



PIRELLI & C. Accomandita per Azioni
Registered Offices in Milan - Via G. Negri, 10
Share Capital - Euro 311,061,806.64 fully paid up
Milan Courts Company Registry No. 153

1999 ANNUAL REPORT

128th YEAR

1999 ANNUAL REPORT - 128th YEAR

This a translation into English of the Annual Report of Pirelli & C.
The translation reflects Italian generally accepted accounting principles and no attempt has been made to reconcile such principles to those applied in the U.S., the U.K. or other countries.
The Italian version of the Annual Report is the original version, which is available on request, and will take precedence over any differences which may appear as a result of translation.

PIRELLI & C. Accomandita per Azioni

Leopoldo Pirelli

Honorary Chairman

BOARD OF MANAGING PARTNERS

Marco Tronchetti Provera
Alberto Pirelli
Carlo Buora
Luigi Orlando
Carlo Alessandro Puri Negri

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Deputy Chairman

Sergio Lamacchia

Secretary to the Board

BOARD OF STATUTORY AUDITORS

Roberto Bracchetti
Paolo Lazzati
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Chairman
Standing Auditor
Standing Auditor
Alternate
Alternate

INDEPENDENT AUDITORS

Pricewaterhouse Coopers S.p.A.

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NOTICE OF ANNUAL GENERAL SHAREHOLDERS' MEETING

Notice is hereby given that the Annual General Meeting of the shareholders of Pirelli & C. - Accomandita per Azioni, in ordinary session, will be held in Milan, at the Associazione Industriale Lombarda in Via Pantano, 9

- at 15.00 on Friday, April 28, 2000 in first call
- at 10.00 on Tuesday, May 11, 2000 in second call

to discuss the following

AGENDA

Ordinary part

- 1) Report of the Managing Partners; Report of the Board of Statutory Auditors; financial statements for the year ended December 31, 1999; appropriation of net income.
- 2) Proposed purchase and disposition of treasury shares, after revocation of the resolution passed by the shareholders' meeting of December 22, 1998, since it was not used. Inherent and consequent resolutions. Granting of powers.

SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(in millions of Euros)

	1999	1998	1997	1996
Sales revenues	6,654	5,655	6,095	5,355
Gross operating profit	699	733	700	631
Operating profit	322	397	403	356
Net income	293	282	314	227
Net income attributable to Pirelli & C.	86	74	77	41
Attributable earnings per share (in Euros)	0.143	0.123	0.171	0.092
Property, plant and equipment	3,312	2,916	2,439	2,304
Net working capital	1,401	1,256	1,182	1,115
Net invested capital	4,713	4,172	3,621	3,419
Shareholders' equity	2,313	2,245	2,469	2,130
Provisions	803	731	686	588
Net financial debt	1,597	1,196	466	701
Stockholders' equity attributable to Pirelli & C.	809	748	598	563
Attributable net equity per share (in Euros)	1,352	1,251	1,333	1,254
Gross operating profit/ Sales revenues	10.50%	12.96%	11.48%	11.79%
Operating profit/ Sales revenues	4.84%	7.02%	6.61%	6.65%
Net income/ Stockholders' equity	12.67%	12.56%	12.72%	10.66%
Operating profit/ Net invested capital	6.83%	9.52%	11.13%	10.41%
Net financial debt/ Stockholders' equity	0.69	0.53	0.19	0.33

REPORT OF THE MANAGING PARTNERS

Dear Shareholders,

The consolidated financial statements of Pirelli & C. Group for the year ended December 31, 1999 show a net income of Euros 293 million compared to Euros 282 million in the prior year.

The net income attributable to Pirelli & C. is Euros 86 million compared to Euros 74 million in 1998.

Attributable earnings per share are Euro 0.143 compared to Euro 0.123 at December 31, 1998.

The result for the year does not include the sale of the Terrestrial Photonics business that was concluded on February 14 of this year with the American Group Cisco.

This deal involved the receipt of a price equal to Euros 1,575.3 million which, taking into account the related expenses connected to the sale, led to an improvement in the net result of Euros 1,131 million.

Apart from the financial importance, the strategic merit of this alliance should also be stressed as it seals, among other things, the partnership struck by Pirelli and Cisco Systems in optic components and in submarine TC cables, both sectors believed to offer a high rate of growth.

Sales revenues amount to Euros 6,654 million, with an increase of 17.7 percent compared to 1998, due mainly to the consolidation of the units acquired during the year, (for the Cables and Systems Sector - the former Siemens A.G. units and Metal Manufacturers Limited, and for the Tires Sector - Alexandria Tire Co. S.A.E.).

Gross operating profit amounts to Euros 699 million (10.5 percent of sales revenues) against Euros 733 million in the prior year (13 percent of sales revenues).

Net income totals Euros 322 million and is equal to 4.8 percent of sales revenues compared to Euros 397 million in the prior year (7 percent of sales revenues).

Net financial debt went from Euros 1,196 million at December 31, 1998 to Euros 1,597 million, principally as a result of the aforementioned acquisitions.

The financial statements at December 31, 1999 of Pirelli & C., the Group holding company, show a net income of Euros 39 million compared to Euros 33 million in the prior year.

PROJECT TO SIMPLIFY THE CORPORATE STRUCTURE OF THE GROUP

The project to simplify the corporate structure of the Group, announced in March 1998 and fully described in last year's annual report, has been completed.

During the year, the following transactions took place:

- 1) On January 22, 1999, the shareholders' meeting of Société Internationale Pirelli S.p.A. (SIP) voted to merge by incorporation Pirelli Partecipazioni Ltd., which became effective on January 26, 1999, and transfer the registered office to Milan (from March 24, 1999). As a consequence of the merger, 765,625 shares were issued of which 468,750 shares were assigned to Pirelli & C..
After this transaction, Pirelli & C. holds 66.9 percent of SIP, of which 5.7 percent is held directly and 61.2 percent through the subsidiary Pirelli & C. Luxembourg S.A..
- 2) On May 24 and May 25, 1999, respectively, the shareholders' meetings of Pirelli S.p.A. and SIP voted to merge SIP by incorporation in Pirelli S.p.A. with the exchange of 83 Pirelli S.p.A. ordinary shares, with rights from January 1, 1999, for every SIP share previously held.
The merger became effective December 10, 1999.
After this transaction, Pirelli & C. holds 30.6 percent of the voting capital of Pirelli S.p.A., of which 8.6 percent is held directly and 22 percent through the subsidiary Pirelli & C. Luxembourg S.A..

