

Pirelli & C. S.p.A. Milan

Annual Report 2006  
Sustainability Abstract

Call to the AGM
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## Chairman's letter

To the shareholders,

2006 was a particularly demanding year for the Pirelli & C. Group which dealt not only with the complexity of normal business operations but had to confront important challenges on the financial front.

From the standpoint of operations, the Group continued on the path of growth begun in the last few years thanks to the good performance of all its activities, especially the Tyres and Real Estate sectors. In fact, the consolidated figures show that revenues grew by 6.5 percent to nearly Euros 5 billion, with a gross operating margin of 8.2 percent, and operating income exceeded the threshold of Euros 400 million, recording double-digit growth (+13.1 percent).

These results confirm the excellent state of the health of the Group's activities and the validity of our strategy of focusing on sectors with greater value-added and with a higher technological content.

During the course of 2006, besides, the Group further expanded its presence worldwide in the wake of a tradition that spans a century in which Pirelli is a protagonist of the competition in the major international markets. As regards industrial activities, in particular, Pirelli Tyre commenced the production of high-performance tyres in Romania, inaugurated a new truck tyre production facility in Brazil and consolidated its presence in China, where in the next few months the current truck tyre factory will be joined by a new car tyre plant. But 2006 was also the year of the internationalization of Pirelli Real Estate, a protagonist in important deals in Poland and especially in Germany where it concluded the agreement for the acquisition of DGAG, one of the foremost real estate companies in the country with its main offices in Hamburg and Kiel.

On the financial front, the first part of the year was the focus of the project for the listing of Pirelli Tyre on the stock market. The objective of this operation was the further development of the company, which its launch on the market would have been an optimal way for its intrinsic value to emerge. However, the difficult market conditions and, above all, the sharp drop in the market prices of the major operators of the sector during the final stages of the process led us to choose to withdraw the offering last June 30. But the idea of listing Pirelli Tyre on the stock market was not abandoned. At the beginning of August, in fact, we signed an agreement with a syndicate of leading financial institutions for a private placement of 38.9 percent of the company, finalized with a view to a successive Initial Public Offering.

Again on the financial side, we began a plan to dispose of non-strategic investments with the aim of focusing still further on the core businesses of the Group. With regard to Olimpia, Pirelli increased its investment in 2006, raising it from 57.66 percent to 80 percent following the purchase of the stakes held by Hopa, Banca Intesa and UniCredit at the end of pre-existing shareholders' agreements. Nevertheless, the market performance of Telecom Italia shares, below the expectations of Pirelli's management, and the reduction in the target price by analysts led to a decline in the market value of that investment. As a consequence, at the board of directors' meeting, we decided to adjust the carrying amount.

The amount of the adjustment in the consolidated financial statements was equal to Euros 2,110 million and corresponds to the value assigned to Olimpia's asset (the Telecom Italia shares) of Euros 3 per share versus the previous value of about Euros 4 per



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share. This transaction had an impact on the net result of Pirelli which, despite its good operating performance reported a loss of Euros 1,048.8 million on consolidation and will not allow the company to pay out dividends for the year 2006. The adjustment of the value of the Telecom Italia investment in Olimpia, however, had no repercussions on the soundness of the equity and financial position of our company which, at the end of 2006, reported consolidated equity of Euros 4,686.6 million and net financial debt of Euros 1,979.6 million, a figure in line with the forecasts announced to the market.

As for Olimpia, finally, the Pirelli board of directors' meeting last March 12 vested me with the power to explore all possible options, not excluding that of its total disposal, to achieve the best strategic valuation of the asset in the interests of all the stakeholders. Moving on to the individual businesses, in tyres, Pirelli Tyre recorded an increase in sales of nearly 9 percent and a growth in operating income compared to 2005, despite higher raw material costs which hurt the tyre industry throughout the world. In an economic scenario that was not favorable, the company managed to grow more than the average of the market thanks to efficiencies and, above all, to the product mix, the outgrowth of its positioning in the high range of the segments. The performance of the Consumer market (cars and motorcycle), in particular, was excellent: strong gains were recorded in both sales and operating income. Demand was particularly positive in Europe and in North America (even though the market in that area was negative), confirming Pirelli's leadership in the high-performance, ultra-high-performance and Winter segments. In the Industrial market, in spite of a general rise in demand which had a positive effect on sales, operating income is lower than in 2005 owing to the peak reached in the price of natural rubber, the main raw material cost item of the sector. As for Pirelli's international presence, the start of the new truck plant at Gravatai (Brazil) allowed the company to complete its investment program in the Industrial segment with additional production capacity and a better competitive position. In the second half of the year, moreover, the new car tyre production facility came on line at Slatina (Romania) and once fully operational will be able to manufacture each year 4.5 million high-performance tyres slated for the European market and employ about 1,000 people. The overall investment totals Euros 170 million and makes it possible to bring into being, together with the steelcord factory inaugurated in 2005, one of the most important industrial hubs of the company in the world. In real estate, Pirelli Real Estate recorded double-digit growth in the main economic indicators, in particular, in operating income including the earnings of investment holdings (+15 percent) which reached the top range in the three year 2006-2008 business plan (CAGR 10-15 percent). During 2006, the company consolidated its leadership position in Italy and, with Pirelli Pekao Real Estate in Poland and DGAG in Germany, accelerated the expansion process in Central-East Europe. Asset management reached Euros 14.5 billion (14 percent of which is outside Italy), with a growth of 12 percent compared to 2005. In March 2007, moreover, Pirelli Real Estate was awarded the management of the first private fund seeded by state-owned properties managed by the Sicily Region. The acquisition of Ingest Facility from the Fiat Group followed in the same month; this company has become the leader in the facility management sector in Italy and is now branching out to create a European pole. As for the start-ups, Pirelli Broadband Solutions reported a 15.3 percent gain in sales, linked in part to a significant contribution by second-generation photonics, and achieved breakeven at the

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operating level for the time since it was set up. After having consolidated the top position on the market in Italy, the company has commenced the internationalization process, marketing its solutions in Europe for broadband access (specifically residential gateway accesses and dual-mode telephones) and higher-margin photonics products (components and optical modules for improving the performance and the flexibility of telecommunications networks). Pirelli Ambiente, too, active in the sectors of the environment and sustainable development, reached an operating breakeven and confirmed the growth trend in sales (+12.2 percent). In 2006, moreover, the company signed the lease contract for land in the Romanian county of Gorj on which a production facility will be built for anti-particulate filters for diesel vehicles destined for the original equipment market in Europe.

The growth of the results of the start-ups is also the outcome of synergies with Pirelli Labs, the center of technological excellence of the Group. In 2006, Pirelli Labs continued its research activities on innovative materials and on optical technologies for telecommunications, sectors in which it has also sealed two new partnerships with the ENEA and the CNR Istituto sull'Inquinamento Atmosferico research centers. Besides collaborating with all the businesses of the Group, Pirelli Labs has also gone forward on the joint research projects with important national and international centers such as Politecnico di Milano University, Georgia Tech and the Alberta Research Council.

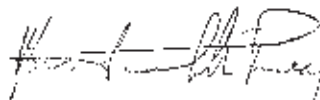
Pirelli's commitment on the front of innovation is also confirmed by the latest figures of the World Organization of Intellectual Property Organization (Wipo), according to which in 2006 our company is in the top three in Italy for international patent filings.

For 2007, the strategy of focusing on segments with higher value-added and the good performance of the core businesses allow us to forecast a further improvement in results. This path on the road to growth will thus continue thanks to the quality and the values which have always been the trademark of the Pirelli Group and its persons; orientation towards results, ability to innovate and compete on international markets, allegiance, correctness and transparency.

Loyalty to values, in fact, has always been the inspiration behind all of the Group's actions and this leads us to dedicate a section to the Sustainability Report. Now in its second edition, the report aims to be the full expression of the company culture founded on the integration of economic choices with environmental and social ones, representing an indication of priorities and, at the same time, an encouragement to work for the satisfaction of all the stakeholders.

It is to them that we wish to offer a description that is the most exact possible of the activities of the Group, also from this particular point of view. The promotion of a sustainable industrial growth is increasingly appreciated by the financial markets and the rating agencies and the whole of public opinion as an important element in the evaluation of corporations, as a premise for healthy and long-lasting growth.

On January 23, 2007, Leopoldo Pirelli, Honorary Chairmen of the company passed away. The memory full of respect and affection is not only mine and that of family and friends alike but of all those who have, as Pirellians, lived the entrepreneurial adventure of the company from the postwar period until today.



# ANNUAL REPORT 2006

## SUSTAINABILITY

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# 1. PIRELLI AND SUSTAINABLE DEVELOPMENT

*"A well-run multinational corporation does not just export investments, production, technologies and expertise. It also exports progressive personnel policies, state-of-the-art environmental protection systems and standards of behaviour that are at least on a par with those adopted in the other regions of the world in which it operates.*

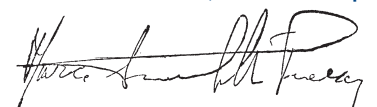
*By its very nature, the multinational corporation exports respect for the different cultures with which it has to operate and interact, drawing new life-force from them in terms of ideas and how situations are addressed.*

***It exports social responsibility.***

*It does not, therefore, just grow available wealth, it also contributes to raising the ethical level of the economic environment."*

**Marco Tronchetti Provera**

Chairman, Pirelli Group



### A note on methodology

This, the second edition of the Pirelli Group Sustainability\* Report, is intended to be a full and complete expression of the Pirelli corporate culture. It does this by reporting the group's economic choices together with its environmental and social choices, in line with the 'triple bottom line' approach. For this reason, the details of our sustainable performance are included in the Annual Report, instead of being published separately. This is a clear sign of the importance that sustainable development holds for Pirelli, and at the same time it encourages us to operate to the satisfaction of all stakeholders\*. It is, in short, a move towards growth that is both sound and long-lasting.

