556,692,865.28, through reduction of the nominal value of each of the ordinary shares and of the savings shares from EUR 0.52 to EUR 0.29;
- 2) to reimburse pro-rata to the ordinary shareholders and to the savings shareholders an aggregate amount of EUR 826,657,590.53, equal to EUR 0.154 per each ordinary share or savings share held;
- 3) to allocate the amount of EUR 407,960,888.83 to an available reserve ;
- 4) to add, in article 5 of the Company's By-Laws, a new second paragraph stating that:
"By resolution of the extraordinary shareholders' meeting held on December 2007, a voluntary reduction of the share capital was approved from EUR 2,791,311,344.64 (twobillions-sevenhundredandninetyonemillions-threehundredandeleventhousands-threehundredandfourtyfourpoint sixtyfour) to EUR 1,556,692,865.28 (onebillion-fiveundredandfiftysixmillions-sixhundredandninetytwothousands-eighthundredandsixtyfive point twentyeight) through reduction of the par value of the ordinary shares and of the savings shares from EUR 0.52 (fiftytwo cents) to EUR 0.29 (twentynine cents) each, with allocation to an available reserve of the amount of EUR 407,960,888.83 (fourhundredandsevenmillions-ninehundredandsixtythousandseighthundredandeightyeight point eightythree); this reduction shall be carried out in compliance with article 2445, para 3, of Italian civil code.";
- 5) to acknowledge that, according to article 2445, paragraph 3, of Italian civil code, the resolution of reduction of the share capital may be executed by the Board of Directors only after the expiration of a term of 90 days from the date of registration of the resolution in the Company Register, except in the circumstances provided for by article 2445, paragraph 4, of Italian civil code;

- 6) to grant to the Board of Directors – and for such Board to the Chairman and to the Deputy Chairmen, severally and not jointly – any and all powers necessary to comply with any required formalities so that the resolutions adopted may be registered in the Company Register, by accepting and introducing any amendments, integrations or deletions, to the extent formal and not substantial, required by competent authorities, and, for the purpose of executing the reduction of share capital, to update the figures in article 5 of the Company's By-Laws arising from the new amount of the nominal value of the share and of the share capital."

With reference to the second proposal:

Amendment of article 10 (Administration of the Company) and article 16 (Board of Statutory Auditors) of the By-Laws. Inherent and consequent resolutions. Granting of powers.

Reasons for the proposal

The proposal to resolve upon certain amendments to the Company's By-laws is connected with the need to conform such By-Laws to the provisions of Consob Regulation no. 11971 of May 14, 1999 ("Issuers Regulation"), as subsequently amended by Consob Resolution no. 15915 of May 3, 2007 ("Consob Resolution").

The amendments are intended to conform the terms provided for giving evidence of the holding of the number of shares needed to submit the slates for the appointment of the members of the Board of Directors, to the terms set forth by Consob for the analogous requirement applicable to shareholders in relation to the submission of the slates for the appointment of the members of the Board of Statutory Auditors (article 144-sexies, paragraph 4, of Issuers Regulation).

The proposed amendments follow the resolutions already approved by the shareholders' meeting on April 23, 2007. In that occasion, the Board of Directors reserved to proceed with any additional amendments to the By-Laws necessary to conform the same to any Consob requirements enacted after the date of the shareholders' meeting.

The following paragraphs illustrate in detail the above mentioned amendments with respect to each article of the By-Laws.

Article 10 (Administration of the Company)

The proposed amendment allows to maintain a parallelism between the formalities for the appointment of the Board of Directors and the ones relating to the Board of Statutory Auditors, without prejudice to the peculiarities stated by the Issuers Regulation with respect to the appointment of the Board of Statutory Auditors.

Consequently, the proposed amendment provides that, within the term for the filing of the slate for the appointment of the members of the Board of Directors (at least 15 days prior to the date set for the shareholders' meeting on first call), the shareholders who present the slate shall give evidence of their ownership of the number of shares that are needed to submit same slate.

Article 16 (Board of Statutory Auditors)

The proposed amendments are intended to conform the By-Laws to the amendments resulting from the Consob Resolution.

Paragraphs 4 e 5 of new article 144-*sexies* of the Issuers Regulation state as follows:

"4. The lists shall be filed at the registered office at least fifteen days prior to that date set for the shareholders' meeting called to approve the appointment of the statutory auditors, together with:

a) the details of the identity of the shareholders who have submitted the lists, specifying the overall percentage shareholding held and a certification specifying the ownership of said shareholding;

b) a declaration from the shareholders other than those who, jointly or otherwise, possess a controlling or relative majority shareholding, certifying the absence of any relationships of affiliation with the latter pursuant to Article 144-quinquies;

c) detailed information on the personal traits and professional qualifications of the candidates, together with a declaration from said candidates certifying their possession of the requirements under the law and their acceptance of the nomination.

5. If, as at the expiry date of the time limit specified in paragraph 4, only one list has been submitted, or lists have only been submitted by shareholders who, in accordance with the provisions of paragraph 4, are affiliated to each other pursuant to Article 144-quinquies, further lists may be submitted up to the fifth day after said date. In such event the thresholds established in the bylaws pursuant to paragraph 2 shall be halved."

