

# **PIRELLI & C.**

**Società per Azioni (Public Limited Company)**

**Headquarters in Milan, Via G. Negri 10**

**Milan Companies Register n. 00860340157**

## **Minutes of the General Meeting held on the 23<sup>rd</sup> of April 2007**

**PIRELLI & C. SOCIETÀ PER AZIONI (Public Limited Company)**

**GENERAL MEETING, 23rd of APRIL 2007**

Procedures at the **PIRELLI & C. S.p.A.** general meeting of the 23rd of April 2007, begin at 10:40 am, in Milan, Viale Sarca n. 214.

Mr. Marco Tronchetti Provera assumes the presidency of the meeting as per the corporate charter and based on the unanimous consensus of those present, he calls upon Mr. Carlo Marchetti to act as Secretary for the general meeting.

The President states that:

- The meeting has been called upon to decide on the following:

### **Agenda**

#### **General Meeting**

1. Balance sheet as on the 31st of December 2006. Decisions regarding or following from the same.
2. Appointment of two directors and/or reduction in the number of members of the Board. Decisions regarding or following from the same.
3. Proposal to amend the Regulation of the Meetings approved with the decision of the Meeting on 11<sup>th</sup> May 2004.

#### **Extra-ordinary session**

*(Omissis-deliberate omission)*

- Notice of the convocation of the General meeting was published on the Official Gazette n. 33 on the 20<sup>th</sup> of March 2007;

- The Notice of convocation was published also on the "IL Sole 24 Ore, MF and Finanza & Mercati" dated 20th March 2007;

- the firm has not received any request to add issues to the Agenda, as required by art. 126-bis of the Legislative Decree n. 58/1998;

- Based on the minutes, an insufficient number of shareholders were present at the first call convened on the 20th of April 2007. This shall be recorded on the minutes of the meeting logbook/Company meeting register.

With regard to the attendance of shareholders:

- the corporate capital is equal to Euro 2,791,311,344.64 divided into 5,367,906,432 shares with a nominal value of Euro 0.52 each, of which 5,233,142,003 common shares and 134,764,429 savings shares;

- as to date the company owns 2,617,500 treasury shares.

Informs that at 10.42 am, the total number of shareholders attending the general meeting are 229 on their own behalf or by proxy representing 2,879,821,673 common shares. Thus participants present represent 55.03% of the common stock.

The President then ascertains and acknowledges that the Meeting is regularly constituted and can discuss and resolve points on the Agenda.

Following on, he observes and recalls that:

-the documentation regarding the different points on the agenda has been adequately circulated as per norms related to the issue and has been published on the company's website; specially, the file containing the firm's draft budget and the consolidated financial statement as on the 31<sup>st</sup> of December 2006, with the related director's reports has been made available to the public at the firm's head office and at the Italian stock exchange on the 30<sup>th</sup> of March 2007. The reports of the Board of Auditors and the auditing company as well as reports related to all other topics on the agenda have been filed using the same modality on the 5<sup>th</sup> of April 2007. The aforementioned documentation has also been provided on the firm's website

- the same documentation is provided in the file with the printed financial statement that has been distributed to everybody at the entrance (that includes, besides other documentation, resolutions proposed by the Board); the said file has been sent to all Pirelli & C. S.p.A. shareholders on the 19<sup>th</sup> of April, to those who participated in the last three meetings and to those who requested a copy;
- on the 5<sup>th</sup> of April 2007 financial statements of the subsidiaries and essential data of related companies have been filed at the firm's office;
- based on records of the register of shareholders that have been updated with the information received as per art.120 of the Legislative Decree n. 58/1998 and other available information, those with voting rights assessed higher than 2% of capital stock:

		<b>Number of Shares</b>	<b>% of capital in terms of common stock</b>
1	<b>MARCO TRONCHETTI PROVERA</b> Of which directly And indirectly through CAMFIN S.P.A. And through Cam Partecipazioni S.r.l.	<b>1,334,830,437</b> 13,764 1,333,599,275 1,217,398	<b>25.51</b> 0.00 25.48 0.02
2	<b>ASSICURAZIONI GENERALI S.P.A.</b> Of which directly No. 106,135,159 shares (2.03%)  And indirectly through  Ina Assitalia SpA - No. 104,949,245 shares (2.00%)  Generali Vie S.A. - No. 57,400,000 shares (1.10%)  Alleanza Assicurazioni SpA - No. 964,282 shares (0.02%)  Intesa Vita SpA – No. 842,952 shares (0.02%)  La Venezia Assicurazioni SpA – No. 38,640 shares (0%)  Toro Assicurazioni SpA - No. 8,923,725 shares (0.17%)	<b>279,254,003</b>	<b>5.34</b>
3	<b>Ragione di Gilberto Benetton &amp; C.</b> Indirectly held, through EDIZIONE HOLDING S.p.A.	<b>241,614,636</b>	<b>4.62</b>
4	<b>MEDIOBANCA S.P.A.</b>	<b>233,001,859</b>	<b>4.45</b>



No. 82,779,266 shares through Generali Vita S.p.A.		
<b>CAPITALIA PARTECIPAZIONI S.p.A.</b>	<b>81,665,400</b>	<b>1.56</b>
<b>INTESA SAN PAOLO S.p.A.</b>	<b>81,665,400</b>	<b>1.56</b>
<b>Massimo MORATTI</b> of which No. 37,420,339 shares through CMC S.p.A. and No. 11,328,318 shares held by the trustee Istifid S.p.A.	<b>60,300,084</b>	<b>1.15</b>
<b>SINPAR HOLDING S.A. - SINPAR S.p.A.</b> No. 19,797,563 shares assigned by Sinpar Holding S.A. and No. 12,251,000 shares assigned by Sinpar S.p.A.	<b>32,048,563</b>	<b>0.61</b>
<b>Total</b>	<b>2,418,590,510</b>	<b>46.20</b>

- And he states that:

-- all directors of the board are present except Mr. Angelici,

Mr. Benetton, Mr. Giarda, Mr. Libonati, Mr. Moratti, Mr. Perissinotto and Mr. Vagnone, who justified their absence, whereas; Mr. Secchi will join the meeting and Mr. Galateri will leave before the end of the meeting;

-- the entire board of auditors is present ;

-- the representative of the savings shareholders, the lawyer, Mr. Giovanni Pecorella is present;

-- the representatives of the auditing company, information organs, experts and financial analysts and meeting assistance staff are all present ;

- recalls that that the meeting on the 11th of March 2004 approved the meeting regulations, a copy of which is provided on page.101 onwards in the financial statement file. The file also contains the corporate charter from page 253 onwards;

- based on the legal right and the rules of procedure, in order to allow the participation of all those present, recommends that only statements pertaining to the agenda item should be made, as well as reminding the audience that each speaker is allotted 15 minutes and is to respect this limit so as to allow for a smooth and correct functioning of the session;

- reminds all shareholders who wish to address the points of the agenda, to sign up using the relevant forms that are provided upon entry. When called, they should speak from the mike placed on the right-hand side of the President and not start speaking from the galleries, in order to allow everybody the chance to listen; those who wish to leave the room at any point, even briefly, are requested to point that out at the check desks placed at the exit and to give back their participation tags to personnel in charge.;

- informs that in order to facilitate the recording of those present at the meeting and the voting procedures , the firm shall be using an optical reading system for the poll cards provided with the forms given to all shareholders upon entry into the room;

- informs, that there is a recording device that is working, in order to assist in drafting the minutes of the meeting . A simultaneous translation service from Italian to English and English to Italian is also available. (headphones are available at the entrance doors);

- clarifies that all personal data that has been collected for registration shall be used only for the smooth functioning of the meeting and the minutes. All personal data shall be used with respect to privacy norms.

- reminds that shareholders are not allowed to make audio and video recordings of the sessions;

- As all the documentation regarding the points on the agenda have been provided to the public (through the website) and sent to those who participated in at least one of the last three meetings and been provided to all upon entry, the President informs that as per custom, the reading of the material shall be foregone.

Before moving to the first topic of the agenda the **President** states his desire to make some points, which are hereby recorded below.

The Group's performance, from an industrial point of view, has been positive in all areas: from tyres to real estate, from the new initiatives with broadband to the environment. All sectors show growth and an increase in profitability.

With regard to the stake in Telecom Italia S.p.A. ("Telecom Italia"), after a round of reorganization in the Group, that also led to the merger between Telecom Italia and Telecom Italia Mobile S.p.A. (TIM), starting in spring 2006, new strategies and a new road to expansion were assessed. One could see that the world was changing and that new technologies and services were starting to take up traditional spaces, generally serviced only by the Telecommunication sector.

Bearing in mind the path and the strategies, relations with the most important media operator, News Corp. (Murdoch) were initiated, with a view to enhance the geographical scope and the type of activities undertaken. After an initial period in which the collaboration led to some good results, Telecom Italia found itself in an atypical situation, faced with difficulties regarding moves on its network, as well as due to the media that placed it under considerable pressure, suggesting out of control indebtedness, that too decreasing. The unfavourable media environment for Telecom made negotiations with Murdoch increasingly harder. When other external factors further complicated the difficult scenario, he thought it was better to leave the presidency of Telecom Italia, to avoid a clash between the company and the state's top brass that in the end could end negatively for Telecom itself. Thus, Mr. Guido Rossi took on the Presidency and the situation calmed down in a short period of time.

However, Pirelli, as a shareholder has continued to share the vision of enhancing targets and strategies that the market had appreciated. Thus, talks with Telefonica were started and the latter parallelly and directly carried them out with Telecom Italia. However, some internal and external elements of interference let the talks to an unsuccessful end. Such events led Pirelli to believe that it was not in a position anymore to assist in the growth of Telecom Italia.

Thus, the decision was taken that the time had come to enhance the value of the stake in the said firm, held through Olimpia S.p.A., also considering the devaluation that took place in November 2006, due to uncertainties that affected the whole Telecommunication world, even though attempts were made to overcome the problem by looking for strategic allies. The decision taken in March 2007, to sell the complete stake in Olimpia, does not directly imply Pirelli's willingness to see at a given price, but to only sell at a price that at least reflects the value that the competitors of Telecom Italia bestow upon the said company. At this point many interlocutors were attracted and the most important ones, from the industry were AT & T and América Móvil. There were interferences also during this set of negotiations, as a result after 15 days of talks AT & T decided to leave the table. The aforementioned interferences generated an uncertain and unreliable setting that was not easily comprehensible for the important American operator.

However, the talks with the Mexican firm, América Móvil, are still open as well as other options: a precise timeframe cannot be hypothesized, although the operation in Telecom Italia is a chance to garner liquidity that will allow to develop the Group's traditional activities, which show promising openings in the future, Pirelli is not in a hurry because the structure of the company is solid.