CORPORATE GOVERNANCE

The Board of Managing Partners delegated the Chairman Marco Tronchetti Provera and the Deputy Chairman Alberto Pirelli the powers necessary to carry out all acts pertaining to corporate activity, to be carried out under single signatory powers, with the exception of the power to issue guarantees for obligations of the Company and the subsidiaries in excess of single amounts of Lire 50 billion or guarantees in the interest of third parties for obligations in excess of single amounts of Lire 20 billion. During 1999, the above managing partners (as well as managers having specific powers of attorney) used the powers conferred to them to carry out the normal operations of the company - of which the managing partners of the company were periodically informed - waiving such powers in the case of significant transactions in terms of quality or value from an economic and financial standpoint, and submitting them to the same board of managing partners. Furthermore, in accordance with art. 10 of the by-laws, the managing partners advise the board of statutory auditors concerning the activities and any important economic, financial or equity transactions carried out by the company or the subsidiaries as well as transactions involving any potential conflict of interest.

At the Group level, the internal control system is organized in such a way as to ensure proper disclosure and an adequate system of control of all its activities and, in the major areas of corporate risk.

It is basically organized around:

- policies and procedures which govern the major areas of business;
- administrative principles and procedures which set forth the accounting treatment of administrative events and the formation of the consolidated financial statements and period statements;
- a planning and control system, in the process of being changed and completed, which periodically produces a detailed report so that a useful instrument is available with which to monitor specific activities.

Furthermore, reporting directly to the Chairman is the Auditing Department (not involved in financial operating activities and in the preparation of the financial statements and period statements) which has the main responsibility for seeing that the system of internal control of the Group is functioning and is adequate in terms of effectiveness and efficiency.

Finally, the Board of Managing Partners passed a resolution last November to adopt the Corporate Governance Code drawn up by Borsa S.p.A.; subsequently, as the first action taken in applying the Code, the Company internally set up a Remuneration Committee and an Audit Committee.

THE GROUP

For Pirelli & C. Group, 1999 was a very important year, both for industrial activities, represented by the investment in Pirelli S.p.A., and for the real estate property activities by Milano Centrale.

For the Industrial group, the year 1999 was again marked by strong price tensions in the market in which the Group operates and by wide fluctuations in the financial markets of South American, Brazil in particular, where the local currency underwent a sharp devaluation and then stabilized in the second part of the year.

In view of the Group's important presence in Brazil, this factor had a negative impact on the net income for the year.

Given this general scenario, the Group adopted the appropriate actions to reduce costs and improve productive efficiency. Such actions were accompanied by measures directed to development, investments and new acquisitions. These led, among other things, to the completion of the process to acquire the Power Cables Division from Siemens A.G. begun at the end of 1998, the purchases of the Power and Construction Cables Division from Metal Manufacturers Limited (Australia), the company Alexandria Tire Co. S.A.E. (Egypt), as well as the residual 50 percent stakes in the companies Fibre Ottiche Sud S.p.A. and PT Pirelli Cables Indonesia.

On December 20, 1999, as mentioned, a strategic accord was reached between Pirelli Group and Cisco Systems, US leader in Internet-related technology, concluded on February 14, 2000.

The Real Estate business, which saw a confirmation of the trend in growth, especially in the services sector, was marked by the acquisition of UNIM, following the success of the take-over bid for all of its shares for a price of Euro 0.49 each.

88.88 percent of share capital accepted the offer with 4,172,683,281 shares.

As known, UNIM is certainly the largest real estate company in Italy with assets worth over Lire 4,500 billion, between commercial and residential properties.

As described in the Prospectus for the take-over bid, this acquisition is just the first step in a larger operational reorganization that will involve Milano Centrale.

The financial role of the institutional investors should be stressed, in that at the end of the aforementioned reorganization the role of Milano Centrale, consistent with its strategic mission, will be mostly directed to asset management services and specialist services while that of the institutional investors will be aimed at capital investments.

In May 1999, Pirelli Group's entire investment in Banca Commerciale Italiana S.p.A. (17,730,000 ordinary shares equal to 1 percent of share capital) was sold at a price per share of Euros 7.20, realizing a gross gain of Euros 96 million.

The previously announced agreements became operative for trade cooperation with Cooper in the USA and with Michelin for the joint development of a new tire using PAX System technology.

The consolidated financial statements of the Group at December 31, 1999 can be summarized as follows:

	(in millions of euros)	
	12/31/1999	12/31/1998
Sales revenues	6,654	5,655
Gross operating profit	699	733
% of sales revenues	10.5%	13.0%
Operating profit	322	397
% of sales revenues	4.8%	7.0%
Financial income/expense	(28)	4
Extraordinary items, net	93	11
Tax expense	(94)	(130)
Net income	293	282
% of sales revenues	4.4%	5.0%
Net income attributable to Pirelli & C.	86	74
Attributable earnings per share (in euros)	0.143	0.123
Shareholders' equity	2,313	2,245
Shareholders' equity attributable to Pirelli & C.	809	748
Attributable net equity per share (in euros)	1,352	1,251
Net financial debt	1,597	1,196
Capital expenditures	476	390
R&D expenditures	200	196

Sales revenues amount to Euros 6,654 million compared to Euros 5,655 million in the prior year.

The increase of 17.7 percent is detailed below:

- Currency exchange effect	(4.4%)
- Prices	(5.2%)
- Volumes	9.1%
- Mix and other	3.4%
- Effect of consolidating units purchased	14.8%
	17.7%

The breakdown of sales revenues by sector is as follows:

Sector	1999	1998
Pirelli S.p.A. Group		
- Cables and Systems	58.9%	49.3%
- Tires	38.5%	47.7%
Total Pirelli S.p.A. Group	97.4%	97.0%
Real estate (Milano Centrale Group)	2.2%	2.8%
Other	0.4%	0.2%
	100.0%	100.0%

Operating profit is equal to Euros 322 million, a decrease compared to Euros 397 million in the prior year, representing 4.8 percent of sales revenues (7 percent in 1998).

The reduction in the sales prices was only partly compensated by the increase in volumes and the decrease in fixed and variable costs, raw materials in particular. There was also an increase in amortization and depreciation of Euros 40 million.