Therefore the proposed amendment refers to the removal from the By-Laws of the duty for shareholders to give evidence of the ownership of the number of shares needed for the submission of slates within the term of two days prior to the date set for the shareholders' meeting on first call, thus automatically applying the new legal framework.

Besides, two merely formal amendments are proposed in order to make explicit that the process for the appointment and for the submission of the slates shall be carried out in compliance with applicable laws and regulations.

Finally, with reference to the provisions dealing with the replacement of any statutory auditors, it is proposed to further specify the principle of "necessary representation of minorities" in accordance with the new provision of article 144-*sexies*, paragraph 12, of the Issuers Regulation.

Proposal of resolution

On the basis of the above, the Board of Directors submits to your approval the following proposals:

"The extraordinary general meeting of Pirelli & C. S.p.A.,

- in consideration of Consob Resolution no. 15915 of May 3, 2007;
- having examined the report of the Board of Directors detailing the proposals to amend article 10 (Administration of the Company) and article 16 (Board of Statutory Auditors) of the Company's By-Laws;

RESOLVES

- 1) to modify article 10 and article 16 of the By-Laws of Pirelli & C. S.p.A. as follows:

EXISTING TEXT	PROPOSED TEXT
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ADMINISTRATION OF THE COMPANY	ADMINISTRATION OF THE COMPANY
<p>Article 10</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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 at least two days prior to the date set for the shareholders' meeting to be held on first call.</p> <p>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.</p> <p>Any slates submitted without complying with the foregoing provisions shall be disregarded.</p> <p>Each person entitled to vote may vote for only one slate.</p> <p>The Board of Directors shall be elected as specified below:</p> <ul style="list-style-type: none"> 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 	<p>Article 10</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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 same slates.</p> <p>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.</p> <p>Any slates submitted without complying with the foregoing provisions shall be disregarded.</p> <p>Each person entitled to vote may vote for only one slate.</p> <p>The Board of Directors shall be elected as specified below:</p> <ul style="list-style-type: none"> 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

<p>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.</p> <p>Those who have obtained the highest quotient shall be elected.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The Board of Directors shall appoint a Secretary, who need not be a director.</p> <p>Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.</p>	<p>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.</p> <p>Those who have obtained the highest quotient shall be elected.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The Board of Directors shall appoint a Secretary, who need not be a director.</p> <p>Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.</p>
<p>BOARD OF STATUTORY AUDITORS</p> <p>Article 16</p> <p>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.</p> <p>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.</p> <p>With the exception of the provisions of the third-to-last</p>	<p>BOARD OF STATUTORY AUDITORS</p> <p>Articolo 16</p> <p>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.</p> <p>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.</p> <p>The Board of Statutory Auditors shall be appointed in</p>

<p>paragraph of this article 16, the Board of Statutory Auditors shall be appointed on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.</p> <p>Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.</p> <p>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, subject to their proving ownership of the number of shares needed for the presentation of slates at least two days prior to 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.</p> <p>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. 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 - without limitation to any further documentation required by applicable rules, including any regulatory provisions - statements 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 the requisites prescribed by law ,by these By-laws and by regulation for the position.</p> <p>Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.</p> <p>Any slates submitted without complying with the foregoing provisions shall be disregarded.</p> <p>Each candidate may appear on only one slate, on pain of ineligibility.</p> <p>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.</p> <p>Each person entitled to vote may vote for only one slate.</p> <p>The Board of Statutory Auditors shall be elected as specified below:</p> <ul style="list-style-type: none"> 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 	<p>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.</p> <p>Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.</p> <p>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.</p> <p>Each shareholder may present or take part in the presentation of only one slate.</p> <p>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. 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 and 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.</p> <p>Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.</p> <p>Any slates submitted without complying with the foregoing provisions shall be disregarded.</p> <p>Each candidate may appear on only one slate, on pain of ineligibility.</p> <p>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.</p> <p>Each person entitled to vote may vote for only one slate.</p> <p>The Board of Statutory Auditors shall be elected as specified below:</p> <ul style="list-style-type: none"> 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
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<p>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.</p> <p>The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the slate mentioned in point b) of the paragraph above.</p> <p>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.</p> <p>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. The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of the alternate member drawn from the minority slates who has replaced a standing member drawn from the same slate.</p> <p>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.</p> <p>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.</p> <p>Outgoing members of the Board of Statutory Auditors may be re-elected to office.</p> <p>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.</p>	<p>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.</p> <p>The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the slate mentioned in point b) of the paragraph above.</p> <p>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.</p> <p>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. The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of the alternate member drawn from the minority slates who has replaced a standing member drawn from the same slate.</p> <p>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.</p> <p>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.</p> <p>Outgoing members of the Board of Statutory Auditors may be re-elected to office.</p> <p>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.</p>
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- 2) to grant to the Board of Directors – and for such Board to the Chairman and to the Deputy Chairmen, severally and not jointly – any and all powers necessary to comply with any required formalities so that the resolutions adopted may be registered in the

Company Register, by accepting and introducing any amendments, integrations or deletions, to the extent formal and not substantial, required by competent authorities.”

Board of Directors
Milan, 9 November 2007