Furthermore, Mr. Tronchetti Provera carries on, from an industrial and managerial point of view, the investment in Telecom is positive. At the point of acquisition the structure of the Olivetti / Telecom

Group had an extended chain of command, with a large part of the debt placed in the higher part of the structure. Management led to debts of about 42 billion Euros, 18 billion were debited to Olivetti, that to a large extent was a non-operational company. We managed to have two mergers and obtain results that were better than those of European competitors. After all, AT & T, as well as all the other observers view the company as being the most advanced company in Europe when it comes technology and one of the best in the world in terms of profitability. Thus, recognition and thanks are extended to all collaborators who assisted in reaching these results. Unfortunately, due to the general uncertainty that reigns, the market has not recognized these results, in a context in which the quotation expresses a 5x multiple with respect to the EBITDA, whilst in the utilities sector the multiples should be somewhere along the lines of 9x or 10x.

Many debates and interpretations were put forward whilst the events unfolded. There was also a lack of knowledge about the facts. Some complained about the existence of unsustainable debts, whilst others went as far as suggesting that the situation could have been defined as akin to "Cirio and Parmalat". But, on the contrary, Telecom Italia has always been a healthy enterprise, that had and has nothing to do with the situation that was generated in the mentioned companies. It was also said that Pirelli's investment was carried out through the so-called "Chinese boxes" system: but the structure of the Pirelli / Telecom Italia Group includes the major Italian listed companies and the structure of both the groups has been visibly simplified over the last couple of years, due to the merger between Pirelli & C. S.a.p.A. and Pirelli S.p.A., between Telecom Italia and Olivetti first and then with Telecom Italia Mobile.

Further doubts were raised about the level of investment, in spite of the fact that Telecom Italia, between 2002 and 2006 was the European Telecommunication company with the highest amount of investments, with engagements of 17% of its turnover, compared to the European average of about 13%. The network is one of the most advanced in Europe, this is a fact recognized by the competitors and the financial analysts. Furthermore, what occurred was that emphasis was laid on a series of generalizations that attempted to debase the value of the company, its work and the management. He reaffirms that the management was very positive both in Pirelli and Telecom Italia and once more merit should be given to the collaborators who helped to achieve this.

The President spends a minute on the Public Prosecutor's investigation that helped to bring to the surface all the facts and serious actions that cannot be buried involving the collaborators and managers of Pirelli as well as Telecom Italia.

He underlines that Pirelli's behaviour has always been directed along the lines of full collaboration and transparency with the investigating judiciary: the firm provided full and complete collaboration from the beginning and it will keep on doing so.

Documents and information have been provided and all the material has been deemed as useful and certified as comprehensive and correct by the judicial authorities. Since day one, the firm's intention has been to contribute to the investigation without any reserve and the intention of covering up anyone, convinced that the judiciary is the only competent authority that can determine the facts and uncover those responsible. To date, the firm is recognised as a subject at fault and its offence has been checked. The major offence being embezzlement, yet no charges have been made by the judiciary. It is true that all internal checks and control procedures have been bypassed and eluded.

The President states that his words are an acceptance of the fact and that he does not in any way wish to diminish the seriousness of what has happened nor does it mean to renounce that more be done and in a better way. He is aware that serious damages have been caused above all to the image of the firm, besides creating problems, disturbances and inconvenience. And all shareholders, employees and maybe also citizens have been involved in these issues negatively. Faced with this he wishes to express his personal apologies, that of the firm, its managers and directors. This can surely seem of no value,

but it is not a formal gesture, but a sincere expression of what he believes should be done at such a time.

And the President of Pirelli states that the whole scenario is very serious, because Pirelli has always believed that its strength lies in the ethics, transparency and the feeling of belongingness that employees feel for the firm. He concludes, these values remain and are the firm's strong point, providing those who work for it with the strength to move on, inspite of all obstacles.

\* \* \*

Before moving to the first point on the agenda, that states “. **Balance sheet as on the 31st of December 2006. Decisions regarding or following from the same**” informs that PricewaterhouseCoopers S.p.A's charges:

- for the auditing of the 2006 final accounts of Pirelli & C. S.p.A. are equal to 87.000 Euros for a total of 960 hours;
- for the auditing of the 2006 consolidated balance sheet of the Pirelli & C. S.p.A. Group are equal to 144.000 Euros for a total of 1.470 hours;
- for the review of the Pirelli & C. S.p.A six-monthly report is equal to 76.000 Euros for a total of 790 hours;

- the hours and the charges for the account auditing also include activities as article 155, comma 1, letter a) of the Legislative Decree n.58/1998 specifies, related to the inspection throughout the year of the correct keeping of the books. Said charges do not include direct costs and secretarial charges that are dealt with in a “pay as you go” method;

Having said that the President declares the debate open and recommends that statements made should be pertaining to the agenda item. He reminds the audience that each speaker is allotted 15 minutes; at the end of the question and answer process and after eventually exercising a right to reply, it will be possible to express voting preferences.

**Mr. Benoffi**, after congratulating the firm and its good performance in the tyre and Real Estate sector, states that he wishes to address the stake in Olimpia, making it clear that he will take complete responsibility for his words, the same is true for the letters he has written to the Sole 24

Ore, in the info section and to the Financial Times.

He clarifies that he did not urge any delegation, unlike some who did so for the Telecom Italia meeting, even through an announcement on Sole 24 Ore, but he speaks on a personal level, even if it probably is the view held by many share holders.

He recalls how in his business experience, the word “risk” has always been at the centre of the entrepreneur-manager-shareholder triangle, in an economic sense as well as attributed by Hegel in the “Phenomenology of spirit”: those who have had such an experience cannot but sympathize with the President, for what he has achieved from 2001 to date. He recalls that in 2001, he, Benoffi, had congratulated Mr. Tronchetti Provera for his decision to invest the resources gained from the transfer of Optical technologies into the Telecommunication sector. He underlines that it was an industrial investment, despite what some have claimed in recent interviews.

At that point, he was glad about the investment in Telecom Italia (it was not possible to foresee events such as September 11, 2001), overcoming the introversion which he has always felt, due to direct experience, about moves or operations that can allow the intrusion of politicians and bureaucrats.

Mr. Benoffi continues, Telecom Italia, was poorly managed after the public purchase offer that had burdened it with debts, due to investments that were excessively diversified; hence, the company needed a culture that was surely present at Pirelli. And, in fact Pirelli's management has shown how a turn around can be directed. The “crazy” investments were divested and investments were made in the core business, this up till 2004, when the Authority and TAR (regional administrative court) started raising opposition, supposedly in name of competition but in reality against the consumer interests.

There are many theories about competition: but the users (along with Senator Sherman, since 1890) believe that competition is a process thanks to which consumers can achieve the best possible

conditions. On the other hand, a different process has begun, aimed at protecting the so-called alternative suppliers and traders, a situation has been created where a firm that rightfully owns a network is called upon by the authorities and the latter claim to dictate usage norms upon the network. Mr. Benoffi observes that the situation that has come about would be similar if in the commodities sector (lets say aluminium) restrictions were posed on producers that owned plants regarding the premiums given to encourage traders: and the telephone market is basically a zero variable cost commodity, the sale of which aims to cover the depreciation of constructed systems and plants, to make newer ones.

The current practice can be seen as a part of the theory of predatory prices, a theory that was torn apart by Pascal Salin, it was used in the past to defend small shopkeepers from the birth of big supermarkets. Still, this form has fallen out of use even in the US. He reminds that before the second world war Alcoa was also condemned for having practiced prices that were too low and that before becoming the Chairman of the FED Alan Greenspan had also written a piece criticizing similar policies. However, the trend seems still to be present in Italy. When Telecom Italia, following the merger between fixed and mobile, went on the market trying to make the best out of this merger, the authorities opposed this and placed their ban. Just like they did afterwards, they blocked contacts with Murdoch and with Telefonica. Now, suffering from some sort of “visual deficiency”, they’re trying to tamper with the network that has been bought and paid for.

Mr. Benoffi talks about an article by Antonella Olivieri, dated the 20<sup>th</sup> of March, all the opposition and interference faced by Telecom Italia, including the so called “Rovati plan” have been delineated.

Faced with this set of events, the question that remains to be asked is “who wins” and “who loses”: the answer to the latter is apparently simple, because it all negatively affects Pirelli and Camfin shareholders.

He recalls the work of Carlo Maria Cipolla “allegro ma non troppo”, that speaks about people who try to obtain little advantages but create a lot of damage.

Benoffi concludes by expressing his thanks to the President and encouraging him to stay on the track he has chosen.

**Mr. Cini**, first of all questions whether it would be possible at least to propose the distribution of dividends for savings shares, he asks what are the forecasts in terms of dividends for the future. Carrying on he asks how much the accumulation on the savings shares will come to and if more cannot be done in the alternative energy sector with Pirelli Ambiente. He also questions the President about how many Telecom Italia shares he personally owns.

After having asked information regarding JP Morgan’s role in the negotiations with AT&T and América Móvil, he asks if there is any news about the premise of a fraud in the acquisition of Telecom Italia and if the hypothesis of a break-off from Pirelli is concrete.

Mr. Cini further reminds how during the last meeting he had urged the President to consider the possibility of selling Telecom Italia: today that hypothesis is concrete, although faced with a lot of indifference from the politicians. He points out how there are many voices urging and wishing that a good buyer with adequate resources will be found: Still, Pirelli had already found resourceful American and Mexican parties, valid in terms of entrepreneurial and financial qualities. Hence, he questions if there is any lowering tactic in place to “whisk away” Telecom Italia from Pirelli at a slightly higher price than 2 Euros per share.

Discussing some recent events about the Pirelli share, he recalls how he had also felt fear on that Monday when the share value fell considerably and how he had also sold a part of his stake: there were rumours about slush funds, foreign accounts and maybe, he says, the President could have intervened earlier and before he did in the evening.

Mr. Cini mentions a couple of operations, such as the sale of the Cables and Systems (Cavi e sistemi) sector, the transfer of a part of the stake in Pirelli & C. Real Estate, the attempt to list Pirelli, the public

purchase offer for TIM, the investment in Inter: he notes that a lot has been spent and that the President did not defend these choices as strongly as he could have in terms of communication. He also notes that the resources used for Telecom Italia, could have been invested by Pirelli in other stakes with better economic returns.

He asks for more information about real-estate acquisition from Telecom Italia, specifically asking if the acquisitions were made at market prices. Moreover, according to him, those who charge Pirelli of having been both buyer and seller of the same real-estate properties, should be reminded that the real-estate selling operations carried out by the state also work in the same way, thus as the situation is similar he recognizes in some the interest in a stake in Olimpia.

With reference to Olimpia, he asks if the pre-emption rights have been decided for the sale to the Benetton Group.

Mr. Cini congratulates those who helped to attain such important results in the real-estate and tyre sector and also for the attention and the effort in sustainable development.

In closing his address, he recalls that in a back dated article on the Corriere della Sera there was a positive comment on salary raises for mechanical working staff, a pay rise that however led to the dismissal of 50.000 workers.

As a final note, he requests that Telecom Italia shares should not be sold at less than 3 Euros each and that if what comes out of the telephone recordings were to be true, the President should have resigned also from Pirelli.

**Mr. Borlenghi**, notes how the country has finally started to grow, the GDP has grown by 20% in 2006. To assist this recovery the government should follow upon the path of deregulation, eliminating all sorts of colluding elements and emphasizing the competitive elements, especially in the public service sector, energy and free enterprise.