Extraordinary items, net show a net extraordinary income balance of Euros 93 million compared to Euros 11 million in the prior year.

Extraordinary items include deferred tax assets deriving from the application of the related accounting principle (Euros 85 million), the gain on the sale of Banca Commerciale Italiana S.p.A. shares (Euros 96 million) and restructuring costs (Euros 86 million).

Net income increased from Euros 282 million to Euros 293 million.

In addition to the reduction in operating profit (Euros 75 million, of which Euros 40 million is due to higher amortization and depreciation), financial income and expense, net, went from an income to an expense balance due to the effect of higher financial exposure (Euros 32 million) that was countered by the higher contribution of extraordinary income (Euros 82 million) and the reduction in tax expense (Euros 36 million).

Shareholders' equity went from Euros 2,245 million at December 31, 1997 to Euros 2,313 million, with an increase of Euros 68 million.

This increase can be analyzed as follows (in millions of euros):

• Translation adjustment		34
• Net income		293
• Dividends to third parties by		(149)
– Piirelli & C.	(31)	
– Société Internationale Piirelli S.p.A.	(17)	
– Piirelli S.p.A.	(77)	
– Other companies - Piirelli S.p.A. Group	(24)	
• Purchase of treasury shares (Piirelli S.p.A.)		(106)
• Other changes		(4)
		<hr/>
		68

The attributable shareholders' equity rose from Euros 748 million to Euros 809 million and attributable net equity per share from Euros 1.251 at December 31, 1997 to Euros 1.352.

Net financial debt amounts to Euros 1,597 million compared to Euros 1,196 million at December 31, 1997, with an increase of Euros 401 million.

The change in net financial debt is analyzed as follows (in millions of euros):

• Exchange difference		(20)
• Operating profit	322	
• Depreciation and amortization	377	
• Net investments:	(712)	
– intangible assets and property, plant and equipment	(559)	
– treasury share purchases (Piirelli S.p.A. shares)	(106)	
– other	(47)	
• Change in working capital	46	
• Extraordinary items	93	
• Financial income and expenses	(28)	
• Tax charge and credit	(94)	
• Dividends paid	(149)	
• Other changes *	(243)	
Net cash flows		<hr/>
		(388)
Change in shareholders' equity		7
		<hr/>
Change in net debt		(401)

* of which Euros 159 millions of debt of companies acquired.

The debt to equity ratio is 0.69 compared to 0.53 at December 31, 1998.

Capital expenditures amount to Euros 476 million compared to Euros 390 million in 1998; the capital expenditures to depreciation ratio is 1.51 (1.36 in 1998). The completion of the process to integrate the Power Division purchased from Siemens A.G. and the company Alexandria Tire led to higher investments equal to Euros 19 million.

R&D expenditures were totally charged to the statement of income and amounted to Euros 200 million, compared to Euros 196 million in 1998. They represent 3 percent of sales revenues (3.5 percent in 1998).

Personnel number 40,369 compared to 38,431 at December 31, 1998.

The higher figure is due to the difference between an increase in personnel from the former Siemens units and the acquisition of Metal Manufactures Ltd. and a decrease in other companies.

SIGNIFICANT SUBSEQUENT EVENTS

As commented in the introduction to the report, on January 7, 2000 the subsidiary Milano Centrale paid for the Unione Immobiliare S.p.A. (UNIM) shares acquired through the take-over bid concluded on December 14, 1999.

The percentage acquired (88.88 percent), together with treasury shares held by UNIM equal to 3.43 percent of share capital, is in excess of the 90 percent threshold and, therefore, as stated in the Prospectus dated November 12, 1999, Milano Centrale is finalizing the document for the take-over of the residual shares pursuant to art. 108 of Legislative Decree 58/98.

On January 14, 2000, the acquisition of the majority interest in Pirelli Telecom Cables Co. Ltd Wuxi (China) was concluded and the stake is now 66.47 percent.

On January 31, 2000 and March 3, 2000, Pirelli Cavi e Sistemi concluded the acquisition of a part of the power cables business for electricity companies from NKF. The business includes the production of high, medium and low voltage power cables for utilities with two factories, at Delft (Holland) and Pikkala (Finland). The net sales revenues from these operations in 1998 amounted to Dutch guilders 250 million, with about 450 employees.

On February 10, 2000, Pirelli Group reached an understanding with BICCGeneral for the purchase of the power cables business which had belonged to the BICC plc British group and was bought last year by the US group General Cable.

In 1999 this business reported sales revenues of about Euros 700 million, with 3,500 employees and 11 factories in the UK and Italy (which together account for over 80 percent of sales revenues in 1999), Africa and Asia, including a joint venture in China.

A price of about US \$216 million will be paid for these operations.

With this acquisition, the Cables and Systems Sector will reach about Euros 3,400 million in revenues in the power cables sector in 2000. Actions will also be taken for the production rationalization and integration of the product portfolio.

As previously mentioned, on February 14, 2000, the Company concluded the sale of Pirelli's Terrestrial Optical Systems business to Cisco Systems Management B.V., a wholly-owned subsidiary of Cisco Systems (USA). The price (net of debt transferred) of US \$1,551.5 million has already been received. Taking into account the related expenses connected to the sale, this deal led to an improvement in the net result of Euros 1,131 million.

The agreement also calls for:

- an earnout formula under which Cisco Systems will pay Pirelli a variable amount up to a maximum of US \$450 million if specific goals are met at agreed dates;
- the acquisition, by Cisco Systems, of 10 percent of the capital of the two companies being set up that operate in the optic components and submarine systems communication segment. The amount of this stake was set at US \$100 million.

During the course of the current year, numerous initiatives were begun in the e-business sector aimed at moving the Group closer to the market and the consumer, as well as rendering the entire corporate process more efficient and transparent.

The Dix.it consortium, in which Pirelli & C. holds a stake equal to those of the other investors, e.Biscom, Ifil, Banca di Roma, Planetnetwork, Securfin and AEM, has been set up in order to evaluate the opportunity of placing a bid for the awarding of the mobile telecommunications licenses using UMTS digital technology.

During January and February, the Group sold the entire investment held in COFIDE S.p.A., equal to 18,484,154 ordinary shares. This transaction gave rise to a gross gain of Euros 16 million.