The report has been drawn up according to the Sustainability Reporting Guidelines\* issued by the Global Reporting Initiative (GRI\*). Analysis of sustainable performance is based on a set of Key Performance Indicators \*(KPI), developed in conformance with GRI indicators (updated to the G3 standard) and according to the principles of the Global Compact, and also taking account of data periodically monitored by the major rating agencies.

The sections on economic and social relations have also drawn on the 'Principles of Sustainability Report Accounting' issued by the Sustainability Report Study Group of the Italian Ministry of Labour and Social Policy.

In this section we have concentrated on what we believe will be of most interest to the reader, bearing in mind the wide variety of stakeholders. We have shown Pirelli's corporate social responsibility in its essence, without undue emphasis on the goals that have been achieved, while transparently illustrating critical issues that have emerged, and highlighting and explaining the progress in 2006 of what was reported in 2005.

## 1.1. IDENTIFICATION OF STAKEHOLDERS AND APPROACH ADOPTED

The term 'stakeholder' means 'holder of legitimate interests' in the company, i.e. parties (individuals or groups) who have an interest in the company's decisions, influence its success and/or are influenced by the organisation's activities.

Pirelli Group encompasses several different business areas, each of which is responsible for sustainability as it affects that business area. Consequently, relations with stakeholders are to a certain degree heterogeneous, which may be regarded as a beneficial diversity in Pirelli's ways of listening to and involving stakeholders.

Pirelli Group adopts a multi-stakeholder approach, which means that it pursues lasting and sustainable growth based as far as possible on the equitable reconciliation of the interests and expectations of all who interact with the company, in particular:

- » Environment
- » Shareholders
- » Human Resources
- » Customers
- » Suppliers
- » Institutions
- » External Community



There are many and varied initiatives, activities, tools for dialogue and projects of specific interest to the categories of stakeholders listed above. These are explained in detail in chapters 2, 3 and 4 of this report, to which the reader is referred for further information.

## 1.2. GOVERNANCE OF CORPORATE SOCIAL RESPONSIBILITY\*

As regards corporate identity and Group organization, please see Preliminary Information and Directors' Report that precede this section.

For Pirelli, governance of CSR means integrating sustainability with the various different aspects and precincts of company management. Among other things, this translates to the mapping, control and sustainable management of all risks associated with the company's activities.

Clear evidence of this approach is found in the Group's advanced Principles of Corporate Governance and in its Sustainability Documents, which together support Pirelli's Vision and Mission on the subject of sustainable development\*.

The sustainability model adopted by the Group is in its turn based on the principles of the United Nations Global Compact, to which Pirelli has formally adhered since 2004.

Operational management of CSR benefits from an effective organisational structure that extends throughout the company and which was set up in order to better govern the Group's sustainability. To this must be added the recently-issued operative procedure for Corporate Social Responsibility, which sets out and regulates the methods for internal management of activities associated with Corporate Social Responsibility, with particular attention to the roles and responsibilities of the departments involved. These regulations also govern the planning and control processes and the process of drawing up this Sustainability Report.

The following sections contain a more detailed discussion of the topics mentioned above.

### CORPORATE GOVERNANCE

As part of its tradition of transparency and integrity, Pirelli actively participates in reciprocal relations with the financial community (and in particular with shareholders, both institutional and private), by organising periodical meetings in Italy and abroad and by ensuring that all stakeholders receive the same level of information, as specified by current legislation in force.

In recent years Pirelli Group has set up a Corporate Governance system in line with best practices in Italy and beyond.

Of particular note in this regard is the recent effort to nominate independent and minority representatives in the company's board of directors. As of 12 March 2007, independent directors represent over fifty per cent of the total (ten out of nineteen, four of which are nominated by the 'minorities').

In order to take full advantage of the role played by independent directors, the Group's Board of Directors starting from November 2005 decided to introduce the role of Lead Independent Director, who acts as a point of reference and coordination for all independent directors.

For more details and discussion please see the Corporate Governance Report. In addition, the



homepage of the corporate website ([www.pirelli.com](http://www.pirelli.com)) gives access to the webpage for the Group's Corporate Governance system.

## VISION

Right from its origins, Pirelli has always been aware that its performance as a company could not be considered exclusively from an economic point of view, but that it would also have to account for its contribution to the quality of the environment and the social system, in view of the complex connections and interactions that exist between the economic, social and environmental dimensions.

Pirelli considers that the principal challenge that a company must confront in order to be sustainable and to remain in business over time is that of creating value. The company must reconcile the expectations of the various stakeholders, even where these are not in agreement with those of the company.

Based on this principle, Pirelli prefaces its 'Policy for Health, Safety, Environment and Social Responsibility' as follows:

*"Pirelli supports and respects the protection of internationally-proclaimed human rights, is committed to implementing the ethical code approved by the Board and is engaged in continuous improvement of social, ethical, health and safety and environmental aspects. Pirelli considers the protection of the integrity, health and welfare of its employees and of the environment as one of the primary needs that is to be respected in organizing its activities. Pirelli abides the principle of 'Sustainable Development' and undertakes to put it into practice."*

## THE MISSION IN THE GROUP'S SUSTAINABILITY DOCUMENTS

### THE VALUES AND ETHICAL CODE OF THE PIRELLI GROUP

In order to provide all the Group's affiliates with convincing and uniform guidelines on the professional practices to be followed by those working in the company, in July 2003 the Board of Directors of Pirelli & C. S.p.A. approved the 'The Values and Ethical Code of the Pirelli Group'.

The document has been translated into the languages spoken within the Group and issued to all Pirelli employees. The document is publicly available in the 'Sustainability' area of the Pirelli website ([www.pirelli.com](http://www.pirelli.com)).

The Group's ethical code outlines the general principles (transparency, correctness and loyalty) that inspire the way it does business. It summarises the objectives and values of the company's activities with regard to the main stakeholders that Pirelli & C. S.p.A. regularly interacts with: shareholders, the financial market, associates, customers, and the community.

Observance of the ethical code is required by a specific clause inserted by Pirelli in its General Conditions for Purchase of Goods and Services. Please see the 'Suppliers' section for more details.

The nine articles of the ethical code are not given in the present paragraph, but are reported as opening statements to the relevant paragraphs.

## PIRELLI POLICY ON HEALTH, SAFETY, ENVIRONMENT AND SOCIAL RESPONSIBILITY

Within an international context in which the economic, environmental and social expectations are ever more demanding, the policy adopted by Pirelli in June 2004 has further enhanced the correct balance between sustainability and industrial development. As well as introducing the principle of sustainable development, Pirelli's policy for Health, Safety, Environment and Social Responsibility brings together in a single document the previous policies on the environment (first drawn up in July 1995 and updated in September 2000) and on safety at work (September 1995).

Pirelli Group has always considered the protection of the integrity, health and welfare of its employees and of the environment as one of the primary needs that is to be respected in organizing its activities, by adhering to the principle of sustainable development and by striving to commit, among others, to the following principles:

- » to manage its activities by adopting health, safety, environmental and social accountability Management Systems in compliance with international standards;
- » to communicate and spread health, safety, environmental and social accountability information to internal and external stakeholders, actively co-operating with national and international academic and legislative bodies;
- » to promote the use of the most advanced technologies in order to achieve the excellence in safety, workers' health and environment protection;
- » to assess and reduce the environmental impact of its processes/products by adopting the LCA (Life Cycle Assessment) approach;
- » to use material resources responsibly, with a view to achieving sustainable growth that respects the environment and the rights of future generations;
- » to appraise the risks of work injury or occupational ill health in order to eliminate or reduce them, by complying with the legislation in the various different countries as a minimum requirement;
- » not to engage in or support the use of child labour and forced labour;
- » to ensure equal opportunity, freedom of association, and to promote the development of each individual;
- » to establish and maintain appropriate procedures to evaluate and select suppliers and subcontractors based on their commitments to social and environmental accountability;
- » to involve all levels of the organization and all Group employees by assuring that responsibilities and operating procedures are precisely defined, appropriately communicated and clearly understood.

Pirelli is committed to continuously improve its policy and programmes, as it is committed to implement procedures, rules and instructions serving to ensure that the values embodied in the policy are reflected in the conduct of each company and in the conduct of its employees and collaborators.

The HSE & CSR policy has been translated into the various different languages spoken within the Group and issued to all Pirelli employees, in the same way as for the ethical code.

Observance of the HSE & CSR policy is required by a specific clause inserted by Pirelli in its General Conditions for Purchase of Goods and Services. Please see the 'Suppliers' section for more details.

The text of the policy is publicly available in the 'Sustainability' area of the Pirelli website ([www.pirelli.com](http://www.pirelli.com)).

#### PIRELLI GROUP EQUAL OPPORTUNITIES STATEMENT

Pirelli's commitment to equal opportunities in the workplace is clearly set out in its 'Equal Opportunities Statement', signed by the Group's Chairman.

This document is the fulcrum of the Group's equal opportunities programme. For more information on this programme, please see the 'Social Dimension' section.

The declaration:

- » confirms Pirelli's strong commitment, as firm today as in has been in the past, to comply with the principles of equal opportunities in the workplace, without any form of discrimination on the basis of gender, marital status, sexual orientation, religious or political beliefs, union membership, colour, ethnic origins, nationality, age or disability;
- » declares Pirelli's opposition to any and all forms of discrimination, direct and indirect, and/or harassment of individuals or groups by others;
- » sanctions Pirelli's commitment to preventing discrimination in all areas of working life, including selection and all decisions related to remuneration, professional status, the assignment of responsibilities, training and career development, and specifies that all such decisions are made solely and exclusively on the basis of the competence, experience and professional potential that individuals possess and the results that they achieve.

The declaration also indicates the objectives that Pirelli has set itself:

- » acknowledge and promote the importance of individual differences in all company processes;
- » identify and eliminate any form of discrimination that may hinder equal access to employment opportunities;
- » guarantee genuine equality of treatment of all company employees in every sector, role and level of seniority and in all positions of responsibility, thereby acknowledging the results and potential of all individuals;
- » foster diversification in individual professional choices.