Moving onto the financial statement figures, the shareholder notes that returns are satisfactory, accompanied by a growth in managerial performance, the latter gives hope and promises a brighter future. Pirelli has also increased its international presence in all its operating fields.

Thus, he enquires if there are any plans at Mediobanca that foresee a separation between tyres, real-estate and the Telecommunication sector and if such a plan would be eventually acceptable for the President.

Mr. Borlenghi carries on by stating that AT&T from America has communicated that, if politics were to take a step back, the company would be then willing to take another look at Telecom Italia's dossier/file, in the meantime he says the Government has stated that it does not wish to interfere with the market and the banks are setting up a concert party to acquire the stake. He enquires for more information regarding this point.

**Mr. Antolini** stresses how in the first half 2006, Pirelli has put in a lot of effort into its subsidiary, Olimpia: Hopa has been wound up Banca Intesa and Unicredito Italiano's stakes have been acquired. All in all, the first part of the financial year has been focused on the simple of management of the firm's investments and assets.

Nevertheless, in the meantime, Telecom Italia's debts have started to grow: he reminds how he had already claimed a year ago that the company could not keep on distributing a large part its net profits, as they were required to gain further profits with a view to reduce existing debt.

He recalls that in the second half of the year the President and the Board of Telecom Italia put forth a reorganization plan for the Telecom Group. It hypothesized a possibility of disincorporation of the network with a sale of assets. Mr. Antolini asserts that all "hell broke loose" when the project was introduced and that the shareholders are in the dark about the whole issue. He asks the President to give more information on this point.

The events went out of hand after the President received a letter from a person close to the Presidency of the Council of Ministers was printed in the newspapers, all control was lost, until the President

resigned in mid September 2006. According to him it was a very serious matter; Considering that Telecom Italia's 2006 financial position was the best among its European competitors, he wonders if the resignation was demanded through un-democratic means, and questions if any threats were involved. Mr. Antolini enquires about what actually happened, why the Italian Financial and entrepreneurial community was attacked, along with stigmatization of some statements about "the role" of entrepreneurs by Government representatives.

Carrying on he deems that members of the Pirelli voting trust do not have a common vision about the future of the firm or about Telecom Italia, he questions this. As he sees it, there is no need to organize a concert party to take-over Telecom Italia, the only thing required is to keep on working, rolling the sleeves and cutting down on distribution of dividends: in a couple of years debts could be limited and the could increase its value.

He states that Pirelli controls Telecom Italia, and that it continues to be the best company of the sector in Europe: hence, the reasons for a sale must be far from industrial and the shareholders should be informed about the same. Furthermore, he calls upon shareholders to put aside their differences, so as to give Mr. Tronchetti Provera the maximum support to keep Pirelli's stake in

Telecom Italia. He reaffirms that renouncing on dividends shareholders are used to, for just a while and cutting down on, what he deems to be excessive emoluments and stock options for Directors will be enough.

**Mr. Rimbotti**, after calling for a role call to check on the presence of Directors in the room, notes that the year 2006 for Pirelli can be defined as a "horrible" year, for the reasons delineated in the financial statement file and by the President. Still the question remains, why was the investment in Telecom Italia made and why was the stake increased during the course of the year. He asks the President to point out what aims the Board was seeking to reach regarding the investment, which according to him has caused a total loss of 5 billion Euros.

Regarding the events that see the involvement of Mr. Tavaroli, he points out that the internal audit committee realized what had happened only after the firm had filed a complaint with the judiciary, providing them with all the relevant documentation. The latest injunctions by the preliminary investigation magistrate seem to suggest some sort of Pirelli involvement: Thus, the question that arises is whether the Board ( with regard to which he points out the absence of some of its members) and the Auditing Committee have actually fulfilled their responsibilities, at least in terms of vigilance and monitoring activities.

He carries on by stating that the Compensations for Directors amount to 30 million Euros, this is a large sum and far from what was decided in the past meeting, just like in other companies.

**Mr. Cavalli**, starts off, as in the past, by stating that he will vote against, explaining it by connecting his decision to the Telecom Italia investment as well as to the fact that he is a shareholder of Pirelli S.p.A., which according to him was extremely affected by the merger with Pirelli & C. S.p.A..

Talking about the management of Telecom Italia, he points out that the Corriere della Sera has an article today reporting that the financial brokers asked to give their view on a scale from one to ten, regarding the management gave it a 4.7. Referring to the ethical principles which the President mentioned he states how in the early days of Mr. Tronchetti Provera's Presidency the firm faced large losses from the write-off of "portage", which the President himself had to manage. He recalls that when the President took office, Pirelli was facing serious difficulties and it had to go through huge capital injections: fifteen years on, there has not been a satisfactory growth in value and maybe more resources have been spent rather than dividends gained. From 2001 to this day, there have been losses of about 60-70%. This loss occurred in a period that was favourable for world markets: for example in 2001 Italmobiliare's ( he had strongly urged for its acquisition) savings shares were priced at 20 Euros, whilst today they are worth 70. Mr. Cavalli states that, in the last couple of years the performance of industrial firms has been very positive, for example, since its sale, Pirelli Cavi

(Cables) today has doubled its value. According to Mr. Cavalli the figures presented indicate a lack of strategy, a deficiency, that according to him should be reason enough for the President to resign.

Moving on he refers to the breakaway plan which the newspapers have attributed to Mediobanca, the said hypothesis has also caused a substantial fall in Pirelli shares and a strong rise in

Camfin: He asks if there is any truth behind this hypothetical plan and if Mediobanca would actually be allowed to in a vote if a similar plan were to be presented at a general meeting. As he sees it the hypothesis would be clearly against the Firm's plans.

He further enquires if it is true that in case of a take over move on Pirelli, the buyer would have to provide Benetton with three times the monetary value for Olimpia or Telecom shares: if it were so, the clause would penalize Pirelli shareholders, as they would benefit anyway, in case someone decided to offer for example, let's say 2 Euros to take over the firm.

Referring to the recent resignation from the Presidency of Telecom Italia, he points out how the Benetton Group suffered damages due to political interference, but also how there were no resignations, on the contrary action against the Government was encouraged.

Once again referring to Telecom Italia, he asserts that according to him when the choice was made to nominate Mr. Guido Rossi as President, it should have been clear and well known that he would not have accepted any indication coming from the outside: in any case, he enquires about the real reasons for the resignation, reaffirming that according to him Mr. Tronchetti Provera should have taken action against the Government and anyhow carried on with his sale plans, also with the protection of EU authorities. **Mr. Cavalli** enquires how much was spent on the listing of Pirelli Tyre, which finally did not work out.

He states that he has learned from Mr. Carlo De Benedetti (engineer) that in 2001 he was against investing in Telecom Italia: he asks if this is true or not. He poses another question regarding Mr. De Benedetti, whether the considerable remunerations he received in 2000 and 2001 have been re-invested into the firm. As a final point he talks about the positions of "Pirellona's" ex-shareholders, to underline that they will never again, not even if the share value doubles. Regarding this point he recalls the takings at that time, equal to billion and 760 million dollars, the value corresponds to €2.37 per share

**Mr. Cardillo** states that first of all, he wishes to commemorate the Honorary President Leopoldo Pirelli. The President, takes up this remark and states that he wishes to address some words on the matter before the closing of the meeting.

Mr. Cardillo takes the floor again and with the eyes of a minority shareholder recalls the figure of the Honorary President, as a man who held the company's interests very close to his heart and at a certain point was forced to step aside without any specific fault, if not that of not having a lot of shares and having to suffer Mediobanca's role, which would become increasingly important for the firm.

Mr. Cardillo states that Mr. Ligresti also used to say that, Pirelli is a firm that has always operated and lived under the direct orders of Mediobanca, the latter has played a key role without exposing itself too much on the outside or rather maintaining a constant hold on the capital. He carries on by saying that he has studied the merger between Pirelli S.p.A. and Pirelli & C. S.p.A. for three years and that according to him it is an operation "masterminded" by Mediobanca. He states that because of it, the shareholders of "Pirellona" will enter into the history books as the most damaged shareholders in the history of stock markets.

The operation was meant to merge a company with a capital of 383 million Euros into a much bigger company, with a corporate capital of more than 1 billion Euros. The ratio was supposed to be 1 to 3, but before other market operations such as the optical operation, the ratio was 7-8 to 1. Furthermore, during the merger, the shares held by Pirelli Luxembourg were valued at 4 Euros each as per balance sheet data, as it was not deemed that they needed to be valued lower. On the other hand, the shares of

“small” Pirelli S.p.A. shareholders were valued at 90 cents. He claims that the operation was something incredible.

He states that the astonishing fact is the role of the supervisors, such as the Consob and even more stunning is that at the meeting that approved the merger, the decisive vote was that of the Banca d'Italia.(Bank of Italy)

Carrying on Mr. Cardillo notes how today Mr. Tronchetti seems to be a victim of the system just like Mr. Colaninno had been a victim when he was forced to give up on Telecom Italia due to a change in the Government. Regarding the issue he reminds everyone that still today the Charter of Telecom Italia gives the State the right to block the entry of new members that wish to have a stake greater than 3%. Hence, till this rule rests in place the Government will have the right to intervene in the telephone company's ownership changes.

He returns to the Pirelli merger issue, to underline how many more hours of work will be needed to assess the large quantity of information that he has acquired and studied: he has thus decided to create a committee to protect Pirelli S.p.A. related to the merger and not just for a question of monetary claims, but more so, he says for a question of dignity. After all the Firm's turnover in 1997 was 5.8 billion Euros and it employed 36000 people: today turnover is of 4.8 billion Euros with 25000 employees and 3000 temporary workers.

Leopoldo Pirelli had shown quite a lot of interest and was close to the firm and he would never have divested anything. But the entry of Mr. Tronchetti led to disinvestments from mattresses to Superga.

Mr. Cardillo is particularly critical about the sale of Cavi (cables), he had strongly objected the move last year even by placing a complaint to the Board of auditors although he could not participate in the meeting due to a mistake made by his bank.

After asserting that the Security issue has been highly damaging considering all the talk about ethics, industrial culture and corporate governance; he claims that there is a plan to eliminate Mr.Tronchetti Provera, as with Mr.Leopoldo Pirelli: it's a similar operation and a result of an internal struggle within Mediobanca

Speaking on a personal level he says that once he was talking to his other on the phone but the fact that he could be heard led him to stop the conversation. Today he sees that a shareholder who had threatened to complain about the damages he had suffered at Telecom Italia meetings was then monitored at a cost of 16,000 Euros: in relation to this he wishes to know how much has been spent for him, considering that it is ten years that he sits in at Telecom Italia meeting with a strong critical attitude.

After calling on those who wish to recover a part of their losses or at least their dignity, to participate, without major costs, in the committee created by him. Mr. Cardillo proposes a motion on action for liability against the managers.

Before explaining his reasons he recalls that some time ago during a Telecom Italia meeting he had used harsh language (“company of thieves”) referring to some incorrect charges in invoices sent to the firm. In 2001 he wrote to Mr.Tronchetti suggesting that he should ask his vendor for a discount between 1,500 e 3,000 billion liras, emphasizing how a part of revenues were actually the result of improper conduct. The firm actually managed to get a discount from the vendors but the President never thanked Mr.Cardillo for his indications.