FUTURE OUTLOOK

Like the previous year, 2000 will also be more or less marked by the efforts to integrate the recently acquired businesses by the Cables and Systems sector (former Siemens and former BICC businesses, the latter after the appropriate authorizations are received from the antitrust authorities), and by the Real Estate sector (UNIM business).

Continual attention will nevertheless be given to increase the value of the traditional businesses and to search for new opportunities in the various markets. In order to raise the company's competitiveness, actions will be undertaken to restructure and rationalize productive operations which will involve extraordinary expenses still to be exactly defined but which can be quantified, at consolidated level, at around Euros 248 million, of which a quarter of the amount is for the Cables and Systems Sector and three-quarters for the Tires Sector. This restructuring should be completed in the next fifteen months and will give a quick return.

R&D commitments will be stepped up for both products and processes. In particular, during the current year the new tire production process MIRS (Modular Integrated Robotized System) will go into production after passing the experimental stage and this will have an important impact in terms of costs, products and services.

In the Cables and Systems area, conversely, efforts will be intensified for the optics, fibers and components businesses in order to raise the level of competitiveness and economic value.

In the real estate sector, the current year will mostly be marked by integrating the UNIM operations with those of Milano Centrale; the acquisition of UNIM will make it possible to consolidate the number one position in real estate in Italy.

Bearing in the mind the above, although premature, the net result from ordinary operations is expected to show an improvement over that of 1999, in addition, of course, to the results of the deal with Cisco.

RELATED PARTY DISCLOSURE

As to required disclosures according to article 2359 of the Italian Civil Code referring to Consob Communication No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998, which deal with transactions by Group companies with related parties, a statement is made to the effect that, except for the comments made in relation to the project to simplify the corporate structure of the Group, all the transactions, including those of the Group holding company and its subsidiaries, and those between subsidiaries, fall within the ordinary operations of the Group, are governed by market terms, and there are no transactions of an unusual and exceptional nature or in potential conflict of interest.

The effects deriving from the transactions between Pirelli & C. and its subsidiaries are disclosed in the financial statements of the Group holding company and in the notes and, as for those between subsidiaries, are eliminated upon the preparation of the consolidated financial statements.

PERFORMANCE OF MAJOR GROUP COMPANIES

PIRELLI S.p.A. GROUP

The key consolidated figures for the year ended December 31, 1999 are presented below:

Sales revenues amount to Euros 6,482 million compared to Euros 5,487 million in the prior year. The increase of 18.1 percent is due mainly to the consolidation of the units acquired during the year. The breakdown of sales by sector is 60 percent for Cables and Systems and 40 percent for Tires.

Operating profit is equal to Euros 331 million, a decrease compared to Euros 412 million in 1998, representing 5.1 percent of sales revenues (7.5 percent in 1998). The fall in sales prices was only partly compensated by the increase in volumes and the reduction in costs.

Net income is Euros 305 million compared to Euros 276 million in 1998, with an increase of Euros 29 million.

The reduction in operating profit from the prior year (-Euros 81 million) was more than compensated by the difference in extraordinary income (+Euros 97 million) and tax charges (+Euros 37 million), whereas the net expense balance of financial income and expense rose by Euros 24 million due to a higher debt position compared to the prior year.

The net income attributable to Pirelli S.p.A. is Euros 293 million (Euros 249 million in 1998) which corresponds to Euro 0.15 per share (Euro 0.13 at December 31, 1998).

Shareholders' equity is equal to Euros 2,454 million (Euros 2,453 at December 31, 1998).

The shareholders' equity attributable to Pirelli S.p.A. is equal to Euros 2,275 million (Euros 2,283 million at December 31 1998) which corresponds to Euros 1.15 per share (unchanged compared to December 31, 1998).

Net financial debt went from Euros 265 million at year-end 1998 to Euros 1,017 million, with an increase of Euros 752 million, owing principally to new acquisitions, investments, the merger with Société Internationale Pirelli S.p.A., the buyback of treasury shares and dividend payments.

The debt to equity ratio is equal to 0.41 compared to 0.11 in 1998.

Capital expenditures totaled Euros 469 million compared to Euros 415 million in 1998; the capital expenditures to depreciation ratio is 1.50 (1.46 in 1998). The consolidation of the power division purchased from Siemens A.G. and Alexandria Tire led to higher investments equal to Euros 19 million.

R&D expenditures were totally charged to the statement of income and amounted to Euros 200 million, compared to Euros 196 million in 1998. They represent 3.1 percent of sales revenues (3.6 percent in 1998).

Personnel rose as a consequence of acquisitions, and now numbers 40,103 (38,209 at December 31, 1998).

Cables and Systems Sector

In Europe, the results of the sector, despite being positive, were negatively influenced

by competitive pressure generated partly by the restructuring taking place in industry, and in South America, by the devaluation of the Brazilian currency.

All sectors of activity recorded a fall in prices, which was only partly compensated by higher volumes, reductions in the unit cost of materials and improvements in productive efficiency.

During the year the acquisition of the Energy Cables Division from Siemens A.G. was completed, the activities of the Power Cables and Construction Division of the Australian company Metal Manufacturers Ltd. were acquired and the other 50 percent stakes in Fibre Ottiche Sud - F.O.S. S.p.A. and PT – Pirelli Cable Indonesia were purchased, reaching absolute majority in the two companies.

In May 1999, Pirelli Cables and Systems and Draka Holding reached an agreement for the sale of the production operations of high, medium and low-voltage power cables for the electricity companies of NKF.

This agreement was concluded in the first months of 2000.

In December 1999, Pirelli Cables and Systems and Cisco Systems Management B.V. reached a strategic agreement, as previously described, in the sphere of Optical Transmission Systems and Components.

Sales revenues amount to Euros 3,921 million, with an increase of 40.7 percent compared to 1998 due to both the consolidation of the units acquired, and the increase in volumes.

The operating profit totals Euros 183 million (4.7 percent of sales revenues) compared to Euros 256 million in 1998 (9.2 percent of sales revenues).

Net income, after net extraordinary items of Euros 8 million representing the balance between the costs incurred for the rationalization of productive activities and the income for deferred tax assets referring to prior years, is Euros 136 million, a slight fall compared to the prior year (Euro 145 million).

The net debt position totals Euros 700 million, with an increase of Lire 302 million compared to December 31, 1998; this change is due to new acquisitions for Euros 205 million, dividend payments for Euros 112 million and treasury management for the difference.