The declaration has been translated into the various different languages spoken within the Group and issued to all Pirelli employees at the end of 2006. The document is publicly available in the 'Sustainability' area of the Pirelli website ([www.pirelli.com](http://www.pirelli.com)).

#### THE GROUP'S SUSTAINABILITY MODEL: THE UN GLOBAL COMPACT

The concept of the Global Compact was first proposed on 31 January 1999 in Davos by the then Secretary General of the UN, Kofi Annan, in an appeal to the World Economic Forum. The Secretary General invited the leaders of the world economy to adhere to the Global Compact,

an international initiative to support specific, universal principles that would bring together companies, UN agencies, unions and civil society.

The Global Compact is a voluntary initiative intended to promote responsible company policies, and is based on a network centred around the Global Compact Office and several UN agencies.

More specifically, the Global Compact requires companies to implement and support ten basic principles in their spheres of influence. The principles cover human rights, working standards, the environment and the fight against corruption. They are universally shared, and are directly based on the Universal Declaration of Human Rights, the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention against Corruption.

In October 2004 in a letter to the then Secretary General of the UN, Kofi Annan, Pirelli Group formally declared its adherence to the Global Compact and its commitment to observe and support the ten principles.

In particular, this letter included the following passage:

*“With this communication, we express our intent to support and advance those principles within our sphere of influence. We commit to making the Global Compact and its principles part of the strategy, culture and day-to-day operations of our company and undertake to make a clear statement of this commitment - both to our employees, partners, clients and to the public. We support public accountability and transparency and will report on progress made in a public manner.”*

Pirelli has always been attentive to the environment and human rights, and the Group's commitment in this regard has been formalised in recent years with the publication of 'The Values and Ethical Code of the Pirelli Group' in 2003 and the 'Pirelli Group Policy for Health, Safety, Environment and Social Responsibility' in 2004 (both of which are discussed above). The application of these policies completely fulfils the principles of the Global Compact.

Within the required deadline, Pirelli provided the Global Compact Office with evidence of the development and progress reached in its sustainable activities.

## MANAGEMENT OF CORPORATE SOCIAL RESPONSIBILITY

### ORGANISATIONAL STRUCTURE OF CORPORATE SOCIAL RESPONSIBILITY

Governance of Corporate Social Responsibility is centred around the Corporate Social Responsibility Steering Committee, a high-level organ that was formed at the beginning of 2004 by the Chairman to guide and supervise the advancement of CSR throughout the Group. The CSR organisational structure is made up of a Group HSE&CSR Director, a Group CSR Manager, Sector CSR Managers (one for each sector of the Group) and Company CSR Managers (one for each affiliated company in the Group).

In conformance with the above-cited principle “...ensure equal opportunity... promote the development of each individual” declared in the Policy for Health, Safety, Environment and Social Responsibility (see above) and to implement article 6 of the Group's ethical code, which says “Working relationships are managed with a view to guaranteeing equal opportunities and pro-

*moting the personal development of each employee*", in 2005 the Chairman nominated an Equal Opportunities Steering Committee\*, a high-level organ to guide and supervise programmes for equal opportunities in the company. At the same time, in order to steer the implementation of the Equal Opportunities Programme (see above) within the Group, and also to achieve better organisational balance and to monitor the advancement of equal opportunities at all affiliated companies, an Equal Opportunities Manager was nominated for the Group as a whole. Finally there are Equal Opportunities Managers for each country, who are responsible for guiding and supervising the advancement of equal opportunities at a local level.

## 2006 OPERATIVE PROCEDURE ON CORPORATE SOCIAL RESPONSIBILITY

On 16 September 2006 the Operative Procedure on Corporate Social Responsibility was released and distributed throughout the Group.

Taking its cue from the shared Preface, which states *"Attention to all stakeholders (employees, customers, suppliers, shareholders, the environment, the community etc.) enables the company to manage and improve its impact on the environment and on society, and at the same time increasing the creation of value"*, this document sets out and regulates the methods for internal management of activities associated with Corporate Social Responsibility, with particular attention to the roles and responsibilities of the departments involved. These regulations also govern the planning and control processes, the process of drawing up this Sustainability Report, and the processes of managing the dissemination of CSR information to the external community.

In particular, the Operative Procedure expressly specifies the full integration of CSR into the Group's financial reporting structure (*"The cycle of planning and control of CSR follows the Group's reporting and planning calendar"*), along with the approvals procedure for projects that have an impact on CSR, the process for planning objectives, and finally the methods of reporting CSR to the external community, to meet the increasing needs of the markets to assess a company's degree of sustainability at an international level.

## NEW IT SYSTEM\* FOR MANAGING CSR INFORMATION

The Group is developing a new IT system for managing CSR information. This system should be operational by the end of 2007.

The system is geared towards achieving further efficiencies in the process of contribution, validation, consolidation, analysis and management of information relating to CSR.

The new IT system will become an extremely valuable tool for everyone who deals with CSR within the Group. It will further improve the qualitative and quantitative monitoring of the progress of sustainability at all levels – local, Sector and Group.

### 1.3. MANAGEMENT SYSTEMS APPLIED AND REFERENCE STANDARDS

To implement the first principle of the Policy for Health, Safety, Environment and Social Responsibility, Pirelli devotes significant resources to management systems, availing of these tools to improve the quality, effectiveness and efficiency of its processes. This results in further reductions in the impacts on the health of its employees, on safety conditions in the workplace and on the environment.

These systems are fully described in their relevant paragraphs in the sections below.

In 2004 the international SA 8000\* standard was adopted as the point of reference for assessing the consistency of the Group's conduct with the CSR principles defined in that standard.

### 1.4. SUSTAINABILITY INDEXES

Pirelli Group's commitment to CSR and the positive results achieved in this area have won significant recognition by means of the company's inclusion in some of the most prestigious international stock exchange indices for sustainability.

#### DOW JONES SUSTAINABILITY INDEX

Pirelli was selected for the Dow Jones Sustainability STOXX (DJSI STOXX) index for the first time in 2002. Today it is included in both the Dow Jones Sustainability World index and the STOXX index.

Launched in 1999, the Dow Jones Sustainability Indices are the first global indices to track the financial performance of leading companies in terms of sustainability. The indices, which are based on the cooperative efforts of Dow Jones, STOXX Limited and SAM, provide reliable, objective information in terms of benchmarks for managers of sustainable fund portfolios.

#### FTSE INDEXES

Pirelli has been included in the FTSE Global and Europe indices since 2002.

FTSE is an independent company, held by the Financial Times and the London Stock Exchange.

The FTSE4Good Series indices were created by FTSE to measure the performance of companies in terms of their observance of internationally-recognised standards of social responsibility, and to facilitate investment in these companies.



FTSE4GOOD 2006 LOGO

## ASPI INDEX

Pirelli has been included in the ASPI Eurozone® index since the beginning of 2005.

The family of ASPI Eurozone® indices (the acronym stands for Advanced Sustainable Performance Indices) includes the 120 best-performing companies in terms of sustainability (the reference world are the companies included in the DJ EURO STOXXSM index).

## SIRI SUSTAINABILITY ASSESSMENT

Pirelli's assessment in 2006 was the second best in its industrial sector with a score that was approximately 30% higher than the sector average.

Sustainable Investment Research International Ltd is the biggest independent research and consulting body for socially-responsible investments worldwide for institutional investors and financial professionals. SIRI publishes detailed profiles of the 600 most important international groups.

## AXIA INDEXES

Pirelli has been included in the Axia Ethical Index since 2004 (the year the index was created) and in the Axia CSR Index since 2005 (the year the index was created).

Pirelli is also included in the Axia Euro Ethical Index and the Axia Euro CSR Index.

Pirelli entered the Axia CSR indices with a rating of A++, one of the highest on the Axia scale. The Axia indices follow international best practices in corporate social responsibility, on a range of companies selected from those with the biggest capitalisations from the S&P MIB and Eurostoxx60. The Axia indices interact with the major international platforms for financial operators.



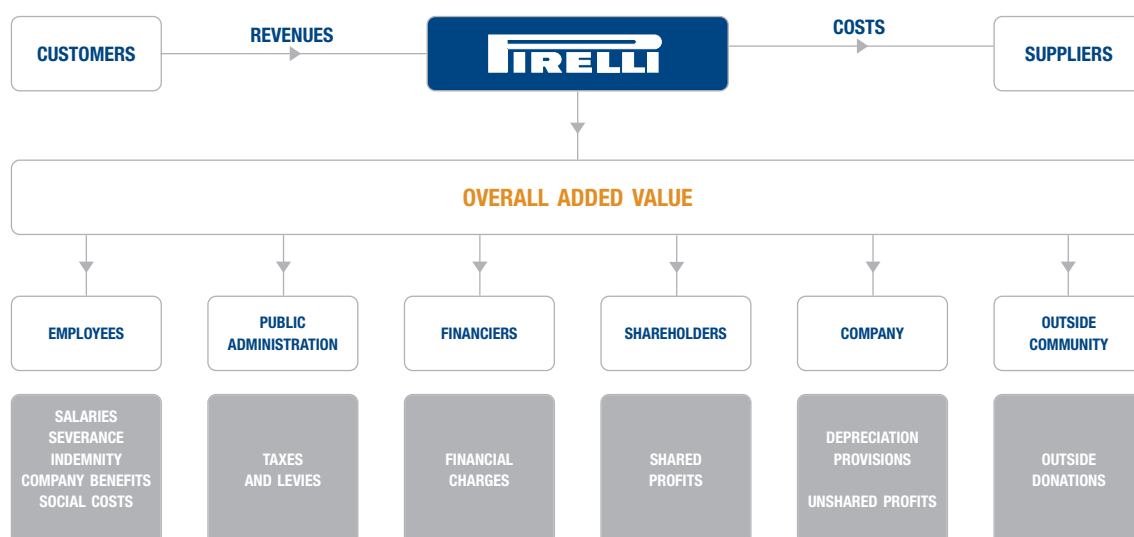
## 2. ECONOMIC DIMENSION

*The companies in Pirelli Group are committed to contributing to the economic well-being and growth of the community in which they operate, by providing efficient and technologically advanced services. (article 5 of the Ethical Code - 'Community').*

### 2.1. ADDED VALUE

Added value means the wealth created over a given period, calculated as the difference between the revenues generated and the external costs sustained in the period.