Bearing these issues in mind Mr. Cardillo proposes an action for liability against the firm's managers and auditors for not having adequately monitored and checked on the security of Pirelli and Telecom Italia, and hence seriously damaging the firm's image.

The managers and auditors are asked to respond to the charges for not having indicated Mediobanca's hegemonic role through all these years ( he adds that Mediobanca through RCS Mediagroup S.p.A.

influences many shareholders). They are also challenged for not having adequately monitored the conduct of Olimpia and Telecom Italia managers, the latter sold of five or six hundred companies held by Telecom without bringing any benefit to Telecom Italia or its shareholders and thus without creating value for Pirelli, shareholder of Olimpia and its shareholders

Mr. Cardillo carries on to explain his motion for liability, challenging the managers in office from 2001 onwards for not having detected the liabilities related to the Pirelli merger and for not having updated the accounts, actually recorded an important entry such as the stock option received by Mr. Tronchetti as a result of the Optical operation, according to him, these stock options were not due: regarding this point, he reminds that the stock options were worth 516 million Euros, which Pirelli S.p.A. received for the operation.

As a last point he requests Camfin and other shareholders that adhere to the pact to abstain from voting during the voting procedure on the action for liability, as, according to him, they are the ones responsible for the problems he has illustrated.

**Mr. Staffa** recalls that he bought Pirelli shares (as well as Fiat) more than 30 years ago, during the petrol crisis, when share values were modest. He observes that whilst the investment in Fiat has provided excellent results, the same cannot be said for Pirelli. He states that when investing in Pirelli, he decided to have faith in Mr. Tronchetti Provera, by not selling Pirelli shares, even when they would have guaranteed him considerable gains. He continues by saying that his experience is that the firm is not able to make the best of its abilities or that the market does not trust the firm anymore: the failure of the Pirelli tyre listing is proof of the same. Recalling the recent security related issues, he claims that the echoes of the same were felt as far away as Thailand, as he was there during the incident. He enquires whether the nomination of Mr. Rossi was imposed on Mr. Tronchetti or whether it was a free choice.

Finally, he enquires what kind of clearing procedure Mr. Rossi wished to carry out, which he then declared that he was not in a condition to do.

**Ms. Marianna D'Atri** enquires about who carried out the evaluation of Pirelli Tyre and what percentage of income was actually transferred. She asks for explanations regarding the warrant mentioned on page 141 of the financial statement file and when it is going to be entered even though it has not been recorded to date.

With reference to the bid for the ongoing transfer of Unicredit credits, she asks whether it is true that there is a 1.5% penal clause in case of management change, if specific queries have been made to the Antitrust and if there are any further agreements with Unicredit itself.

Calling on the Board of auditors, she asks that they display the evolution of the accountancy for the investment in Olimpia and more specifically the evolution of the accounting principles adopted, the assessment regarding the compulsion to consolidate.

Moving on, she enquires about who carried out the impairment test for the investment and what were the results, in detail.

She asks the President for a pro-forma balance sheet with the value of Telecom Italia at €2.40 and €2.90 per share and if it's possible to have the details of the AT&T offer. Finally she asks for more information on the firm's plant in China.

**Mr. Salmivuori**, takes the floor and speaks in English, the summary in Italian is provided below.

First of all he asks for details regarding services provided to Telecom Italia worth 251 million Euros and as estimate of what the service actually cost Pirelli.

As a second point, he asks for information on the put & call contract on GIM - Generale Industrie Metallurgiche shares and the strategy which the Board has devised for the same.

As a third point he enquires about the dimension of the Cavi (Cable) operations that have been transferred, as well as the role of ex-managers before and after the sale. He asks for more details of the total cash flow for the buyer, a description of who evaluated the sale and if possible to have access to

the official documents. Finally, he asks what was the dividend and EBIT at the moment of sale. The floor is taken by **Mr. Gianfranco D'Atri**, who first of all asks what justifications the missing managers have provided for their absence. Regarding this issue, he notes that given the emoluments the managers enjoy, if they are so busy that they cannot attend the firm's events, then they should not accept the task.

Regarding Olimpia, first of all, he notes that there are many problematic issues, and thus, maybe it is not correct to just criticize the management at any given time. Instead, he believes that all objections should be placed formally to the managers. Referring specifically to the communication issued by the Consob dated 28<sup>th</sup> October 2006, wherein some of the company's choices regarding accountancy were criticized, although lacking coherence as no specific measures were taken by the authority regarding the same. Even if the investigation carried out by the Consob did not result in disciplinary action, according to him the contents of the point are quite serious, considering that the vigilance organ has raised questions about the choices made in the financial statement report for the related accounting period and regarding the consolidated Pirelli report. He asks if the Board of Auditors agrees with the Consob and hence what is their view regarding this mistake, is it the Consob or the Pirelli Board of Directors that is in the wrong, because according to him someone must have made a mistake.

Carrying on with the same point, Mr D'Atri underlines how foreign investors surely do not view political interference positively, the same probably stands for remarks from vigilance organs and that these are elements that encourage them to take their investments elsewhere.

He then states that he agrees with the decision not to confirm Mr. Rossi as the leading man of Telecom Italia, as the latter should have demonstrated a higher standard towards the shareholders, by at least being present at the recently held meeting. He asks what Pirelli's role is in Olimpia and Olimpia's role in Telecom Italia and more specifically what are the procedures that are used to take decisions regarding Telecom Italia. Thus, he wishes to know if the choice regarding the list that was to be presented at the Telecom Italia general meeting was discussed at Pirelli's Board meeting, in case the answer to that is yes, were all the directors against confirming Mr. Rossi.

The Shareholder carries on by stating that Pirelli has always had governance problems and cases such as the Tavaroli case could have been avoided if problems could have been addressed faster. Although he has also read opinions regarding the non-existence of certain problems related to Law. 231, he underlines that in such cases the most important point is to have rapid control procedures in place, as he reminds, he himself had underlined in past occasions. Hence, it is important to learn from the past to face future problems in a more efficient manner.

He requests for further information regarding the high amount of irretrievable taxes and especially why it is deemed that they cannot be retrieved. Regarding employees, he asks if any special impact should be expected as a result of the new norms in terms of financial statements as well as relating with trade unions and if the firm has chosen any specific approaches regarding the management of the TFR.

He finishes his statement by requesting confirmation about the total value of Telecom Italia's debt and how much it costs, taking into account interest as well as added costs related to the management of the indebtedness.

**Mr. Anelli** declares that he shall vote against the financial statement, as he has a negative impression of the management.

However he appreciates the President's apologies at the opening of the meeting as well as his reference to the value of ethics and transparency, the firm needs a strong leader and complete support to wage a war that does not look to be simple.

He closes by stating that it would have been better to commemorate Mr. Leopoldo Pirelli at the beginning and not at the end of the general meeting.

**Mr. Facchetti** explains that he agrees with the choice that has emerged from the list of candidates for Telecom Italia: Mr. Pistorio seems to be the right person to take up the Presidency, he also states that

some of the statements issued by Mr. Rossi regarding his personal connections with the President of Telefonica were not to his liking.

Moreover too many people have expressed their opinion regarding Telecom, this was not appreciated across Europe. He does not even share the attitude of many journalists, who in the last couple of months have spoken negatively about Telecom Italia and Pirelli. According to him all journalists should rather be thanking Pirelli for entering in Telecom Italia in 2001, bearing in mind the corporate structure the Group had before that year. The real error, rather than attribute to Pirelli the price at which the stake in Telecom Italia was acquired, considering the interferences that occurred later, was probably to have believed that Telecom Italia was truly a private company.

Carrying on Mr. Facchetti recalls that among the most critical group of journalists, one has written a book called “Il baco del Corriere”, according to which besides him and Colao, all the others are incompetent. Furthermore according to the journalist, it is not possible to explain why shareholders of the RCS Mediagroup S.p.A. pact did not sell their shares to Ricucci: views/ opinions like these cannot but raise doubts.

Another aspect which baffles him is the behaviour of the Authority: He recalls that Telecom Italia promoted the merger with Tim to launch Unico. However, at the moment of the launch, the initiative was blocked by the Authority. On the other hand, at the same time, Vodafone was promoting its one number strategy that allowed to move the fixed phone number onto the cell phone: And yet these adverts were on air for weeks without a word from the Authority, if not at the end of the advertising campaign.

He recalls that the President of the antitrust claimed how Mediaset and RAI could not drop below the 93% mark of advertising sales, because otherwise development would have been impaired. One however must ask, says Facchetti, about the number of employees Telecom Italia will have to lay off due to the application of asymmetric rules.

Referring to the attitude of the press, once again, he recalls a TV programme in which the journalist Mucchetti was participating and where the discussion was moving around the so-called billions “burnt” by Pirelli and Telecom Italia. He points out that even if it is true that Pirelli stock suffered after the negative quotation of Telecom Italia, he cannot see why one should say that Telecom Italian “burnt” its resources, considering that it has always distributed dividends to all its shareholders.

And even if Telecom Italia gave out more dividends than its profits, one must remember how other companies, such as for example Fastweb paid dividends without ever having any profits, Mr. Facchetti notes that in the example mentioned, the dividends distributed went to benefit a majority shareholder that does not even reside in Italy.

Coming to the end of his speaking time, he asks for information regarding the recent transfer of warrants to Goldman Sachs, asking specifically if the transfer led to any gains. Another question which he poses is, if there are any Pirelli Finance (Luxembourg) financings set to expire in January, February, March 2007 and if these have been reimbursed.

As his last question he wishes to know what the Dutch company SIPIR is. It distributed dividends worth 7 million Euros in 2006 compared to dividends worth 147 million Euros in 2005.

As no one asks to take the floor, the President steps in to explain, first of all, that he wanted to move the commemoration of Mr. Leopoldo Pirelli to the end of the meeting, sure about the fact that he was putting into place the same spirit of the man, who himself would have done the same. Thus, the President suspends the session also in order to prepare the answers for the questions raised (1,00 pm).

The session begins at 1.20 pm, **Mr. Marco Tronchetti Provera** provides answers to the questions posed, as reported below.

First of all he thanks Mr. Benoffi for his comments, that provide a good round up of the situation the firm is currently facing.

On the issue, brought up by many speakers, regarding the relation between the industrial/economic sphere and Political institutions, the President underlines that the only important point is that each one does its duty showing respect towards the other, with a view to collaborating to modernize the country. He states that he has always put in a constant effort to assist and strengthen the rules and principles of transparency as proven by what has been done regarding the so called vertical organization; and he has been constantly open to dialogue between shareholders, markets and the business world.

Mr. Tronchetti Provera emphasizes that in discussing these issues, it is absolutely necessary that the dialogue be based on the issue of competence, avoiding all sorts of other commonplace ideas as well as demagogic behaviours which generally accompany electoral campaigns. Companies are not and cannot be centres of political consensus, they require competence: thus, it is disappointing to note how even representatives of the industrial world sometimes comment on issues they do not understand and that too using tones which are like political slogans.