Capital expenditures in 1999 totaled Euros 210 million (Euros 209 million in 1998), with a capital expenditures to depreciation ratio equal to 1.34.

R&D, which is coordinated at the worldwide level, is conducted by an integrated structure of research centers and development and engineering units in various nations.

A total of 934 persons was involved in R&D during the year just ended and involved expenditures of Euros 99 million, in line with the prior year.

The results of the first few months of 2000 show an improvement compared to the same period in 1999; the completion of the process of integrating the operative units acquired in 1999, the effect of restructuring programs and the alliance with Cisco Systems, together with greater stability in international markets suggest that the improvement in the economic and financial results will be confirmed for the rest of the year.

Tires Sector

Sales revenues – Euros 2,559 million – registered a fall of 5 percent compared to 1998 due to the reduction in prices and the negative exchange effect that was only partly compensated by the favorable trend in the sales mix.

The operating profit went from Euros 176 million in 1998 to Euros 185 million, representing 7.2 percent of sales revenues (6.5 percent in 1998).

The positive contribution of the sales mix and the measures taken to reduce costs more than compensated for the negative change in sales prices and the increase in the prices of raw materials.

The net income for the year is Euros 112 million compared to Euros 119 million in 1998. This reflects higher extraordinary expenses (Euros 11 million compared to an extraordinary income balance of Euros 8 million in 1998) owing chiefly to the costs for the reorganization of the corporate and country structures (Euros 40 million) that were partly offset by the effect of deferred tax assets relating to Pirelli North America (Euros 27 million).

Net financial debt went from Euros 311 million at December 31, 1998 to Euros 535 million, with an increase of Euros 224 million which can be ascribed largely to higher investments and the inclusion of Alexandria Tire Company (Egypt) in the scope of consolidation.

In 1999, capital expenditures totaled Euros 255 million, with a capital expenditures to depreciation ratio equal to 1.66.

The year 1999 was characterized by notable investment commitments including the new R&D building in Italy, the increase in production capacity in Brazil, in particular for motorcycle tires, and in Turkey, the new high-performance tire production process using MIRS technology and the extraordinary investments, always in Turkey, following the earthquake.

R&D expenditures totaled Euros 101 million, representing 3.9 percent of sales revenues.

1999 was a highly successful year for the development and launch of new products, new processing technologies and strategic alliances.

The first half of the year witnessed the start of two strategic cooperation agreements to develop new product technologies: the first with Michelin for the joint development of the Pax System technology with Pirelli contributing its experience with the Run-Flat tire relating to the high performance segment, and the second with Cooper in the multi-brand segment.

In 2000 there is expected to be an acceleration of the world economy, with a probable effect on the general level of prices against a higher demand.

The strategy of the sector calls for confronting the increase in the prices of raw materials and costs in general by implementing programs to improve the efficiency of organizational structures, with the innovation of technological processes and the introduction of ever more competitive products.

Pirelli S.p.A.

The financial statements at December 31, 1999 of Pirelli S.p.A. showed a net income of Euros 229 million, with an increase compared to Euros 202 million in the prior year.

The shareholders' equity is Euros 2,181 million, with an increase of Euros 87 million compared to December 31, 1998 owing to the net income for the year net of dividends paid out.

The Board of Managing Partners of Pirelli S.p.A. will propose dividends of Euro 0.0826 for each of the ordinary shares and Euro 0.0930 for each of the savings shares to the shareholders' meeting convened for April 27, 2000 in first call and May 8 in second call.

PIRELLI & C. LUXEMBOURG S.A. – Luxembourg

The company ended the year with a net income of Swiss francs 54 million compared to a loss of Swiss francs 19 million in the prior year.

The net income includes the gain of Swiss francs 24.1 million from the sale, in March 1999, of 3,430,000 Banca Commerciale Italiana S.p.A. shares to the company Trefin S.r.l., a subsidiary of Pirelli S.p.A., at a price per share of Euros 5.75, equal to the average stock market price in the 30 days prior to the sale; subsequently, in May 1999, such shares were sold to third parties.

The result also includes Swiss francs 49.7 million of dividends from the subsidiary Société Internationale Pirelli S.p.A. (Swiss francs 22 million in the prior year) and financial expenses (Swiss francs 19.7 million).

It should also be pointed out that the result for the prior year included extraordinary expenses of Swiss francs 24.7 million relating to taxes paid in Switzerland consequent to the transfer of the registered office of the subsidiary Société Internationale Pirelli from Basel to Guernsey.

The net debt decreased from Euros 642.8 million at December 31, 1998 to Euros 611.7 million.

At December 31, 1999, the company holds 417,278,101 Pirelli S.p.A. ordinary shares equal to 22 percent of voting capital and 21.02 percent of the entire share capital.

MILANO CENTRALE S.p.A.

Milano Centrale is a company of Pirelli & C. Group which operates in the real estate properties area in both Residential and Commercial Asset Management, ensuring management services and participating in venture capital operations, and in Specialist Services for the same initiatives managed directly and on behalf of third parties.

The consolidated financial statements at December 31, 1999 showed a net income of Euros 11 million compared to a net income of Euros 7.5 million in the prior year, representing 12.8 percent of consolidated net income attributable to the Group holding company compared to 10.1 percent in the prior year.

The financial statements of Milano Centrale S.p.A. ended the year 1999 with a net income of Euros 11.1 million compared to Euros 7.5 million in the prior year.

The year was characterized by some important events which offered the company the opportunity to reach a size and structure sufficient to compete on a national scale. Such events refer to the 25 percent investment in a company which concluded an agreement for the acquisition of a business segment of “Società pel Risanamento di Napoli”; the acquisition of the control of Cagisa S.p.A. which engages in property management; the acquisition concluded in January 2000, of Mediacasa S.r.l., a company which is involved in the development of franchising for a network of real estate agencies in the residential property sector; the take-over bid for all of the shares of Unione Immobiliare (UNIM), concluded on January 7, 2000 with payment for the shares tendered, equal to 88.88 percent of current capital stock, as described in the introduction to the report. Taking into account the treasury shares held by UNIM, the 90 percent threshold was exceeded. Therefore, as stated in the Prospectus dated November 12, 1999, Milano Centrale is finalizing the document for the take-over of the residual shares pursuant to art. 108 of Legislative Decree 58/98.