The distribution of added value between the stakeholders allows to express, in monetary terms, the existing relations between Pirelli and the major stakeholders, so shifting attention to the socio-economic system in which the Group operates (as shown in the diagram below).



The added value created by Pirelli & C. Group in 2006 was shared out as follows:

	Year 2006 <sup>(1)</sup>		Year 2005	
	(thousands of euro)	%	(thousands di euro)	%
<b>GROSS OVERALL ADDED VALUE</b>	<b>1,996,516</b>		<b>1,836,320</b>	
<b>A.</b> Payments to personnel	(1,075,819)	53.9%	(1,029,880)	56.1%
<b>B.</b> Payments to Public Administration	(127,849)	6.4%	(128,484)	7.0%
<b>C.</b> Payments of credit capital	(126,976)	6.4%	(90,672)	4.9%
<b>D.</b> Payments of venture capital	(78,299)	3.9%	(149,492)	8.1%
<b>E.</b> Payments to the company	(579,535)	29.0%	(429,361)	23.4%
<b>F.</b> Ouside donations	(8,038)	0.4%	(8,431)	0.5%

<sup>1</sup> The gross overall added value for 2006 does not take into account non-recurring operations recorded in the period. In particular: the disposal to third parties of 38.9% of Pirelli Tyre SpA and the entire holding in Capitalia (631 million euro), and the costs sustained for the IPO (13 million euro) and the depreciation of the affiliate company Olimpia (2,110 million euro).

The table below shows the contributions and donations made by Gruppo Pirelli & C. in 2005 and 2006, subdivided by category:

	Year 2006	Year 2005
AREA OF INTERVENTION	(thousands of euro)	(thousands of euro)
Education	1,246	799
Culture	5,188	5,533
Sport	244	450
Research	339	290
Solidarity	739	914
Other	282	445
<b>TOTAL</b>	<b>8,038</b>	<b>8,431</b>

It may readily be seen that the contributions and donations made in 2006 are mainly in line with the previous year.

Please see the 'Social dimension' section, subsection 'Corporate initiatives' for the external community', for a detailed description of the principal actions associated with these contributions and donations.

Finally, the companies in the Group *"do not contribute or confer advantages or other benefits upon political parties and trade union organizations or their representatives and candidates, without prejudice to compliance with the relevant prevailing legislation"* (from article 5, 'Community', of the Ethical Code).

## 2.2. SHAREHOLDERS

*“Group companies are committed to ensuring equal treatment for all categories of shareholders, avoiding any preferential treatment. The reciprocal benefits that derive from belonging to a group of companies are pursued in accordance with the relevant legislation and the autonomous interests of each Group Company as it seeks to create value” (article 3 of the Ethical Code - Shareholders).*

Ordinary shares – the most common form of holding in the company’s share capital – confer on their holders voting rights at ordinary and extraordinary shareholders’ meetings. Among other functions, these meetings serve to approve the financial statements, nominate the members of the company organs and modify the articles of association.

Savings shares confer to their holders a series of rights listed in article 6 of the articles of association, in addition to a privileged position in the distribution of profits.

In this regard, article 18 of the articles of association of Pirelli & C. specifies the preferential withdrawal on annual earnings (known as the ‘preferential dividend’) as 7 per cent of the nominal share value of these shares (euro 0.52). In addition, the earnings that remain after assigning the preferential dividend are divided among all shares so that the savings shares receive a larger dividend than ordinary shares, by an amount of at least two per cent of the nominal share value.

Finally, it should be noted that if the company does not distribute profits (i.e. it distributes less than 7 per cent of the nominal value), savings shareholders have the right to recover the minimum dividend for this period in the following two periods.

Savings shareholders do not have voting rights or the right to ask questions at ordinary shareholders’ meetings. However, they can attend the special savings shareholders’ meeting to elect (or dismiss) their common representative and to deliberate resolutions on topics concerning their share category.

Among other things, the Common Representative of the savings shareholders has the right to attend (as an observer) the ordinary shareholders’ meetings of the company, regardless of their nature or agenda, and to contest resolutions adopted by the meeting.

It is the company’s constant and unwavering policy to take advantage of the shareholders’ meetings to disseminate information about the company and its prospects to the shareholders. Obviously this activity is conducted in observance of regulations governing the confidentiality of information and hence where necessary this information is simultaneously released to the market. Great care is also taken in the choice of location, date and time of the meeting, in order to facilitate the attendance of shareholders. Finally, the company has adopted a series of “Regulations for Shareholders’ Meetings”. This document regulates ordinary and extraordinary shareholders’ meetings, and it guarantees the right of each member to speak on topics under discussion.

Based on data in the shareholders’ register, the body of ordinary shareholders is made up of a component of ‘core’ shareholders who hold approximately 52% of ordinary share capital. The remaining 48% of this capital (known as ‘free float’) is subdivided jointly between institutional investors (10% of which are foreign) and retail investors (numbering approximately 107,000).

The ‘core’ shareholders adhere to a shareholders’ agreement, the “Pirelli & C. S.p.A. Block Share Syndicate”. The objective of this agreement is to ensure a stable shareholder base and a uniform strategy in the management of the company. At the present time this agreement includes approximately 46.2% of the ordinary shares issued.

A top priority of Pirelli & C. S.p.A. is the establishment and maintenance of constant dialogue with its shareholders and with institutional investors. To this end, in the early 1990s the company set up an investor relations department, which was tasked with implementing an ongoing programme of communication and dissemination of information to the financial community and in particular to investors (institutional and retail), financial analysts and sales representatives.

Relations with the financial community are maintained through the organisation of meetings or conference calls (over 200 in 2006) to present the company's periodic economic & financial results and the related strategies for development.

One of the methods for disseminating information that deserves special mention is Pirelli's website. From the website's home page visitors can access the investor relations area, which contains all documents distributed at meetings with the financial community, documents containing published economic and financial information about the company, and all other documents relating to the company's corporate governance system.

A further indication of the importance that Pirelli accords the market is the fact that both the Group parent company, Pirelli & C. S.p.A., and its subsidiary, Pirelli & C. Real Estate S.p.A. (also listed on the electronic trading system organised and managed by the Italian stock exchange), have prepared an innovative information tool exclusively for retail investors: the Shareholders' Manual. This document is the end product of company experience based on international best practices, and it may be downloaded from the Pirelli website.

## 2.3. CUSTOMERS

### TYPE OF GROUP CUSTOMERS

The types of customer served by Pirelli Group differ greatly from one business area to the next.

The tyre sector serves the following categories of customer:

- » Original Equipment, which includes the leading international makers of cars, motorcycles, scooters, commercial vehicles (light, medium and heavy), buses and agricultural machinery.
- » Replacements, a group which includes around fifteen distribution channels (for car, truck and motorcycle tyres), and whose importance differs from country to country.

In the real estate sector we have:

- » Asset & Fund Management, whose customers consist of funds and property-owning companies in which Pirelli & C Real Estate generally has qualified minority shareholdings.
- » Service companies, whose customers include, in addition to third parties, funds and property-owning companies and non-performing loans managed by the Asset Management departments of Pirelli & C Real Estate.
- » The Franchising Network, made up of affiliate agencies distributed throughout Italy.

Customers of Pirelli Broadband Solutions can be divided into the following categories for the broadband access and photonics business areas:

Broadband Access (BBA) products:

- » VARs (Value Added Resellers)
- » System Integrators
- » Telecom Operators

New-generation photonics products from the photonic business area:

- » Operators/System Integrators (CWDM systems)
- » Equipment Manufacturers (components and modules)

The companies under Pirelli Ambiente have the following categories of customer:

- » Customers in the Renewable Energy sector, i.e. companies that convert urban solid waste to energy.
- » Customers in the Site Remediation sector, i.e. companies – mainly in the Group and other closely-related companies – that assess, plan and manage the demolition and decontamination of buildings and/or lands.
- » Customers of Pirelli Ambiente Eco Technology, i.e. companies that operate in public transport, goods transport, waste collection, the mining sector and in construction. Pirelli Ambiente Eco Technology also operates through partners that are licensees of its Gecam™ technology and which operate independently in Italy. In addition to receiving royalties on its licensees' sales, the company also (indirectly) performs the technical and marketing activities associated with the product.

#### DISTRIBUTION OF SALES BY GEOGRAPHIC AREA

GEOGRAPHIC AREA	% on total number of customers	% on total sales value	
	Year 2006	Year 2006	Year 2005
Italy	38%	27%	32%
Rest of Europe	38%	33%	36%
North America	2%	7%	7%
Central and South America	13%	21%	17%
Australia, Asia, Africa	9%	12%	8%

#### GROUP POLICIES

Customer orientation – a central element in the Values and Ethical Code of the Pirelli Group – presumes a constant and ongoing commitment from Pirelli in terms of:

- » Comprehension of the market context in which the Group operates
- » Consideration of the impact of the Group's actions and behaviour on the customer
- » Exploiting every opportunity in doing business in order to satisfy the customer's needs

These principles are made explicit in articles 2 and 4 of the Pirelli Ethical Code. The relevant extracts are given below.

The companies of the Group:

- » *“pursue market excellence and competitiveness, offering customers a quality of service that effectively meets their requirements;”* (from article 2, , of the Ethical Code - 'Aims and Values')
- » *“the excellence of the Group's products and services is based on customer service and the readiness to meet customer needs. The aim is to offer immediate, thoroughgoing and competent responses, tailored to the needs of customers, and in keeping with the spirit of legality, courtesy and co-operation.”* (article 4 , of the Ethical Code - 'Customers')

The company's commitments to the customer described above are similarly made explicit in the General Conditions of Supply applied by the Group companies.

The great variety in the Group's categories of customer means that there is an equally wide variety of different methods for dialogue and interaction between the customers and the corresponding businesses. For the 2006 report, it was decided to present a case study of the relations between the tyre sector and its customers, describing the quality management systems adopted and the level of attention devoted to the customer's "safety".