It is an attitude that reveals immaturity, sometimes also of the whole industry. Thus, the willingness to sit around a table and discuss these issues seriously and in a competent manner with a view to help the growth and modernization of the country is always an option.

Having said that, the President moves onto address the issues that were raised during the earlier speeches. Regarding the point made by Mr. Cini, first of all he points out that the results of the financial year have not allowed the distribution of dividends, not even for the savings shares: the privileged dividends for those shares at the rate of 7% of the nominal value can thus- as per the charter- be accumulated in the following 2 financial years. With regard to the hypothesis of a possible division of Pirelli, first of all, he points out that any operation regarding Pirelli & C. capital shall be done with a view to benefit all of its shareholders. However at this point, there are no projects/plans for a division of the firm and in any case, he reaffirms that projects that do not take into consideration the totality of shareholders will not be considered.

Referring to his personal Telecom Italia shares, he informs that he holds 2 million common shares acquired at a price of € 2,58 Euro each and another 1 million savings shares acquired at €2,18 Euro each.

He carries on by referring to Olimpia's corporate charter, as it contemplates a pre-emptive right for all shareholders, that can be exercised on shares that a shareholder wishes to transfer to third-parties.

Regarding his resignation from Telecom Italia( responding to Mr. Cini) , the President confirms that his decision was based on the need to protect the firm at a time of difficult institutional relations: hence, the decision did not have anything to do with the security issue. Consequently there is no possible relation with the hypothetical resignation from Pirelli. The resignation from Telecom Italia was meant to avoid a situation that could inhibit the share's ability to improve its value due to clashes with the institutional heads of a country.

Moving onto the issues raised by Mr. Borlenghi, the President states that like everybody else he has also read about concert parties ready to acquire stakes in Olimpia. He hopes to receive interesting offers for Pirelli, coming from partners who will be able to assure some added value for Telecom Italia and its shareholders.

In answering Mr. Antolini's question, Mr. Tronchetti Provera states that the Pirelli BoD, all its members, have always unanimously approved the proposals related to the investment in Telecom Italia, including the decision to consider an eventual increase in value of the same.

There have been no contrasts, not even within the voting trust on merit based choices up to this day. He adds that that does not exclude moments when differences of opinion require intense dialogue, in which case, those who have close contact with the points of discussion can provide the most complete view regarding events.

He states that the decision to transfer all or a part of the stake in Olimpia has nothing to do with Pirelli or Telecom Italia's debts. Rather, he re-affirms that all the attempts made to enhance the value of

Telecom Italia were in one way or the other blocked: by recognizing the reality of the situation, the only managerial choice available to protect the value of Pirelli's stake turned out to be to put it up for sale.

Carrying on to address Mr. Antolini's enquiries, the President takes the time to discuss Telecom Italia's dividend distribution policies, to emphasize first of all, that its distribution was never exclusively directed to serve Olimpia's needs, the latter can actually pay its interests on its debts and maintain profits even with the distribution of half the dividends distributed by Telecom Italia.

Moreover, Olimpia itself has never distributed profits in favour of Pirelli. Rather, after a series of financial terms in which distribution of profits had been around average it was during the last accounting period that the need to provide a signal of trust regarding Telecom Italia's ability to earn arose. The decision to increase the dividend was taken following contacts with institutional investors, not just Italians, a decision that however never went against the amount of investment, as they were always higher than that of European competitors.

Carrying on, the President refers to the Security issue (Mr. Ribotti) to remind that before the 20<sup>th</sup> of September 2006 the firm only knew that Mr. Tavaroli had been warned that he was being investigated in a penal case for criminal association aimed at violating official secrets. Due to the highest esteem in which the individual was held internally, it was not possible to know what would have come out of this issue. He points that the same stands for Mr. Iezzi, who till then was not being investigated.

Having said that, he notes that in the early months of 2006, the firm gave an external lawyer the mandate to verify the invoices related to professional services and consultancies requested by companies part of the Polis d'Istituto Group, it had come to be known that the latter were possibly involved in a judicial investigation. Following from this, in line with the firm's policy of absolute collaboration and transparency with the judiciary, a legal representative on behalf of the firm deposited a memorandum at the public prosecutor's office of Milan and then as soon as possible (last July) the committee for internal control and corporate governance, the Board of Auditors and the Board of directors was informed about the matter.

The activities of the Board of Auditors and the committee are available in the report on the firm's corporate governance and the Board of Auditor's report, attached to the financial statement file respectively on page.72 and page.245.

With regard to the Security issue and in particular the supposed fault of managers and the auditing company, the President points out that he simply wishes to reconstruct the facts/series of events.

He underlines that the case has to do with unfaithful employees, who abused the power given to them and eluded existing control systems to pursue goals that are unknown to the firm.

The Board and the auditing company are called to answer for lack of vigilance (in any case insufficient vigilance). One cannot talk about lack of control or procedures when it comes to people; unfortunately, there are no controls or procedures that cannot be baffled or violated, especially by those in high positions in the organization. And this is true for all organizations: even with the pain of this case of fraudulent use of one's rights, unfortunately, there is always a chance of violation and abuse.

He points out however, that in April-May 2006 the cycle of security activities was audited and that areas of improvement were discovered and where necessary the application of corrective measures has started. He adds that as far as he is concerned, his conscience is clear, he does not feel responsible for what happened. He goes on to state that he feels deceived by the people and just like the company, damaged and a victim.

Carrying on with the answers, the President takes a moment to talk about compensations, to underline that the figure mentioned by Mr. Rimbotti included not just the compensation provided by Pirelli & C. but also those provided by other members of the Group in which the directors have another office. He points out for example that nearly all of Vice President Puri Negri's compensations are for the roles he

fills at the Pirelli & C. Real Estate Group . As for Mr. Buora, the emoluments are mainly for the end of his collaboration period with the firm.

He clarifies, that as shown on 68 of the financial statement file, ) managers who hold particularly relevant offices (such as the President, Alberto Pirelli and Carlo Puri Negri: Vice President, and Carlo Buora: CEO till he resigns) have a remuneration accorded to them by the general meeting of shareholders (which the Board has decided to set at 50.000 Euro each, annually, and an extra figure for those who are in the committees) as well as a remuneration established upon proposal of the remuneration committee, agreed upon by the Board after consulting the Auditing committee.

The committee carried out its evaluation with the assistance of a top consulting firm that annually provides figures regarding top level compensations comparing the market for over 200 firms across the continent that have a higher than one billion capitalization level. He concludes on this point by stating that the same procedure has been adopted to decide on retribution figures for Directors.

Regarding the presence of managers at the meeting, the President points out that besides the absences indicated in the beginning, the notary has been informed that Mr. Moratti will be absent and he personally asked to be excused; Mr. Secchi arrived at the meeting a few minutes late.

Mr. Tronchetti Provera moves on to answer Mr. Cavalli's enquiries by providing an example on how to measure share performance. For example starting in 1993, the total annual performance of the Pirelli & C. share stock can be estimated, by reinvesting the dividends into shares, equal to 5.9%. The simple rise in the share, without reinvestment of dividends was around 3.6%. It is a well known fact that the share has suffered in the last 5 years due to the performance of the Telecommunication sector. And if one looks at the low multiples on the sector EBITDA, then it can be said that share performance has been better than that of the average competitor.

After all, the President continues, if one refers to the cavi (Cables), he will remember the segment was put on sale the first time at about 700 million Euros. The sale offer was then retracted and when after a few years the operation was closed, the selling price was nearly double, with multiples higher than sector standards in that period. Today, however, due to a substantial increase in the price of copper- a structural change of the market that obviously could not be foreseen- the multiple has jumped up further to ten.

Mr. De Benedetti's settlement in 2001 were deposited to Carlo De Benedetti e figli S.p.A., whilst in 2002 they were deposited to Romed S.p.A.

Getting back to the discussion on Cavi (Cables) ,Mr. Tronchetti Provera precisely recalls that the transfer to Goldman Sachs occurred in 2005, with favourable conditions at an expected EBITDA multiple of about 4.9x compared to the competitor, Nexan's multiple at about 4.3x. he re-affirms that the current quotations of the companies in this sector are affected by the re-rating, that has caused a substantial redoubling of the multiple.

The agreements regarding Olimpia (Mr. Cavalli) which are publicly available, foresee a put on shares held by Sintonia and can be exercised against Pirelli, in case of a change in control.

With regard to Mr. De Benedetti's position regarding the 2001 operations, the President recalls the letter Mr. De Benedetti sent him was reserved and that its circulation was an improper act. Mr. De Benedetti did receive and answer via reserved channels. He further recalls that Mr. De Benedetti voted in favour for the acquisition of a stake in Olivetti in July 2001, without exceptions or reservations.

The process of listing Pirelli Tyre led the firm to incur costs for the creation and production of the informational material, as needed by the Authority and for promotion and communication purposes. It was done through a consultant, the whole operation cost 13.2 million Euros as provided in the financial statements. He reminds how the listing began at a point when the markets were doing particularly well: afterwards, however, there was a radical change and then faced with the results that were achieved, exiting the market was the right choice.

Continuing to answer Mr.Cavalli's enquiries, the President states that the fiscal losses from 2003 onwards can be recovered within the next five years of the financial year in which they were incurred. The loss incurred during the 2006 financial year accounts to 85 million Euros and will expire in 2011. This loss figure does not include the devaluation performed in Olimpia, which cannot be fiscally deducted.

The President moves onto the various points raised by Mr. Cardillo, he reminds that during the merger between Pirelli S.p.A., Pirelli & C. Luxembourg and Pirelli & C. the aforementioned companies provided the public with a huge amount of documents as required by the regulation. The opinions and declarations of the Board of Auditors and the auditing company about the merger were provided in the said documents. None of the companies involved in the merger received any communication from the Consob about the operation. The fact that a small firm incorporates a bigger one is anyway considered as in the number of shares issued in favour of the shareholders of the company that is being incorporated. Furthermore the President recalls that the NAV method and the performance of the markets were taken into account to determine the swap between Pirelli& C. and Pirelli S.p.A. .

Pirelli S.p.A's value was evaluated by applying Tyre and Cable (Cavi) market multiples, as far as Olimpia was concerned a 20% premium on the firm's NAV was accepted. He also recalls that the operation and the terms of the swap were viewed positively by the market.

With regards to the comparison between the turnover registered in 1997 and that of 2006, he reminds that the first one was 6,095 million Euros, whilst the turnover in 2006 was equal to 4,481 million Euros. Compared to 1997 the group's turnover has lost the injection of Cavi e Sistemi (Cables and Systems) sector, which was transferred in 2005. Other activities have come up in a big way (Tyre: +41%, Pirelli RE: +20%) and activities like Pirelli broadband and environment have developed further. He points out that the operating result in terms of absolute value is still on the same level and that profitability has seen a significant rise from 6,6% to 8,3%.

To answer Mr.Staffa's question, the President recalls that Mr. Rossi had been asked to assume the presidency of Telecom Italia at a time when the firm was going through a very difficult institutional phase. He accomplished his tasks brilliantly and was not sent away, but once the institutional phase of Telecom was over and it turned into a delicate phase in terms of industrial strategy and international alliances, it was deemed correct to support the candidacy of Mr. Pistorio as President, due to his background and competence in the issues, as this would have been advantageous for Telecom Italia.