Summary data

The following is a summary of the key figures of the consolidated financial statements:

	(in millions of Euros)	
	12/31/1999	12/31/1998
Economic data		
Value of production	203.2	185.4
Income from ordinary operations (*)	19.5	18.2
Income before taxes	15.6	11.3
- % of net invested capital	13.0%	12.2%
Net income attributable	11	7.5
% of shareholders' equity attributable	37.7%	30.4%
Balance sheet data		
Inventories	295.6	255.1
- % to be sold	42%	46%
Net invested capital	119.8	92.5
Net debt position	78	58.2
- net debt position / total shareholders' equity	2.5	2.3
Shareholders' equity attributable	29.2	24.7
Other data		
No. of employees (excluding auxiliary personnel)	188	131

(*) operating profit includes investment income and write-downs pertaining to the real estate sector.

Economic review

Consolidated *value of production* rose from Euros 185.4 million in the prior year to Euros 203.2 million. The increase is mainly attributable to purchases of real estate during the year, equal to Euros 110.4 million compared to Euros 90 million in the prior year.

The *income from ordinary operations*, which includes investment income and write-downs pertaining to the real estate, is Euros 19.5 million compared to Euros 18.2 million in 1998.

Income before taxes is Euros 15.6 million compared to Euros 11.3 million in 1998; the increase is also due to an improvement in financial management owing to both a lower average debt position and a reduction in interest rates.

Net income attributable, equal to Euros 11 million compared to Euros 7.5 million in the prior year, benefited from a reduction in the tax charge.

Balance sheet review

An analysis of the main components of the balance sheet can be made as follows:

Inventories

The following table briefly summarizes inventories according to the stage of the real estate process, indicating the part sold and to be sold.

(in millions of euros)					
Stages of the real estate property process					
	Areas for building	Property under construction or in renovation	Completed property for sale	TOTAL	%
Ending balance at 12.31.1998	54.2	97.1	103.8	255.1	100%
– of which, sold	0	(91.0)	(26.0)	(117.0)	-46%
Balance to be sold at 12.31.1998	54.2	6.1	77.8	138.1	54%
Ending balance at 12.31.1999	88.3	93.4	113.9	295.6	100%
– of which, sold	(8.1)	(91.6)	(23.5)	(123.2)	-42%
Balance to be sold at 12.31.1999	80.2	1.8	90.4	172.4	58%

The consolidated ending balance of real estate inventories, net of property covered by sales contracts on future properties or preliminary sales agreements, amounted to Euros 172.4 million at December 31, 1999 compared to Euros 138.1 million at December 31, 1998. The total net increase is attributable to the new purchases acquired for sale, compared to reductions in both the areas for building and the property under construction.

An analysis of the various items shows the following:

– **Areas for building.** The balance to be sold shows an increase of Euros 26 million (from Euros 54.2 million to Euros 80.2 million) mainly owing to the purchase of the last lots for the completion of the Bicocca Project and an area in Lainate.

As for permits on the above amount, Euros 15.3 million refer to building permits which have been received; Euros 26.1 million regard areas for which the urban design projects have been completed and the procedures to obtain the related permits have been started; Euros 38.8 million (of which Euros 8.1 million refer to third parties) regard urban projects that are being drawn up on the basis of the new law.

– **Property under construction or in renovation.** 98 percent of total inventories have been sold, equal to Euros 93.4 million.

– **Completed property.** The balance, which is entirely represented by the finished buildings acquired for sale as residential property, rose by Euros 12.6 million (from Euros 77.8 million to Lire 90.4 million). The main components are the purchases during the year for Euros 68.8 million and sales at cost for Euros 59.6 million. 69 percent of the inventories to be sold consist of real estate purchased at the end of the year, attesting to the rapid turnover of the real estate portfolio.

Net invested capital

Net invested capital is Euros 119.8 million compared to Euros 92.5 million at December 31, 1998. The increase of Euros 27.3 million is due to both the UNIM purchase (Euros 10.8 million) and the above-mentioned acquisitions which more than compensated the improvements in the management of working capital, mainly caused by a rapid turnover of inventories.

Net debt position

The composition of the net debt position compared to the prior year is as follows:

	(in millions of euros)		
	12/31/98	Movements during year	12/31/99
Total gross debt	136.5	58.4	194.9
Liquidity and loans receivable	(78.3)	(38.6)	(116.9)
Net debt position	58.2	19.8	78.0

A comparison of the two years shows that the net debt position went from Euros 58.2 million at December 31, 1998 to Euros 78.0 million at December 31, 1999, still net of a loan relating to a deal which has already been concluded for which a type of finance project contract was used. Net cash flows, therefore, show a negative figure of Euro 19.8 million due to the concentration of purchases at the end of the year and the outlay for the take-over bid of UNIM.

PIRELLI AMBIENTE S.p.A.

The company operates in the field of power co-generation and the production of fuel from waste.

The co-generation plant for the Pirelli tire factories in Germany became operational in July 1999.

The consolidated financial statements at December 31, 1999 show a loss of Euros 0.7 million, since the statement of income does not entirely show the benefits from the project completed to date because, in Turkey, the re-negotiation of the contract terms with the major customers produced a favorable effect only in the second half and, in Germany, the plant commenced the productive phase in the month of August.

Subsequent to the end of the year, a memorandum of understanding was signed with Energy Works do Brasil (Brazilian branch of Energy Works L.L.C. Landover – U.S.A.) for purposes of constructing and operating a co-generation plant with about 75 MW of power in the S. André area.

Y2K

The activities put into place during the two-year period 1998-1999 by the Pirelli Group within the framework of the “Year 2000” project, aimed at ensuring the compatibility of its information systems and the certification of suppliers and commercial partners, avoided the manifestation of any sign of problems associated with the transition into the new millennium.

All the planned time-scales were respected, both in terms of the repair, replacement and certification of critical components, and of testing (individual and integrated tests).

All the activities organized were accurately documented and spread throughout the organization using a special site visible on the internal Pirelli network.

In addition, a contingency plan was devised for each unit with the aim of planning the necessary action to tackle any problems that might arise, and consequently providing the most rapid, effective response possible.

On a central level, there was a team with a dual purpose: on the one hand, to

guarantee the presence of technical experts who could take immediate action in the most critical areas, and, on the other, to permit the constant monitoring of events and coordination on a global scale.