## FOCUS ON PIRELLI TYRE

### METHODS OF DIALOGUE AND INTERACTION BETWEEN PIRELLI TYRE AND ITS CUSTOMERS

In addition to the daily contact with the sales organisation operating in the territories, customer relations are handled by the Sales and Marketing departments, mainly via the following channels and methods:

- » *Contact Center\**
- » *B2B*
- » Periodic Customer Satisfaction Surveys\* periodically carried out to evaluate the satisfaction level using the following methods: :
  1. Mystery Survey\* (except for Brazil and the USA)
  2. Computer Aided Telephone Interviews\* with mother-tongue operators
  3. Pirelli DB (universe)
  4. Survey of satisfaction scores (on a scale of 1-5)

The table shows the results of the surveys for the last 2 years:

	Year 2005	Year 2006
Overall satisfaction level (range: 1 - 5)	3.88	3.94
Number of countries	11	13
Sample - weight on total business	69%	80%

### ATTENTION TO QUALITY: CERTIFICATIONS AND RECOGNITION

The attention given to quality by Pirelli Tyre, both as producer and as supplier, is demonstrated by the certifications it has obtained, which conform to international standards and deal with aspects of both the processes and the products and services offered to customers.

In particular:

#### ISO 9001

Pirelli Group has had a quality management system since 1970 and since then has gradually introduced it in all its plants. From 1993 onwards the Group obtained certification of its quality system under the ISO 9001 standard. Currently 100% of the factories are certified to the most recent edition of this standard.

## ISO/TS 16949

To meet the requirements of the car makers, from 1999 onwards Pirelli Group obtained certification for its quality management system under the ISO/TS 16949 standard, and has since maintained its certification under the standard in force. All factories that supply the car makers have obtained this certification.

## ISO/IEC 17025

In 1993, the Materials and Products and Outdoor Experimentation Lab of the Pirelli Group introduced a quality management system which is accredited under the ISO/IEC 17025 standard. This quality management system is maintained in conformance with the standard in force.

Pirelli's car tyres are an excellent example of the company's focus on quality, which is confirmed by Pirelli's winning of a large number of product tests, and also by the company's close links with some very prestigious partners (famous car makers, specialist magazines, driving schools etc.) for product development and experimentation.

The table shown below gives the results of various different product tests on winter tyres, conducted by the leading specialist magazines:

MAGAZINE	ISSUE	TESTED PATTERN	SIZE	TEST VEHICLE	MARK	FINAL RESULT
	Oct-06	Pirelli W190 SnowControl	185/60 R 14 T	VW Polo	-	Very recommendable
	Oct-06	Pirelli W210 SottoZero	195/65 R 15 H	VW Golf	-	Very recommendable
	Nov-06	Pirelli W240 SnowSport	235/40 R 18 V	Audi S4	252/270 points	Very recommendable TEST WINNER
	Nov-06	Pirelli W210 SottoZero	225/45 R 17 H	VW Golf	-	Recommendable
	Nov-06	Pirelli Scorpion Ice&Snow	235/65 R 17 H	MB M Class	-	Exemplary TEST WINNER
	Oct-06	Pirelli Scorpion Ice&Snow	255/55 R 18 H	MB M Class	279/300 points	Very recommendable TEST WINNER
	Oct-06	Pirelli W210 SottoZero	205/55 R 16 H	VW Passat	262/300 points	Recommendable
	Oct-06	Pirelli W240 SottoZero	225/40 R 18 V	Ford Focus	117/150 points	Very recommendable
	Oct-06	Pirelli Citynet Winter Plus	215/75 R 16	Ford Transit	8,9/10 points	Very recommendable TEST WINNER



## PIRELLI TYRE'S COMMITMENT TO CUSTOMER SAFETY

Pirelli has always been foremost in pursuing product innovation to improve quality and safety for the end consumer.

To achieve this, Pirelli Tyre avails of its close cooperative links with the leading car makers in a market segment that is particularly thorough and demanding: the Ultra High Performance segment, an area where Pirelli is the leading brand.

An example is the breakthrough K-PRESSURE OPTIC product. This innovative safety device was developed to simplify the life of the motorist by automatically taking care of a routine vehicle check that is often overlooked or underestimated in terms of safety value.



THE K-PRESSURE OPTIC SENSOR

The K-PRESSURE OPTIC system is as intuitive as it is easy to use – no maintenance is required – which uses sensors inserted in place of the valve caps on tyres. These sensors clearly indicate, without the need for additional devices, if the pressure\* in the tyres is correct or below the alert threshold.

This ease of use means that motorists can devote all their concentration on driving, knowing that their tyres are at the correct pressure and that they only need to stop at a service station when it is actually necessary to inflate the tyre. Checking tyre pressure, which has always been regarded as “something only petrol-heads do” although it is essential for the everyday safety of all motorists, is transformed into a quick and easy everyday task: a glance at the colour of the valve is all that is needed to dispel any doubts about tyre pressure.

Other innovative products introduced alongside K-PRESSURE OPTIC include:

- » Run-flat or self-sealing tyres
- » Specialist tyres for new types of vehicles and new uses, for example winter UHP tyres for ultra-high performance supercars for mixed road/track use, run-flat tyres for SUVs etc.
- » Tyres with increasingly low noise emission levels, for decreased environmental impact
- » Materials that are innovative and advanced in terms of increasing compatibility with the environment (for example the elimination of aromatic oils)

And it must not be forgotten that Pirelli assumes an active and direct role in the global increase in the attention that motorists pay to tyres and, consequently, to their safety. This role is partly fulfilled by means of special advertising campaigns, such as the winter tyres campaign in Italy which saw Pirelli play an institutional role in the dissemination of information on the equivalence of using winter tyres and snow chains.

## 2.4. SUPPLIERS

### GROUP POLICIES

Pirelli Group maintains a sustainable approach to its suppliers. In this regard the Pirelli policy on Health, Safety, Environment and Social Responsibility expressly states the company's commitment *"to establish and actively maintain the procedures to evaluate and select contractors and subcontractors based on their commitment in the field of social and environmental responsibility."*

CSR has been integrated in both the General Conditions for Purchase of Goods and Services, applied by the company to its suppliers, and the phases of Vendor Approval and Vendor Rating, as described in more detail below.

The purchasing processes are described in the Purchasing Manual. This document sets out guidelines and procedures that are aimed at ensuring both transparency in internal processes and honesty in business dealings, and also integrity and contractual impartiality in relations between the company and its suppliers.

The purchasing processes have been reinforced by the development of new technologies (e.g. electronic auctions) that by their nature help enforce the measures for contractual transparency put in place by Pirelli.

For the most important suppliers, the purchasing policies allow for long-term contracts, partnership contracts and, in some cases, shared growth strategies.

### NEW GENERAL CONDITIONS FOR PURCHASE OF GOODS AND SERVICES

In 2006 Pirelli drew up its new General Conditions for Purchase of Goods and Services, which were to be introduced to all orders/tender contracts stipulated by the Group. This contract includes some clauses that specifically refer to Pirelli's Ethical Code and Policy for Health, Safety, Environment and Social Responsibility. The stipulation of a supply contract involves the supplier's signing of these clauses, which commit the supplier to adopting behaviours at their company that adheres to the content of the aforementioned ethical code and CSR policy. Pirelli also has the right to carry out audits to verify this adherence.

The new conditions are already applied to the Group's Italian suppliers and they will be extended to all foreign suppliers by the first months of 2007.

### DISTRIBUTION OF PURCHASES BY GEOGRAPHIC AREA

The table below shows the geographical distribution of purchases, distinguishing between OECD and non-OECD countries. The table also gives the percentage weight of purchases made in each area over the total value of all purchases made.

DISTRIBUTION OF PURCHASES BY GEOGRAPHIC AREA				
		% on total number of suppliers	% ov total purchases value	
GEOGRAPHIC AREA		Year 2006	Year 2006	Year 2005
OECD countries	EUROPE	73.0%	63%	67%
	NORTH AMERICA	4.0%	6%	9%
	OTHERS (1)	0.2%	2%	2%
Non-OECD	LATIN AMERICA	19.2%	15%	11%
	ASIA	1.6%	12%	10%
	AFRICA	1.8%	2%	1%
(1) Australia, New Zealand, Japan and Korea				

Over 80% of all purchases made by the entire Group are made up of goods and services purchased by the tyre sector.

For this reason, for the 2006 sustainability report we decided to focus on Pirelli Tyre's relationships with its suppliers.

## FOCUS ON PIRELLI TYRE

The table below shows the distribution by type of goods and services purchased by Pirelli Tyre in 2005-2006. The table also gives the percentage weight of purchases made in each area over the number of suppliers and over the total value of all purchases made.

DISTRIBUTION BY TYPE OF GOODS AND SERVICES PURCHASED BY TYRE SECTOR				
TYPE	% of number of suppliers		% of total value of purchases	
	Year 2006	Year 2005	Year 2006	Year 2005
Raw materials	7%	8%	56%	37%
Consumables	5%	5%	4%	4%
Services	80%	78%	32%	30%
Plant and equipment	8%	9%	8%	29%

## DIALOGUE AND INTERACTION BETWEEN PIRELLI TYRE AND ITS SUPPLIERS

### *Raw materials suppliers*

Relations with suppliers are defined and enforced by specific company processes.

There are two fundamental underlying phases to supplier management:

- 1) Supplier approval (more commonly known as *Vendor Approval*)
- 2) Supplier monitoring (more commonly known as *Vendor Rating*)

### *The homologation process*

The process of approving new suppliers of materials already in use or of new materials is governed by the MP 063 Quality Standard, "Approval of materials for purchase and their vendors". This interdepartmental process of approval follows definite and specific rules, and it concludes with the addition of the approved material/vendor to the Vendor List. The Vendor List is the company's list of approved suppliers for each individual product.