Replying to Marianna D'Atri, the President states that a procedure has been commenced to sell about 3 billion Euros of gross book value Unicredit Italia credits. The subsidiary Pirelli RE is evaluating if it should join the bid, as per its traditional business model (JV with institutional investors).

As for the clause mentioned by the shareholder, it is a penalization on the sale offer value of about 50 million Euros (about 1.5% of portfolio value) in case the seller wishes manage its own portfolio by using a servicing company other than the one suggested by the seller. In case of an equal offer, the party wishing to use its own credit servicing company would lose.

With regard to the warrant issue brought up by Ms. Marianna D'Atri, the President makes it clear that the negotiation with Goldman Sachs has to do with 2 instruments: the vendor loan and the warrant. More specifically inflows were equal to 246 million Euros, 155 million came from the vendor loan ( 135 million of vendor loan and 20 million through accrued interests) and about 91 million was a result of the warrant. The warrant in this case was not a classical warrant but a quick instrument that provided exclusive rights to partake in future shares or eventual control changes; Furthermore the warrant refers to the capital of a company in Luxembourg, which through another subsidiary has a controlling interest in Prysmian S.p.A., that is to be placed on the stock market. The result, he adds, is that future comparisons with the economic value of the firm, that is being listed, should be calculated by other methods and factors, for example the intrinsic characteristics of the financial instrument or the marketability. As a consequence the price range provided in Prysmian's prospectus, an indirect

subsidiary of the firm which the warrant refers to, just provides a first indication, a rough one; but it can be said that the discount between the price perceived and the economic value to which the instrument refers could vary between about 13% and 32%, depending on the consideration of the min/max value of the price range for the stock market placement of Prysmian.

He adds, however, that by keeping the mentioned financial instruments, at this point, the right to receive dividends from the company based in Luxembourg would have been intact and executable. Calculating roughly, by bearing in mind the stock placement price range and the number of Prysmian S.p.A. shares ( that were placed at about 40%) distributions could have been between 40% to 50% of the price received. Other payouts would have occurred only during future profit distributions that are not foreseeable today or due to control changes.

The President carries on answering Ms. Marianna D'Atri questions, he points out that 38.9% of Pirelli Tyre has been transferred, in 2006 the transfer credited third parties with a portion of the net result that amounted to about 36 million Euros.

AT&T had proposed to acquire a third of Olimpia in an operation with which Américan Móvil would have acquired another third of and Pirelli and Sintonia would have held onto the rest of the capital, which however had an option that could be exercised after a year. As known by all, mid of this month AT&T informed that it was pulling out due to doubts as a result of result of regulatory risks related to the Telecom Italia stake.

The impairment test (always referring to Ms. Marianna D'Atri) regarding the investment in Olimpia was carried out was carried out by Prof. Mauro Bini, Professor of corporate finance at Bocconi University of Milan. Olimpia's value in case of an additional drop in Telecom Italia down to 2.4 Euros/ share would have led to a further devaluation of 1.2 billion Euros, whilst at 2.9 Euros/ share the value would have been quiet similar to what it is today, taking into account the entry of Telecom Italia's dividends and the market value of financial derivatives present in the firm.

Regarding the factory in China, the President indicates that it is located in Yanzhou, in the Shandong region (about 650 Km from Beijing and 850 Km from Shanghai), one of the most industrialized provinces, 400 km from the port of Qingdao, which is the second major Chinese port.

Mr. Tronchetti Provera referring to Mr. Salmivuori's queries, informs that on the 9th of January 2007, faced with the merger of GIM S.p.A. with Intek S.p.A, after a new integration into GIM's voting trust, Pirelli & C. S.p.A. and Quattrodue Holding BV (principal shareholder of Intek S.p.A.), signed a put & call agreement on the shares that will be derived as a result of the swap of 14,923,526 GIM common shares held by Pirelli, equal to about 70% of GIM's capital. The transfer price of the whole share parcel is set at 13.1 million Euros, calculated based on the average market price recorded during the last 30 days.

The sale comes within the framework of the decision communicated to the market a year ago, that states the intent to transfer non-strategic activities of the firm, for about 400 million Euros worth.

Regarding the services provided by Telecom Italia, he underlines that relations with the correlated sections, including Telecom Italia, are described in the notes section of the financial statement. More specifically note 44 of the consolidated statement (page 169 of the file) and note 40 of the reported financial statement (page 218 of the file) address the issue.

With regards to service details, it can be said that Pirelli RE offers project management services, property management and facility. Shared Service Centre (IT company) provides IT services to manage internal portals and institutional websites and management of managerial applications (SAP applications) . Pirelli Broadband Solutions provides devices for broad band access and as a final note Pirelli & C. S.p.A., provides consultancy regarding industrial property. All services are provided as per market conditions.

Once again with reference to the sale of the Cavi ( Cables sector) Mr. Tronchetti Provera states that it was done as per equity value, including the warrant, equal to about 600 million Euros, with consolidated capital gains around 80 million Euros. As for the ex-managers, after assisting in the restructuring of activities, the main managers remained with the Group that was sold off.

As for the total cash flow, the total effect was about 1.2 billion Euros ( including the deconsolidation of the net debt of transferred activities/assets). The evaluation of the sale was carried out through an assessment of the enterprise value which, he recalls, resulted in surpluses higher than what the competitors had in those days.

On the point raised by Mr. Gianfranco D'Atri, the President reminds that all those absent communicated the same to the President well before the meeting and hence they are justified. Some managers who have left wished to take the floor even if they had to leave the meeting to attend to other business. He adds however, that the presence of managers at general meetings is not mandatory.

After listing the reasons that led to the nomination of Mr.Rossi as President of Telecom Italia, he points out that it's the Board of Olimpia that decides on the list of candidates for Telecom Italia and hence Olimpia's Board did discuss the matter. Based on Telecom's advice the Board of Pirelli & C. was fully informed about the choice of candidates by Olimpia. Regarding Mr.Tavaroli, he recalls that already before the guarantee to Mr.Tavarolie, an internal audit on the functioning of Security had been initiated. Pirelli was also subject to audit on the passive flow of invoices through security before Mr.Iezzi was involved in the investigation.

Hence, the firms were not late to react.

Regarding Governance issues pointed out by Mr. D'Atri, the President notes that during 2001 more than 200 meetings were held, so-called one to one meetings, with the Italian and foreign financial community, in addition to the standard conference calls that are held when approving financial results of a financial period (annual, quarterly, semester)

Seventeen financial analysts are in charge of Pirelli & C. shares and they have written about the shares, displaying the activities and making predictions about the firm's performance. During 2006, the investor relations section of the firm's website was reviewed in order to improve relations with stakeholders, an exclusive page dedicated to retail investors was created and made interactive. As a final note he states that the firm also has a sustainability report dedicated to all stakeholders, it has news, data and information that is of interest to them, specially regarding environmental policies and sustainable development.

As for Telecom Italia's debt (an issue covered by Telecom Italia's shareholder's meeting and its President ) he points out that as a shareholder and based on the information provided to the market by Telecom Italia, the consolidated net financial standing seems to have been of 37 billion Euros and that the annual average cost of indebtedness in 2006 was about 5%.

The new law on TFR does not have any particular impact on the financial statement dated 31st December 2006. The firm has taken a neutral and objective stance towards the trade unions , without any changes to the contractual objectives of the CCNL, with a view to respecting mutual prerogatives and functions.

Pirelli finance's (Luxembourg) 500 million Euro (Mr. Facchetti) debenture loan that expired in April has been repaid. The resources were gathered as follows: using the firm's liquidity, partial use of takings from the sale of the warrant and the Prysmian vendor loan to Goldman Sachs, partial use of credit lines.

He clarifies that SIPIR is a financial holding that has capital gains due to the transfer of the Group's optical holdings to Corning. The company also holds the CEAT brand.

Upon the President's request, **Mr. Guatri, President of the Board of Auditors takes the floor**, in order to answer a question raised by Mr. D'Atri, he emphasizes that the Consob came up with an

interpretation of the concept of fair value so as to calculate the value that could be recovered for the impairment test, according to this view the firm should simply consider the share price, without taking into consideration other elements such as the so-called premium for the orientation/ direction of control. He, moreover believes that other elements could have been taken into account to calculate the value in use. He reminds that the higher of the two values must be considered to conduct an impairment test of a share.

The Consob, however recognizes that the point is open to interpretation and the Board of Auditors deems that the interpretation provided by the Consob is questionable and that the firm's behaviour in 2005 was correct. Moreover this is confirmed also due to the lack of remarks from the auditors. However, he adds that it must be pointed out that the result of the assessment would have been the same even by using the interpretation provided by the Consob. In any case, after the communication the firm deemed it appropriate to adapt to the view directed by the Consob and thus it fell in line, as it conducted the assessment of Olimpia's value in use.

In the end, the answer is completed by the **Vice President Carlo Puri Negri**, who reminds that surely more could be done in the environment sector. Nevertheless, the situation is quiet complicated, thanks to Italian regulations on renewable energy and waste that keeps on changing

33

He hopes the regulations will be given a final, solid structure that will also take into account new technologies.

Regarding the production of solar energy, he points out how the introduction of incentives is something that has happened quite recently: the Group is just starting off in this operational area.

The activities related to the environment include a project aimed at creating a production unit in Romania, for the production of anti-particle filters ( against air pollutants).

As for real-estate operations with Telecom Italia, Mr. Carlo Puri Negri underlines, first of all, how Pirelli has not really acquired Telecom Italia's real estate assets. Rather a 3.3 billion Euro operation was executed in 2002 ( known as Tiglio I e Tiglio II), thanks to which real estate derived from Pirelli RE, the Morgan Stanley Fund and Telecom Italia was pooled into two special purpose entities. The value of contributions was assessed by one of the main Anglo-Saxon companies in the field of real state evaluation.

He carries on to say that the operation had an industrial logic at its base, considering that while the real-estate deriving from Pirelli RE and Morgan Stanley was high quality, those contributed by Telecom Italia were quite the opposite. As for Telecom, the operation meant the sale of its real estate assets and consequently their lease, as per common practice, that generally provides greater flexibility, also in financial terms. After this, a series of market operations were executed, above all the market placement of real estate investment trusts, into which some of the real estate assets had flowed, or as in some cases the sale of real estate assets.

Furthermore, in 2005 and in 2006, another operation was executed, for a huge amount of Telecom Italia real estate, the total value of which was about 1 billion Euros, but the unit value was very limited. This operation was also carried out with the assistance of leading international companies of the sector. The Vice President concludes by saying that Pirelli RE handles and manages 14.5 billion Euros worth of property, 22% of this amount is directly owned, equal to about 3 billion. The share of real estate coming from Telecom Italia is equal to 379 million Euros, 12% of the total managed property: it is just like one of the many real estate assets that together add up to the total property

Thus, with the end of the answer session, the President calls on the shareholders to take the floor for further comments

**Mr. Antolini**, points out , that as far as he has understood , Pirelli has the ability to carry on with its investment in Telecom Italia alone. However, he shows concern regarding the news reported by the press, about an Italian concert party, which also plans to engage a foreign partner somewhere along the

line. He states that he would rather prefer if Pirelli were to reduce its stake in Olimpia but hold onto the controlling rights, hence the majority, to then invest the eventual returns somewhere else.