No problems of any significance were encountered in any of the four domains considered in the project: information systems, factory systems, R&D or the chain of customers and suppliers.

As far as the information systems and factory systems are concerned, following numerous controls and tests executed in the course of 1999, no malfunctioning occurred and normal support for the business was guaranteed.

The R&D systems continued to function in the usual way, thus guaranteeing standards of quality. The chain of suppliers and customers, the area where the greatest uncertainties existed, since they were not directly controlled by Pirelli, responded adequately to expectations. All the services were distributed according to the scheduled time-scales and the usual quality standards.

The problem associated with the fact that 2000 is a leap year did not cause any malfunctioning within the Pirelli organization.

We can therefore conclude that the results achieved are the result of a considerable effort on the part of the Pirelli Group, which can be defined as *organizational*, in terms of defining common standards within the Group, control and consolidation mechanisms, and the allocation and evaluation of the work; *technical*, as far as the practical solving of the problems was concerned; and *economical* in terms of costs at the end of the two-year period 1998-1999.

With reference to the latter, the costs of 1999, which were completely expensed during the year, amounted to Euros 7 million, of which Euros 3.7 million was incurred in the Information sector and the remaining Euros 3.3 million in non-information technology areas.

As in 1998, the write-downs made to property, plant and equipment sold in 1999 had no significant impact.

The total cost of the project, over the two-year period 1998-1999, was equal to Euros 10.5 million, less than the initial budget estimates.

INVESTMENTS HELD BY MANAGING PARTNERS

Pursuant to article 79 of Consob Regulation approved by resolution No. 11971 of May 14, 1999, the following information is provided as regards the investments held in the company Pirelli & C. and its subsidiaries, by the Managing Partners, as well as spouses, not legally separated, and minor children, either directly or through subsidiaries, trustee companies or individual persons, as resulting from the shareholders' register at December 31, 1999, from notices received or other information acquired from the same Managing Partners.

Name	Company in which investment held	No. of shares held at prior year-end	No. of shares acquired	No. of shares sold	No. of shares held at current year-end
Pirelli Leopoldo	Pirelli & C.	650,000			650,000
Tronchetti Provera Marco	Pirelli & C.	1,870			1,870
	Pirelli & C. (indirectly)	78,453,384	53,377,894		131,831,278
	Pirelli S.p.A.		8,000	8,000	0
Pirelli Alberto	Pirelli & C.	4,000			4,000
	Pirelli S.p.A.	682,517		682,517	0
Buora Carlo	Pirelli & C.		3,000		3,000
	Pirelli S.p.A.	1,742,517	400,000 (*)	2,100,000	42,517
Puri Negri Carlo Alessandro	Pirelli & C.		10,000		10,000
	Pirelli S.p.A.	430,000	350,000 (*)		780,000
Sozzani Vincenzo	Pirelli & C.	10,500			10,500
	Pirelli & C. savings	598			598
	Pirelli S.p.A.	32,483			32,483
Orlando Luigi	Pirelli & C.	3,933			3,933

(*) Bonus shares assigned by Pirelli S.p.A.

(1) No statutory auditor holds investments in Pirelli & C. and its subsidiaries

(2) No one, during 1999, held the position of General Director in the company

(3) No stock options were assigned (as regards the stock option plans of the subsidiary Pirelli S.p.A., reference should be made to its annual report).

THE GROUP HOLDING COMPANY - PIRELLI & C.

Pirelli & C. showed a net income of Euros 39.6 million for the year ended December 31, 1999 compared to a net income of Euros 32.9 million in the prior year.

The condensed statement of income is as follows:

	(in thousands of euros)		
	Dec. 31, 1999	Dec. 31, 1998	Change
Financial income and expenses	9,128	14,728	(5,600)
Dividends and tax credits	50,736	22,684	28,052
Gains on sale of securities	23	130	(107)
Valuation adjustments to financial assets	(11)	-	(11)
Amortization and depreciation	(1,704)	(1,689)	(15)
Other operating income (expenses)	(5,429)	(5,244)	(185)
Income from ordinary operations before income taxes	52,743	30,609	22,134
Extraordinary items, net	341	15,312	(14,971)
Income taxes	(13,495)	(13,060)	(435)
Net income for the year	39,589	32,861	6,728

An analysis of the main components of the statement of income shows that financial income, net decreased, reflecting the reduction in average interest rates.

Dividends, including tax credits of Euros 11.8 million, are Euros 50.7 million compared to Euros 22.7 million in the prior year.

The amount mainly includes dividends from the subsidiaries Pirelli & C. Luxembourg S.A. (Euros 18.7 million), Pirelli S.p.A. (Euros 9 million) and Milano Centrale S.p.A. (Euros 6.2 million).

Gains on sale of securities refer to the gains realized on the sale of "Assicurazioni Generali S.p.A. shares reserved for holders of warrants".

Other operating expenses, net of income from the recovery of expenses for services rendered to Group companies and other income show a slight improvement from Euros 5.2 million to Euros 5.4 million.

Extraordinary items, net mainly include the gain on the sale of the entire investment in Banca Brignone S.p.A..

The condensed balance sheet is as follows:

(in thousands of euros)			
	Dec. 31, 1999	Dec. 31, 1998	Change
Property, plant and equipment and intangible assets	5,132	6,682	(1,550)
Financial assets			
Investments	621,137	606,249	14,888
Other securities	19,109	14,874	4,235
Treasury shares	4,678	4,678	-
Financial receivables	554,270	595,429	(41,159)
Current financial assets	8,350	8,268	82
Other assets	53,929	47,721	6,208
	1,266,605	1,283,901	(17,296)
Shareholders' equity	888,196	879,645	8,551
Provisions	4,974	3,762	1,212
Financial payables	350,041	372,710	(22,669)
Other liabilities	23,394	27,784	(4,390)
	1,266,605	1,283,901	(17,296)

Investments show an increase of Euros 14.9 million mainly following the acquisition on the market of Holding di Partecipazioni Industriali S.p.A. shares (Euros 2.3 million) and the share capital increases subscribed to in the subsidiaries Pirelli Luxembourg S.A. (Euros 9.1 million) and Novalto S.p.A. (Euros 1.1 million) and in the company Gemina S.p.A. (Euros 2.3 million).