### *The vendor rating process*

The goal of the Vendor Rating process is to evaluate suppliers according to the following criteria:

- » Quality of the product supplied or service provided
- » Quality of commercial relations
- » Technical/scientific cooperation
- » Performance in terms of safety in the workplace, environmental responsibility and corporate social responsibility

In 2007 the Pirelli CSR policies will be integrated into the Vendor Approval phase.

The process owner\* of this interdepartmental activity is the Sector Purchasing Department, which circulates the Vendor Ratings to the suppliers every year.

The Vendor Rating is periodically reviewed and commented on by the Purchasing Department. This process involves meetings organised with the suppliers, the aim of which is to identify any corrective action that may be regarded as necessary for improving results.

The procedures described above are followed by the entire Sector and are supported by a special website available on line via the Purchasing Portal. This website provides centralised support for surveys, feedback and the definition of support actions. This provides both an assurance of process uniformity and a guarantee of transparency, apart from being an excellent knowledge sharing tool.

#### MEASURES AND PROCESSES ADOPTED BY PIRELLI TYRE IN 2006

The processes of dialogue and interaction with suppliers are the object of continual process improvement, both in qualitative terms and in terms of tools. Several measures and processes were adopted by Pirelli Tyre in 2006 to improve the purchasing process, both internally and in terms of supplier relations:

- » Training courses have been developed on buyer professionalism (EIMP) and buyer-supplier relations
- » A Purchasing Portal has been set up as a tool for communications and ongoing training. All company standards and procedures (Purchasing Manual, Ethical Code) are available on the site, as well as the Vendor List and Vendor Ratings
- » The main purchasing processes have been automated and linked to the company SAP platform. These processes include raw materials requirements planning (MRP project) and the entire process governing requirements and supply of natural rubber, from the individual units to the purchasing centre in Singapore (PTE S'pore project)
- » The order/delivery/invoice flow with suppliers have been automated by means of WEB or HUB platforms (the RNC project), via EDI documents and document scanning

The above measures started in 2006 and their completion is projected for 2007 at all Pirelli Tyre facilities worldwide.

## 3. ENVIRONMENTAL DIMENSION

### 3.1. THE PIRELLI APPROACH TO ENVIRONMENTAL MANAGEMENT

*"Group companies believe in sustainable international growth in the common interest of all-stakeholders, both current and future. Their investment and business decisions therefore reflect respect for the environment and public health. Without prejudice to compliance with specific prevailing legislation, Group companies are aware of the importance of environmental issues when making choices, not least in the adoption of specific technologies and manufacturing methods (where this is technically feasible and economically viable) that allow for the reduction of the environmental impact of their operations, even beyond the minimum limits set down by regulatory requirements."* (article 7 of the Ethical Code - Environment)

Through the implementation of measures to apply the principles mentioned above, Pirelli Group is achieving and reporting appreciable results. In particular, progress has been made in the following fields:

- » Mitigation of the environmental impact resulting from the company's own activities, products and services
- » Rational use of natural resources and energy
- » Promotion of a 'culture of prevention' with regard to pollution
- » Conservation, development and appreciation of the territory

All this has been achieved despite the extremely wide and varied range of business areas that the Group's companies operate in, including:

- » Manufacture of tyres for cars, industrial vehicles, goods transport vehicles, buses, motorcycles and steel cord, all produced by Pirelli Tyre
- » Activities in the telephony sector, with products for photonics\* and for broadband internet access (non-photonic), used to develop leading-edge innovative solutions for the latest generation of telecommunications infrastructures: Pirelli Broadband Solutions
- » The real estate sector: Pirelli & C. Real Estate
- » Environmental decontamination, waste-to-energy generation, and development of alternative eco-compatible technologies (i.e. new fuels, innovative systems for exhaust gas abatement etc.): Pirelli Ambiente Holding
- » Research and development in the fields of new materials and optoelectronic components: Pirelli Labs

In the sector in which it operates, each of the above companies invests the maximum possible care in responsible management of the environmental aspects of its activities, products and services, and of the environmental impacts associated with them.

Wherever possible, and particularly in the case of companies that have Production Units, Pirelli Group promotes the use of international reference standards for developing and implementing environmental management systems that are effective, efficient and aimed at continual improvement of its environmental performance.

The following sections describe in detail the main environmental aspects of the various different sectors of the Group, together with the related initiatives undertaken by the companies involved.

### 3.2. **PIRELLI TYRE S.P.A.**

Pirelli Tyres engages in a vast range of activities, both in the production of tyres for cars, industrial vehicles, goods transport vehicles, buses and motorcycles, and the production of steel cord (a component used mainly in the manufacture of tyres).

The company has 24 Production Units located in Europe, the US, Latin America, Asia and Africa. They are divided into two types of business units: tyre (for manufacturing tyres, as noted above) and steel cord.

The sections below analyse these two main business units separately, both in terms of production and in terms of environmental aspects, impacts and indicators.

Pirelli Group is also a contributing member of the World Business Council for Sustainable Development (WBCSD), an association of 190 international companies distributed throughout 30 countries that have made a voluntary commitment to unite economic growth with sustainable development.

Since 2005 the WBCSD has identified a list of global problems (e.g. the protection of ecosystems and biodiversity, the promotion of sustainable production and consumption etc.). The inescapable result of addressing these problems is the transformation of the currently-existing system of doing business.

Pirelli's active participation in the WBCSD has undoubtedly contributed to expanding the Group's knowledge in terms of the methods it can use to achieve real sustainable development..

#### **THE ENVIRONMENTAL MANAGEMENT SYSTEM\***

The Policy for Health, Safety, Environment and Social Responsibility adopted by Pirelli Group specifies the definition and implementation of management systems that enable it to govern its activities, products and services based on internationally-recognised standards.

In the area of prevention of pollution, the ISO 14001\* standard has been identified as the reference standard for the environmental certification of management systems. In the area of health and safety in the workplace, the reference standard chosen is the OHSAS 18001\* standard (see the section dedicated to the description of this standard).

For Pirelli Group, certification of the environmental management system is something that essentially concerns the manufacturing activities of Pirelli Tyre S.p.A., which comprise the Group's most important activities in terms of potential impacts on the environment.

Despite this, the same recognition has also been obtained by Group companies operating in the areas of design, research, logistics, and services, including the Tyre Test Track at Vizzola Ticino (Varese, Lombardy), and Pirelli & C. Real Estate Facility Management.

In the tyre and steel cord sector, of the 24 factories and facilities in the Group as at 31 December 2006, 22 have implemented and obtained environmental certification of their management systems.

The first certifications were obtained in November 1998 for the Brazilian factory in Santo André and the Turkish factory in Izmit.

Upcoming certifications are for the steel cord and tyre factories in Romania, which are currently in the development and startup phase.

The effort put in at Group level, to define common guidelines and procedures for the introduction of environmental management systems and their related ongoing maintenance and monitoring activities, has further expanded the Group's knowledge of environmental problems and its skills for their prevention and resolution and, in many cases, has paved the way for improvements in performance with consequent mitigation of environmental impacts.

This positive trend can be seen in the tables and graphs given in the sections below on the various different companies of the Group.

In 2006 no environment-related incidents occurred with negative consequences for health or the environment. However, one tyre-making facility was fined euro 10,000 for an anomaly detected in its water discharges. At the time of going to press, the solution to this problem (proposed and agreed with the local authority) is nearing completion.

#### ENVIRONMENTAL CERTIFICATION OF THE VIZZOLA TICINO TEST TRACK

In addition to the Production Units, the company also has centres for carrying out scientific tests of tyre/vehicle performance. These centres conduct experiments and trials of tyres under various different conditions of use, using subjective and instrument controlled techniques.

Of these test centres one deserves particular mention: the test track located in the town of Vizzola Ticino (in Varese province in Italy), which was designed and built at the end of the 1960s on a site close to the Ticino river. In early 2005 the track adopted an environmental management system certified under the UNI EN ISO 14001/2004 standard.

In addition to being used by the various Group companies for experiments and tests (in which it plays an essential role in researching the indirect environmental aspects associated with the development of new tyres and vehicles with reduced environmental impacts), the track is home to sports events, driving schools, and motoring clubs, as well as being used by car manufacturers and trade magazines for joint tests and shows.



THE VIZZOLA TICINO TEST TRACK



The achievement of environmental certification by the Vizzola track takes on a special importance when we consider that its 26 hectares lie within the *Parco Naturale Lombardo della Valle del Ticino* (Lombardy Ticino Valley Natural Park), an Italian nature reserve that is listed as a UNESCO MAB (Man and Biosphere) area – one of 425 biosphere reserves in 95 countries worldwide.

Implementing the environmental management system has enabled waste management optimisation targets to be defined and achieved. Similarly, programmes spanning over several years have been set up and are currently underway to rehabilitate and redevelop the internal green areas with plantings of indigenous plant species, elimination of ozone depleting substances\*, and support for university programmes to develop vehicles with low environmental impacts.

Due to its special location in a protected area, the test track is in constant contact with the offices of the Municipality of Vizzola Ticino and of the Parco Naturale Lombardo della Valle del Ticino.

Through an agreement with the Park Administration, the test track contributes in economic terms to the environmental improvement of the external area. This work is carried out by the Park authorities.

#### HEALTH, SAFETY AND ENVIRONMENT DATA MANAGEMENT ("HSEDM" DATABASE)

In parallel with the definition of specific common guidelines and procedures for drawing up and implementing management systems in individual Production Units, the HSE Department has made a database available on the Pirelli company intranet. This database was developed using web-based logic, which allows enabled users to load data and related performance indicators and make them available in real time. In addition to monitoring the performance (and therefore the objectives) of each individual environmental management system, this database also enables the production of the document you are now reading, together with any other form of report that becomes necessary from time to time.