He speaks strongly against some members of the entrepreneurial community, as well as against certain voices in the press who view Mr. Tronchetti Provera's exit from Telecom Italia as a certainty. He asserts that according to him the latter is due to political will, which instead should stay away from such issues.

Thus, he renews his appeal to the voting trust to fall in line, come together, with a view to preserve the investment in Telecom Italia (which would then remain in Italian hands and keep on producing profits for all shareholders), reducing its indebtedness.

**Mr. Cini**, expresses his satisfaction for the clarifications provided by Mr. Carlo Puri Negri regarding Telecom Italia's real estate, as the figures and information provided by television programmes and talk shows were divergent.

Regarding Pirelli's attitude towards the sale of Olimpia, he asks confirmation from the firm that it will not accept to sell at a price lower than 2.82 Euros for each Telecom Italia share.

In his last question he asks for more information about the real need to reduce the stake held in Olimpia.

**Mr. D'Atri**, after asking whether Mr. Francesco Chiappetta (Lawyer) is present in the room, points out that according to him some of the answers were too "bureaucratic", whilst he believes that more attention should be given to the issues and the communication procedure/method.

Referring to the answer about the absence of managers, he underlines that he is aware that managers do not need to be present as per law, but considering that they have made a commitment, they could at least communicate the reasons for their absence.

Regarding the questions asked by shareholders on Telecom Italia and the answers, the shareholder notes that, as Telecom Italia is Pirelli's main asset, one cannot not talk about it. He also points out that the rules of corporate governance are wider than the code and when relating to shareholders they should be referred to.

He thanks Mr. Guatri for having provided clear indications that the board of Auditors believes that the position held by the Consob was wrong, even though, he states that according to him this should have been pointed out also in the financial statement report, explaining clearly the difference in opinion with Authority.

He states that he shall vote in favour.

**Marianna D'Atri** asks for details regarding the offer that was made by AT & T and about the presence of other collateral obligations.

**Salmivuori**, enquires about the margins Pirelli obtained for its services to Telecom Italia.

**Cardillo**, notes, also with a view to the meeting debate, that there is an opposition in the firm. On one side there is Mediobanca, which has its representatives also in the Board of Telecom Italia, and does not wish to provide a high price for the future acquisition. On the other side stands Mr. Tronchetti Provera, who has started the sale procedure, with a view to achieve greater value, sharing the view of the majority of the firm's shareholders.

Thus, he states that he retracts his proposal for action for liability, above all because he does not wish to weaken the position of the firm and its President today, although whatever he has stated stands true

**Mr. Staffa**, wishes to enquire about the potential buyers of Olimpia and Telecom, in case the requests were to be for a limited amount of shares, would Mr. Tronchetti Provera proceed to sell his personal shares

As nobody asks to take the floor the **President** reaffirms that his efforts have always been directed towards appreciating the value of Telecom Italia. From the beginning, a strategy to simplify the company structure had been put into place, to increase the competitiveness of the company in terms of productivity and above all to bring order to the balance sheets. Devaluations up to 12 billion Euros had

to be faced, of which 9 billion in the first year. Without these devaluations the value of the stake would have been different today.

He states that the investment in Telecom Italia went through three phases. First of all, the reorganization of the company and an efficient management of the same was addressed. Similarly, the attention was focused on technological development, directing much of the investments (around 70%) to advanced technology: at first broadband clients numbered 300,000, they have risen to 7 million.

Then, probable strategic development moves were assessed, ones that required and still require the creation of alliances. There were many obstacles in this field, which finally led to his exit from the Board of Directors. From then on, as reference shareholder, a suitable industrial partner was sought: and also in this phase there were external obstacles. Therefore, it became clear that it would be very hard for the reference shareholder to find the right conditions to increase the value of the company. Thus it was believed that it was best to follow the interests of the Pirelli shareholder, with the sale of the entire stake, but not at a price lower than what the market, through precise offers, would have generated.

He reaffirms that the decision was taken when faced by external obstacles, which had led to the gradual devaluation of the share. For Pirelli, it is thus important today to enhance the value of the investment, to be able to increase, through injection of new liquidity, the effort in other activities rather than carry on with a battle that does not even serve the interests of Telecom Italia itself.

It is however important that the message regarding the need for an international alliance, even in the Telecommunication sector, like many other sectors, has remained. Common technological platforms are needed, to negotiate with suppliers by creating a united front, have a greater pool of clients to be able to provide better and more competitive services, optimize the required investments. The hope is that having cleared the path, clarified that there is a need for certain things, that it will contribute to an increase in value, maybe in the future of Telecom Italia.

As for the behaviour of the press regarding the whole issue, Mr. Tronchetti

Provera emphasizes how the effort has always been there to report correct information.: protective measures have been put into place in cases where the reaction of the press crossed the frontiers of legality. He personally has never wished to interfere with the freedom of any journalist, nor has he ever called on them to intervene and take up his defence or that of the firm. He recalls that for 5 years he held the Presidency of the Sole 24 Ore, and he was also a reference shareholder of a television network, and nobody can ever claim of having been pressurised with a view to undermine the liberty of the journalists and their work.

Carrying on, the President points out how the Firm has always been careful about correcting the altered truths/facts and very often unsuccessfully.

According to him this is the relation that should exist between those who hold stakes in publishing houses and those who are supposed to manage the production of information in these publishing houses.

Next, the President clarifies to Mr.Cini that the stake in Olimpia was to be devalued, based on the impairment test and it was devalued due to the write down of the same. He confirms that he does not wish to cede Olimpia shares at a price lower than €2.82 per share, value indicated in the offer by AT&T and América Móvil. Pirelli is not in a hurry to get to the allocation of Olimpia because there is no specific need for liquidity.

After confirming the presence of Mr. Francesco Chiappetta (engineer), secretary of the Board of Olimpia, he states that questions regarding Telecom Italia have always been answered underlining the importance Pirelli gives to this investment.

He underlines again that the AT & T offer was based on Olimpia's net worth (shareholders' equity) and each Telecom Italia share was valued at 2.82 Euro. The price would have been recognized once the

dividend coupon was issued for the 2006 financial year. There was no other requirement asked of Pirelli: instead buyers had to accept a Pirelli put option.

The President points out to Mr. Salmivuori that the Information Technology services are provided for a cost, as the company called Shared Service Center is a consortium company. Regarding Pirelli Broadband Solutions and Pirelli Real Estate, sales are at market margins, in accord with conditions applied to other clients.

He thanks Mr. Cardillo for his decision to give faith to the work of the Board, although with reservations and criticism.

As a final note, to answer Mr. Staffa's question, he points out that the Telecom Italia shares held by him have nothing to do with negotiations he carries out for the firm which he has the responsibility to manage.

As no one asks for the floor, the President:

- declares the debate under agenda item one closed and calls on shareholders who do not wish to participate in the voting to communicate their intentions to the personnel in charge, giving in the appropriate form, which will be given back at the end of the voting procedure, he points out that in this case the corresponding shares will not be used to calculate the quorum;

- announces that, in the framework of the decision making process, at 2.36 p.m., the shareholders expressing their own voting preference or voting on behalf of others amount to 227, holding 2,962,229,654 common shares giving them the right to express a number of votes equal to 56.61% of total common shares;

- puts to vote by show of hand at 2.36 pm, the proposal for the approval of the financial statement and the coverage of the operating deficit, provided on page 98 of the financial statement file distributed upon entry for which voting card number 1 will be used, the proposal is written out here below

*"The Shareholder's meeting:*

- *acknowledges the BoD's management report;*
- *acknowledges the Board of Auditors and auditing company's report;*
- *having viewed the balance sheet as on the 31st of December 2006 that ends with losses worth Euro 1,642,304,515*

#### *DECIDES*

*a) to approve:*

*- the BoD's management report;*

*- the balance sheet, the profit and loss statement, notes to the financial statement of the closing of the financial period on the 31<sup>st</sup> of December 2006 that show a loss worth Euro 1,642,304,515 as presented in totality by the Board of Directors, in their single records, with the proposed assignment;*

*b) To cover the total losses of the 2006 financial year of Euro 1,642,304,515 as follows:*

• *by full use of the accumulated surplus  
of Euro 583,707,610*

• *by full use of the contribution/underwriting reserve  
Of Euro 22,391,115*

• *through full use of the monetary revaluation reserve L. 413/91  
Of Euro 707,349*

• *through full use of the monetary revaluation reserve L. 72/83  
Of Euro 972,216*

• *through full use of profit brought forward  
Of Euro 286,057,304*

• *through partial use of share premium reserves  
Equal to Euro 748,468,921*

*however noting that after use of the share premium reserve, it still contains Euro 10,466,928."*

The meeting approves with a majority.  
Against: n. 150,032 shares.  
Abstain: n. 42,751,048 shares.  
The remaining in Favour: n. 2,919,328,574 shares.  
The details of the voting process are attached.

The President announces the result and acknowledges that the following is approved:  
the balance sheets of Pirelli & C. S.p.A., closed on the 31st of December 2006 and the complete coverage of the financial years' losses with available reserves.

\* \* \*

The President moves to the second point on the agenda, namely, **“Appointment of two directors and/or reduction in the number of members of the Board. Decisions regarding or following from the same”**.

The President restates the facts and as presented in the report provided to all those attending, that the Board of Directors, at its 12th of September 2006 meeting decided to appoint as CEO of the firm Mr. Alberto Bombassei, in Substituting Mr. Carlo De Benedetti who resigned from office earlier in May 2006. The mandate provided to Mr. Bombassei, by the Board comes to an end in concurrence with today's meeting. The President expresses his best wishes and hopes along with the rest of the Board that Mr. Bombassei will be reconfirmed.

Moreover, the President reminds that afterwards on the 16th of Novembre Mr. Carlo Buora had also given his resignation from all offices held in Pirelli & C. S.p.A.. In this case, considering the proximity of today's meeting, the Board decided not to substitute him in order to allow the shareholders to exercise their right, so as to indicate candidates and /or propose an eventual reduction in the number of Directors. The President calls on the meeting to take decisions regarding two vacant Director positions.

The President states that Mr. Aldrighetti, as representative of Camfin S.p.A. has expressed his wish to address the issue and present a proposal, hence the floor passes to him.

Mr. Aldrighetti, with reference to the agenda topic and providing the greetings of his Board, proposes to maintain the number of board members at twenty and calls on the general meeting to nominate as members of the Board Mr. Alberto Bombassei and Mr. Luigi Roth, pointing out that both candidates possesses the requisites as required by the corporate governance code of listed companies as well as the laws in force to be qualified as independent member, in case of nomination. He states that he has provided the President with a copy of the curricula of the two candidates to make them available to those present, considering their stature, he just points out that among other things, Mr. Bombassei is President of Brembo S.p.A. and Vice President of Confindustria for Industrial Relations and Social affairs, whilst Mr. Roth is the current President of the Fondazione Fiera di Milano (Controlling shareholder of Gruppo Fiera Milano) and of Terna– Rete Elettrica Nazionale S.p.A. (national electric grid).