Shareholders' equity at December 31, 1999 is equal to Euros 888.2 million compared to Euros 879.6 million at December 31, 1998.

The increase is the result of the net income for the year (Euros 39.6 million) net of 1998 dividends paid out (Euros 31.1 million) and the partial conversion of 2.2% 1998-2003 debentures (Euros 0.1 million).

The net financial position shows a liquidity balance at December 31, 1999 of Euros 212.6 million compared to Euros 231 million at the end of the prior year.

(in thousands of euros)			
	Dec. 31, 1999	Dec. 31, 1998	Change
Financial receivables	554,270	595,429	(41,159)
Other current financial assets	8,350	8,268	82
Financial payables	(350,041)	(372,710)	22,669
	212,579	230,987	(18,408)

The change in the net financial position derives from the following movements:

(in thousands of euros)	
Dec. 31, 1999	
Share capital increase and reserves	69
Cash flows generated by operating activities	27,459
Financial investments, net	(14,829)
Dividends paid to shareholders	(31,107)
	(18,408)

Other assets mainly consist of receivables from the tax authorities which rose from Euros 42.5 million to Euros 50 million.

Other liabilities chiefly comprise taxes payable for income taxes (Euros 3.1 million) and liabilities for the payment of the unified VAT return filed for the entire Group, with a contra-entry in other assets (Euros 16.2 million).

In view of the positive trend of all the investment holdings, the result for the current year is expected to show an improvement over that of 1999.

RESOLUTIONS

Appropriation of net income

The year ended December 31, 1999 showed a net income of Euros 39,588,619.

The Board proposes the distribution of dividends, gross of withholding taxes, of:

- Euro 0.062 for each ordinary share
and
- Euro 0.0724 for each savings share.

A tax credit equal to 58.73 percent is due on the dividends proposed for distribution. In conformity with the priorities established by D.P.R. 917/86, article 105, paragraph 5, these same dividends are attributed the full refund for the tax credit.

Specifically, the tax credit amounts to:

- Euro 0.0364 for the proposed dividends on ordinary shares;
- Euro 0.0425 for the proposed dividends on savings shares.

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

Resolution

The shareholders' meeting:

- having examined the Report of the Managing Partners;
- having examined the Report of the Board of Statutory Auditors;
- having examined the financial statements at December 31, 1999, which show a net income of Euros 39,588,619

passes a resolution

a) to approve:

- the Report of the Managing Partners;
- the balance sheet, statement of income, the notes to financial statements for the year ended December 31, 1999 as presented by the Board of Managing Partners in their entirety, in their individual items, with the accruals proposed;

b) to appropriate the net income of Euros 39,588,619 as follows:

- | | | |
|---|-------|------------|
| • to the legal reserve (until it reaches one-fifth of share capital) | Euros | 438,927 |
| • to the shareholders: | | |
| Euro 0.062 to each of 561,160,025 (*) ordinary shares, for a total of | Euros | 34,791,922 |
| Euro 0.0724 to each of 34,418,257 savings shares, for a total of | Euros | 2,491,882 |

with the assignment of the tax credit as proposed by the Board of Managing Partners

- | | | |
|------------------------|-------|-----------|
| • to retained earnings | Euros | 1,865,888 |
|------------------------|-------|-----------|

(*) Net of 2,617,500 treasury shares.

Proposal for the purchase and disposition of treasury shares

Dear Shareholders,

Under the resolution passed on December 22, 1998, you authorized the purchase of treasury shares (ordinary or savings) for a maximum amount of Lire 50 billion and for a period of 18 months from the date of the resolution.

This authorization, which has never actually been used, will expire on June 21, 2000.

With regard to the purchase of treasury shares, the same opportunities now exist which persuaded the managing partners to propose to you the December 1998 resolution, that being the convenience of taking action (in accordance with the law and ensuring equal treatment to the shareholders), in relation to contingent market situations, to act as a stabilizing force in improving the liquidity of the market, favor normal trading and facilitate the maximum consistency between the list price and the intrinsic value of the stock.

The opportunity also exists to include the authorization to dispose of the treasury shares currently held in the same resolution which we are proposing to you.

We therefore propose, with today's shareholders' meeting, to proceed to issue the new authorization, canceling the existing authorization since it was not used; the related procedures for the purchase and sale, as well as the procedures for the sale of the treasury shares already held in portfolio are contained in the following resolution.

If in agreement, we ask you to approve the following

RESOLUTION

“The shareholders’ meeting

- having taken note of the proposal by the managing partners;
- having taken note of the provisions of articles 2357 and 2357-ter of the Italian Civil Code;
- having taken note that, as of today, the company holds 2,617,500 ordinary treasury shares equal to 0.44 percent of share capital amounting to Euros 311,061,806.64.

VOTES

- a) to cancel the resolution passed by the shareholders on December 22, 1998 authorizing the purchase of treasury shares and the disposition of the same, as it was not used;
- b) to authorize the purchase of treasury shares (ordinary or savings shares) of par value Euro 0.52 each for a maximum amount of Euros 25 million, establishing that:
 - the purchase can be made in one or more instances within 18 months of the date of this resolution;
 - the purchase price of each share shall not be either lower or higher, in both cases, than a maximum of 15 percent of the average reference price registered by the Italian stock exchange in the three trading sessions prior to each single transaction;
 - the maximum number of shares purchased shall not be higher than that representing 5 percent of the shares constituting the share capital each time, also in observance of the total limit of ownership of 10 percent established by law;
 - the purchase shall be made by using retained earnings and/or the share premium reserve as shown in the latest approved financial statements, setting up a reserve for treasury shares in the manner and limits established by law;

- the Board of Managing Partners can dispose, without any time limit, of the treasury shares already held or thus purchased even before having completed all the purchases; the sale can occur in one or more instances; the shares shall be sold through a sale or exchange (also through a public offer, to the shareholders, to employees - also as part of any stock option plans -); in the event of sale, the price shall not be less than the lower of the purchase prices; the shares can also be sold by being attached to bonds or warrants for their exercise.
- c) to confer to the Board of Managing Partners and on its behalf the Chairman and Deputy Chairman, separately, any and all powers necessary to make purchases and sales and in any case to carry out the preceding resolutions, also through those holding power of attorney, fulfilling that eventually required by the appropriate authorities.”

The Board of Managing Partners

Milan, March 20, 2000

The Managing Partners