As in previous years, quantification of the equivalent emissions of greenhouse gases\* (especially CO<sub>2</sub> and NO<sub>x</sub>\*) has been performed using conversion coefficients taken from the sources given below:

ENERGY CONVERSION FACTORS FOR CO <sub>2</sub> AND NO <sub>x</sub> EMISSIONS		
TYPE OF ENERGY	Source	Conversion factor
Natural gas	BUWAL 250	57.0 kg CO <sub>2</sub> /GJ 0.06 kg NO <sub>x</sub> /GJ
Diesel	Idemat 2001	2983.3 kg CO <sub>2</sub> /t diesel 9.7 kg NO <sub>x</sub> /t diesel
GPL	Idemat 2001	2703.6 kg CO <sub>2</sub> /t GPL 13.2 kg NO <sub>x</sub> /t GPL
Fuel oil	BUWAL 250	88.9 kg CO <sub>2</sub> /GJ 0.23 kg NO <sub>x</sub> /GJ
Electricity	BUWAL 250	119 kg CO <sub>2</sub> /GJ 0.26 kg NO <sub>x</sub> /GJ

## TYRE PRODUCTION

### THE COMPOSITION OF A STANDARD TYRE

A tyre may be seen as a compound or, in other words, a solid assemblage of materials with very different properties, whose manufacture necessarily requires great precision.

Generally, we can define three distinct groups of raw materials::

- » Raw materials that make up the compounds
- » Raw materials that make up the structure of the tyre
- » Auxiliary raw materials which, although they are used in the production process, do not form part of the finished tyre

The first group includes:

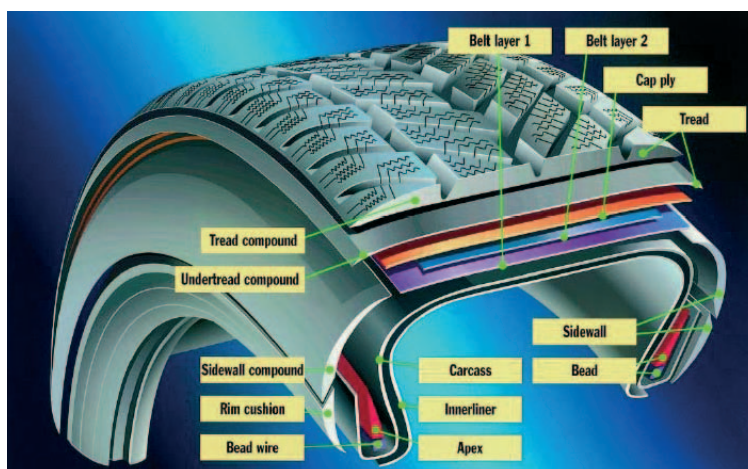
- » Natural and synthetic rubbers
- » Reinforcing fillers (in particular, carbon black)
- » Plasticisers
- » Ingredients for vulcanisation
- » Protectors: anti-ageing and anti-ozonant agents

The second group includes:

- » Brassed steel wire for the bead wires
- » Steel cord for the metal ply
- » Treated raw fabrics for the rubberised bonded fibre ply fabrics

Finally in the third group we have the “auxiliary process” materials (anti-adhesive agents, releasing agents, bonding agents etc.) and a series of auxiliary products specific to the various different phases of the production process.

To better understand the environmental aspects of tyre production, the figure below shows a cross-section through an ‘average’ tyre and identifies the various different parts (known in the industry as “semi-finished materials”) that make up the composite tyre.



(SOURCE: “LIFE CYCLE ASSESSMENT OF AN AVERAGE EUROPEAN CAR TYRE”, PRE CONSULTANTS B.V., 2001)

The following components are particularly important:

- » **Liner:** a layer of synthetic rubber on the inside surface of the tyre. It is perfectly sealed and acts as air chamber.
- » **Carcass:** the load-bearing structure of the tyre, this is made up of thin threads or plies in fabric fibre (up to 1,400 per tyre) set in a straight arc and rubberised. The carcass is the key load-bearing element of the tyre since it withstands the pressure.
- » **Bead:** a padding in the lower area (APEX), which transmits the motor torque and the braking torque from the wheel rim to the ground contact area
- » **Bead wires:** metal rings (two per tyre) made of one or more parallel rubberised wires. The carcass plies are wrapped around the bead wires.
- » **Sidewalls:** generally made of rubber strips that are extremely resistant to repeated bending and oxidation. As well as absorbing some of the dynamic stresses that the tyre is subjected to, the sidewalls protect and reinforce the carcass.
- » **Belt layers:** made up of plies, normally reinforced with very thin but highly resistant steel wires. The belt layers are crossed over diagonally and glued together. The crossover of the belt wires with those of the carcass creates un-deformable triangles.
- » **Tread:** the part of the tyre placed over the belts connecting the vehicle to the road surface. It is made by drawing and it has a trapezoidal shape, with the lower surface slightly hollow and shaped

## PRODUCTION PHASES

In general, tyre production follows the phases described below:

### Compound preparation

The process begins with the production of compounds in the “compound room”, where large, fully-enclosed Banbury\* mixers process the raw materials to correctly distribute the various different ingredients within the finished compound.

Normally the compound is produced via two successive passes with the Banbury: the first pass results in a paste and the second pass results in the proper compound. The compounds used to make tyres are blends of various different raw materials that undergo a processing technique that distributes them evenly throughout the treated mass.

Each raw material has a very specific function and it is added to the compound in well-defined proportions, in order to confer all the specific characteristics required on the finished product during operation.

### Fabric rubberisation

Rubberisation of fibre and metal ply fabrics is done via a process of calendering (which consists of applying two sheets of rubber on both sides of the fabric). This operation is carried out using special machines called calenders.

The bonded fibre ply fabrics are normally purchased from third parties in pieces and then fed into the fabric calenders, which perform the rubberisation.

Similarly, metal fabrics are made from steel cord enclosed in a sheet of compound by means of special metal calenders.

### **Semi-finished products**

Semi-finished materials are individual elements that are bonded together in the tyre-building phases. It is at this point that the tyre begins to take shape. Semi-finished materials can be classified into groups, based on the type of processing they undergo (e.g. bead wires, drawn wires, fabrics etc.)

### **Tyre-building**

Tyre-building is the phase where all the semi-finished materials are brought together to be bonded together and made into a tyre.

Tyre-building is normally separated into two successive phases. In the first phase, which is performed on a manual or automatic tyre-building machine, the end result is a carcass which is made up of body-plyes, bead wires and sidewalls.

Construction is completed in the second phase, which starting from the carcass made in the first phase produces a carcass with dimensions and profiles that are similar to those of the finished tyre. This is known as a “green” tyre.

### **Painting and vulcanisation**

‘Painting’ is the name given to a phase of the process where an aqueous solution is sprayed inside a tyre that has just been made (a “green” tyre) to form a protective layer between the inside surface of the carcass and the vulcanising chamber. This is to prevent adhesion of the non-vulcanised tyre when it is removed after the vulcanisation phase, which could result in pieces of rubber coming away from the tyre.

Vulcanisation is an irreversible process of transformation, obtained by increasing the temperature and pressure to obtain the required shape and elasticity characteristics of the tyre.

Vulcanisation transforms the raw compound, with mainly plastic properties, into a vulcanised compound, with mainly elastic properties.

The vulcanisation process comes about as a result of a series of chemical reactions that progress over time and, accelerated by heat, modify the original molecular structure of the compound. The tyres are vulcanised on special machines that use moulds to determine the final shape of the tyre.

### **Finishing**

In the finishing phase the tyre undergoes a series of visual and instrumental checks to ensure the safety and reliability of the tyres to be sold on the market..

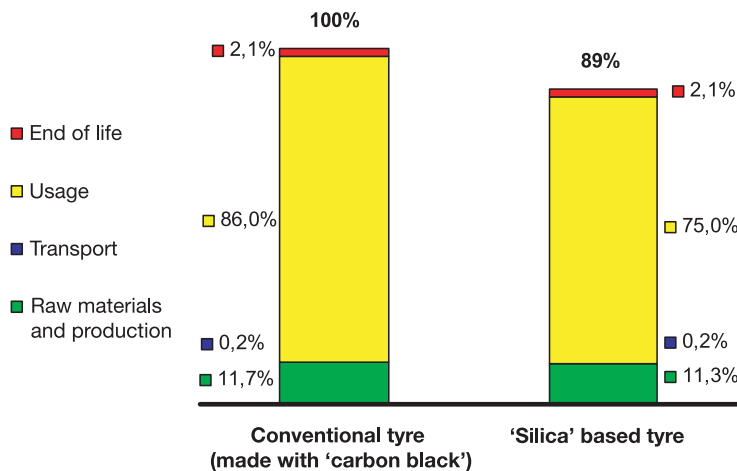
## THE ENVIRONMENTAL IMPACT OF TYRES

### The environmental impact of production

To arrive at a truly complete picture of the environmental impact of producing tyres, we need to widen the sphere of analysis to include the entire life cycle of the product. One methodology for doing this is described in the ISO 14040 standard ("Environmental management - Life Cycle Assessment - Principles and framework").

This approach was followed to analyse the life cycle of an average European car tyre. The analysis was carried out together with the major European tyre makers<sup>1</sup>, and the results allow us to identify and quantify the major environmental impacts for each phase of the tyre's existence – production, use, end of life, and everything in between.

<sup>1</sup> "Life Cycle Assessment of an average European Car Tyre", PRè Consultants B.V. on behalf of BLIC, 2001. This study is representative of the entire range of car tyres, excluding snow tyres.



COMPARISON OF THE DISTRIBUTION OF THE POTENTIAL ENVIRONMENTAL IMPACTS OF TWO TYPE OF TYRES

The most interesting result of the study is the significant environmental impact associated with the usage phase of the tyre which, for a 'traditional' tyre, accounts for 86% of the total impact.

On average tyres account for around 20% of the overall consumption of a car, and this partly explains the high environmental impact generated during its use.

On closer inspection of the impact generated during the usage phase, we can see that around 90% of this impact is due to fuel consumption resulting from friction between the tyre and the road surface, while the rest is due to the outcome of the friction (the so called *tyre debris*).

The above chart also highlights the contribution of the raw materials supply and production stages, which together determine approximately 12% of the total impact (approx. 10% and 2% respectively).

The chart also shows a significant reduction in consumption (2.6%) in tyres containing silica compared to traditional tyres (whose main filler is only carbon black), resulting in an 11% reduction in the total environmental impact.