After taking the floor, the President informs that in case Mr. Bombassei and Mr. Roth are appointed, they will keep their office for only a year because the entire Board is due to finish its mandate with the general meeting that will approve the balance sheet of 31 December 2007. He also points out that just like other Furthermore, he reminds that their remuneration amounts to 50,000 Euros per year, the same for the other Directors, and, if the proposal from Camfin is accepted, the weight of the “independent” Directors will increase (currently they are ten) with regard to the number of directors, in other words, their incidence will increase from 52% to 55% (eleven over twenty).

Upon the unanimous agreement of the participants, the President omits to read the candidates' CV, due to their stature, reminding that, nevertheless, copy of the CVs can be provided to all who ask for it. He

then introduces the second item of the agenda, calling the meeting, once again, to make points regarding the agenda and topic and to respect the 15 minute speaking time.

**Mr. D'Atri** points out the fact that copies of candidates' CVs could have been distributed at the beginning of the meeting, even if they are well known. Nevertheless, he declares that he will vote in favour, expecting them to be present to the future meetings: if, on the contrary, they are not able to take part to the meetings, they should not accept the appointment.

**Mr. Rimbotti** agrees with the fact that the CVs could have been distributed in advance; he says that he would have preferred a proposal to reduce the number of directors (this possibility is still included in the agenda) and underlines the fact that Mr. Luigi Roth is not present at the meeting.

**Mr. Staffa** notes that generally the candidates do not take part in the meeting, except in the case of Mr. Pesenti, who for his nomination as director of Fiat was presented to the shareholders.

The **President** replies that, as in the past and as far as it is possible, the CVs will be distributed in advance. With regard to Mr. Roth, he highlights that he is not present due to his institutional tasks, adding that Roth was informed about the appointment only few days ago. The President states that Mr. Roth has always attended meetings of the boards in which he was a member.

Since no one else asks for the floor, the President:

- declares the debate under agenda item two as closed and urges all shareholders who wish not to participate in the vote, to communicate their intentions to the appointed personnel giving them the relative forms, which will be given back at the end of the voting procedure. The President reminds that, in this case, the relative shares will not be included in the calculation of the *quorum*;

-the President informs that, with regard to the decision, at 2:50 pm, the shareholders participating on their own behalf or by proxy are 216 and represent 2,956,628,623 common shares being entitled to a relative numbers of votes, which correspond to 56.50% of the total amount of the common shares;

- at 2:50 pm, he starts the voting by show of hands with regard to the appointment of Mr. Alberto Bombassei and Mr. Luigi Roth as Directors of the Company until the expiry date of the appointment of the Board (i.e. the meeting fixed for the approval of the balance sheet of the 31<sup>st</sup> December 2007) confirming that the number of the members of the Board is still 20.

The meeting approves the appointment with the majority of the votes.

Against: n. 11,533,000 shares.

Abstain: n. 26,360,759 shares.

The remaining in Favour: n. 2,918,734,864 shares.

The details of the voting process are attached

The President declares the result.

\*\*\*

The President moves to the third topic on the agenda, i.e. "**Proposal to amend the Regulation of the Meetings approved with the decision of the Meeting on 11<sup>th</sup> May 2004**".

The President reminds that from page 100 onwards of the dossier given to the participants there is the report from the Directors and the proposal for the decision. He specifies that these amendments related to the meeting procedure comply with new requirements provided by the Law on the safeguard of savings and the rule related to the integration of the agenda upon the request of the shareholders; moreover there are some amendments simply related to procedures.

The President starts the discussions with regard to the third item on the agenda, reminding that each speaker is entitled to 15 minutes.

**Mr. D'Atri** proposes that in article 8 it should be specified that the President may assign no less and no more than 15 minutes to the speaker that wants to introduce some supplementary topics to the meeting.

Actually, with the current proposal, the President may decide to grant a very short time, while the rule should be intended to elicit a more consistent involvement from the majority shareholders.

The **President** highlights the fact that 15 minutes are sufficient to introduce proposals and observations; nevertheless it is upon the President to be flexible in applying the rules that guarantee all the shareholders.

**Mr. D'Atri** declares that he is voting against.

No one else asks for the floor; therefore, the President:

- declares the debate under agenda item three as closed and urges all shareholders who wish not to participate in the vote, to communicate their intentions to the appointed personnel giving them the relative forms, which will be given back at the end of the voting procedure. The President reminds that, in this case, the relative shares will not be included in the calculation of the *quorum*;
- the President informs that, with regard to the decision, at 2:56 pm, the shareholders that participate on their own behalf or by proxy are 214 and represent 2,956,606,783 common shares being entitled to a relative numbers of votes, which correspond to 56.50% of the total amount of the ordinary shares;
- at 2:56 pm, he starts the voting by show of hands with regard to the proposal mentioned in the pages 100-104 of the meeting dossier, which has been distributed at the entrance; the proposal is reported hereinafter (only the text proposed has been printed):

*“The shareholders meeting:*

- *after having read the report written by the Board of Directors;*
- *taking into consideration as provided by the art. 2364, paragraph 1, number 6) of the Civil Code and the art. 8 of the Articles of Associations*

**DECIDES**

*to amend art. 3, 4, 5, 6, 7, 12, 13, 14 and 15 of the Regulation of Meetings, which was approved with the decision on 11 May 2004 (decision mentioned in the premises) and to introduce a new art. 8 together with the amendment of the series of the articles, as in the text hereinafter:*

**PROPOSED DRAFT**

**PIRELLI & C., LIMITED COMPANY**

**REGULATION OF MEETINGS**

**Article 1**

- *The present Regulation is applied to both the ordinary and extraordinary Meetings of the Company.*

**Article 2**

- *The President of the meeting (hereinafter the “President”) is in charge of the meeting procedure, with regard to what is not clearly mentioned in the Regulation. He/she adopts the measures and solutions that he/she deems the most suitable, in compliance with the law and the Articles of Association.*

**Article 3**

- *Those who have the necessary requirements provided by the relative rules and laws (hereinafter the “Participants”) can take part to the Meeting having the right to intervene in the discussion and vote.*
- *Except if differently provided in the convocation notice, the personal identification and the verification regarding their ability to participate in the Meeting will take place on the same premises where the Meeting is to take place at least one hour before the beginning of the Meeting. Once the Participants have been identified and their ability verified, under the President’s supervision, the personnel provided by the Company will give the participants the badges necessary for monitoring activities and the voting procedure.*
- *Participants can assist to the discussion, intervene in the same, vote, according to the technical procedure fixed by the President, from time to time.*
- *Participants that, once admitted to the Meeting, leave the premises where the meeting is taking place, will inform the staff accordingly.*

**Article 4**

- *the Directors and, in compliance with the procedure decided by the President, also managers, employees of the Company and of the Group's companies can assist to the Meeting; and so can other subjects whose presence is useful for the topics discussed.*
- *With the President's consent and with the procedure decided by the President, professionals, advisors, experts, financial analysts and qualified journalists can assist in a specific Meeting.*
- *Those who have permission to observe discussions shall supply their credentials and shall be assigned a badge that is to be shown during the controlling procedure.*

**Article 5**

- *According to the law and the Charter, the President is the one in charge of the meeting procedure, taking care that the Meeting runs in an orderly and efficiently way.*
- *The President can allow the use of instrumentation for the audio-visual recording and transmission.*

**Article 6**

- *The President is assisted by a Secretary with regard to the procedure and the drafting of the minutes, whenever a Notary is not present. Either the Secretary or the Notary can be assisted by some special personnel.*
- *With regard to the voting procedure, some scrutinizers shall assist the President; he may ask for more staff to ensure the necessary technical support and surveillance.*

**Article 7**

- *In case a quorum for the Meeting is not reached, after a reasonable amount of time, the Participants will be informed and the discussion about the topics in the agenda must be postponed to the following Meeting.*
- *During the meeting, the President, whenever he deems it advisable and unless the majority of the capital represented in the Meeting votes against, can suspend the proceedings for no more than three hours.*

**Article 8**

- *At the beginning of the proceedings, the President summarizes the topics in the agenda.*
- *The shareholders who have asked permission to supplement the topics to be discussed in the Meeting can be granted by the President no more than 15 minutes to express the relative proposals and reasons, according to the law and the Articles of Association.*

**Article 9**

- *The President sets the series of topics to be discussed; the topics can be discussed also in an order that differs from what reported in the convocation notice.*
- *The President can decide that more than one item in the agenda can be discussed jointly or, on the contrary, can proceed with the discussion following the distinct items in the agenda.*
- *Both the President and, upon his/her exhortation, those that are present at the Meeting according to the Article 4, paragraph 1, can explain the topics in the agenda.*

**Article 10**

- *The President is in charge of the procedure of the Meeting; he/she shall ensure that the discussions take place in a correct manner avoiding any disturbance that might undermine the regular proceedings.*
- *At the beginning of the Meeting, the President, taking into account the content and the relevance of each item on the agenda, can fix the time, which shall not be less than 15 minutes, to be given to each speaker for his/her intervention.*
- *The President exhorts the Participants to comply with the duration of time previously fixed for the interventions and to strictly address the agenda topic. In case of irregular misbehaviour, the President shall prevent the speaker to speak any further.*

**Article 11**

- Those who intend to speak shall ask for permission either to the President or the Secretary, indicating the topic which they wish to address. The request can be made until the President declares that the discussion on the topic to which the request for intervention is related is concluded.
- The Participants can ask to speak a second time during the same discussion, for no more than five minutes, exclusively in order to provide replies or express the voting declarations.

**Article 12**

- Both the Board of Directors and the Participants can present some draft resolutions, giving the necessary reasons, in alternative, amending or integrating the proposals made by the Board of Directors or the shareholders who asked for the inclusion of the topic in the agenda according to the law and the Articles of Association.
- The President evaluates whether the proposals comply with the agenda of the meeting and the related provisions.

**Article 13**

- Both the members of the Board of Directors and the auditors can intervene in the discussion; upon the request of the President, also those who participate in the meeting according to the Art. 4, paragraph 1, can speak also to give some replies to possible requests for clarification.

**Article 14**

- The President shall adopt all the suitable measures in order to guarantee the correct voting procedure, requiring that the voting on a topic take place immediately after the conclusion of the relative discussion or after the discussion about all the items in the agenda.
- The President sets the order of voting activities with regard to the proposals related to the topics, the procedure of each voting and the procedure of the collection and counting of the votes. He supervises the verification of the results.

**Article 15**

- Once the counting of votes is carried out with the assistance of the scrutinizers and the Secretary, the results of the vote are declared

The meeting approves with a majority

Against: n. 170 shares

Abstain: n. 23,499,210 shares

The remaining in Favour: n.2,933,107,403 shares.

The details of the voting process are attached

The President declares the result

\*\*\*

Having settled all points on the agenda and there being no requests for the floor, the President moves onto the extraordinary part of the meeting, the minutes of which shall be kept separately.

It is 2,59 pm

The Secretary



The President