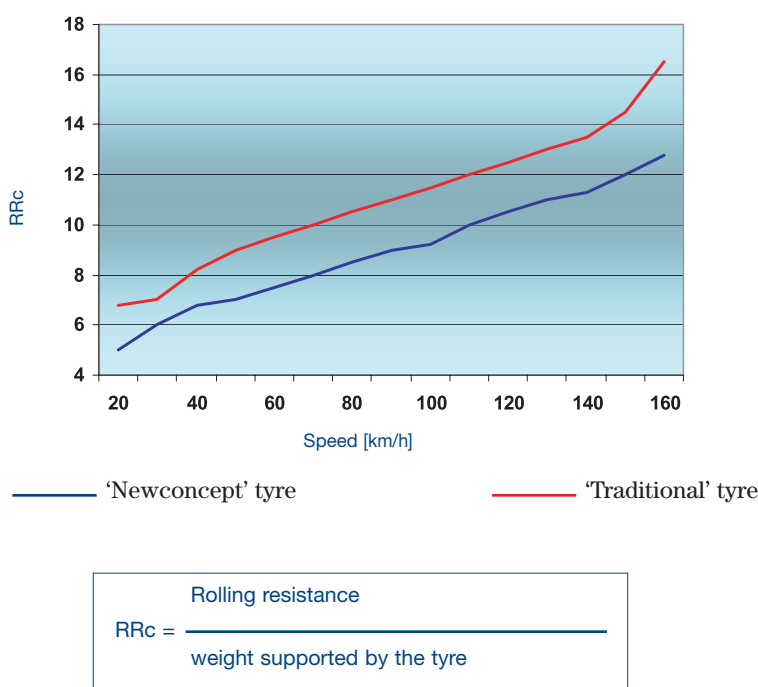
This has led to the development of new compounds for the tread (the part of the tyre responsible for the impact generated in the usage phase), containing silica instead of carbon black.

### The environmental impact of a tyre in the usage phase

To reduce the environmental impact associated with the use of a tyre, Pirelli Group is constantly committed to the research and development of new compounds and new product lines which, through the use of new materials, innovative internal structures and new tread designs, capable of reducing the rolling resistance\* while ensuring the same tyre life.

Without doubt, the overriding priority of research and development is driver safety: the tyre must ensure proper vehicle control in the widest possible range of situations; however, due to the inevitable friction, it is also responsible for some of the vehicle's fuel consumption.

In 2006 work continued on the optimisation of rolling resistance – the force that the tyre opposes against the advancement of the vehicle and which, together with wind resistance and the resistance offered by the mechanical components of the vehicle itself, influence fuel consumption and, consequently, the emission of exhaust gases per unit of distance travelled.



### Rolling Resistance Index trend

The value of this parameter is obviously different for different types of tyre and it depends on a series of factors such as the formulation of the tread compound, the inflated tyre pressure, the speed and weight of the vehicle, the composition and state of the road surface, the ambient temperature, how the tyre itself is used, and so on.

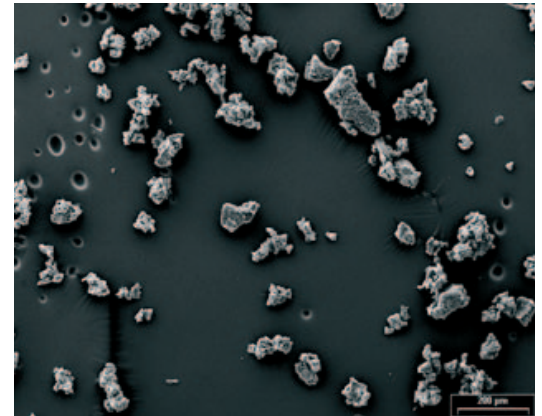
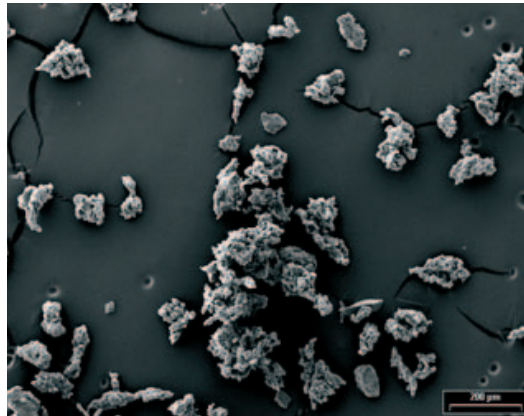
In this context the ELRR ("Extra Low Rolling Resistance") package has been available for some years affecting all components of the tyre to obtain improvements in general tyre performance, as well as further reductions in the rolling resistance.



As noted earlier, a small percentage of the total environmental impact is due to *tyre debris*, i.e. tyre particles worn away as a result of the friction between the tread and the road surface.

It has been estimated that during its life cycle, a tyre produces a quantity of tyre debris of between 10 and 14% of its original weight.

GRANULOMETRIC FRACTION OF UNDER 100  $\mu\text{m}$  FROM THE TYRE DEBRIS GENERATED BY A TRUCK TYRE (LEFT) AND A CAR TYRE (RIGHT)

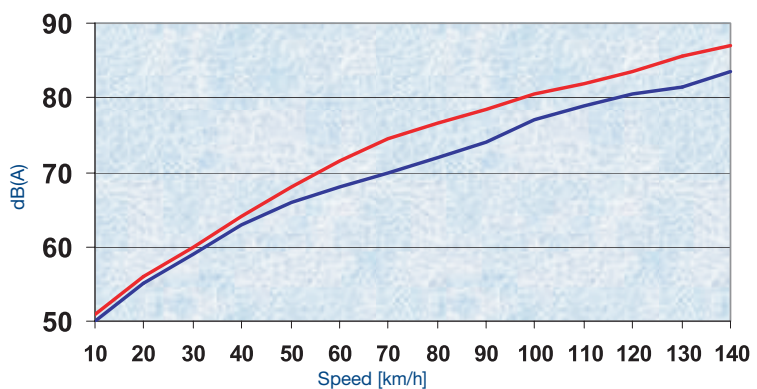


The environmental impact of these particles is still being studied worldwide and Pirelli Group plays its part in this international effort through the continual exchange of information and experience with other tyre makers participating to the specific work group set up under the aegis of the World Business Council for Sustainable Development (mentioned above) via the ETRMA (European Tyre & Rubber Manufacturers' Association).

Another environmental aspect of tyre usage is the noise generated by the tyre, which is studied using special software and by conducting experimental tests, both in the field and in special anechoic chambers.

The chart below shows the difference in sound levels generated by a 'traditional' tyre and a modern, new-generation tyre.

### Noise level



— 'New concept' tyre

— 'Traditional' tyre



In addition to the research aimed at mitigating the environmental impacts directly connected with Pirelli's activities (particularly in the production phase), measures have also been put in place to reduce the impacts generated in the other phases of the tyre's life cycle – phases that are only indirectly or partially related to the Group's activities. Of special note are the selection of raw materials and the rational use of natural resources and energy.

Selection of raw materials: to reduce as far as possible the use of substances that are dangerous

- » Systematic assessment of the eco-toxicological characteristics of any new chemical before its introduction into the production cycle. In particular, following recent European regulations on the classification, labelling and packaging of dangerous substances and preparations, Pirelli has updated the list of substances that cannot be used in its production processes, or for which research programmes are underway to find a replacement.

In this regard, in 2006 approximately one hundred new raw materials have been analysed and assessed.

- » Consolidation of the supplier evaluation system (more commonly known as Vendor Rating), based on concise quantitative criteria to assess the quality and level of service offered, including the supplier's performance in terms of health, safety, environment and social responsibility.

Rational use of natural resources and energy: here the principal results achieved are due to the progress made in optimising the production of high-quality compounds using the CCM (*Continuous Compound Mixing*) system, and also the progressive consolidation of tyre production with MIRS<sup>TM</sup> (*Modular Integrated Robotized System*).

### The CCM process

The CCM process for producing compounds uses a 100% computer-controlled pneumatic distribution system to transport the ingredients from their storage silos to the twin-screw extruders working continuously.

The CCM technology was designed to manage the complexity of the process deriving from the great many ingredients necessary to produce the compound. The computer-controlled management results in improved quality in the compound produced, and consequently in the finished tyre.

Via a specially-designed powder-capture and recycling system for solid materials, CCM technology has reduced dust levels in the production areas to extremely low levels.

The CCM process also saves energy, enabling a reduction of approximately 20% of energy consumption per unit of product.

THE COMPOUND PRODUCTION PLANT USING  
THE CCM PROCESS



### The MIRS™

MIRS™ is an integrated, modular robotic system for making tyres. It has a very high degree of flexibility due to its ability to optimise modularity and logistics.



VIEW OF A MIRS™ UNIT



(LEFT)  
THE MIRS™  
VULCANISATION PROCESS  
(RIGHT)  
TYRES COMING OFF  
THE PRODUCTION LINE

Compared to the traditional, large-scale tyre-building systems with their exceptionally high production rates, designed for customers in different geographic locations, the MIRS™ is a compact production 'island', flexible and easily programmable for extremely rapid adaptation to the production of new models. This system represents a real improvement, obviously in terms of technology but also in terms of logistics, since it can be easily located near the manufacturing process that it serves.

In the MIRS™ process, tyres are built around a heated drum which is tailor-made for a particular tyre model. The drum is continuously rotated by a robot under an extrusion\* device that distributes the rubber over the surface.

The drum rotation and compound feeding movements are coordinated so as to arrive at the correct distribution of materials to create the specific tyre model.

This new robotic process means real improvements in the quality of the product, since the geometric distribution of rubber fibres is extremely consistent over the tyre model.

### End-of-life management of tyres

As noted above, a tyre's end-of-life phase makes a small contribution to the overall environmental impact of the entire life-cycle of the tyre and, among the various final disposal options, burial in landfill is by far the least desirable in terms of environmental compatibility.

For several years Pirelli Group has devoted considerable attention to research into the management of end of life tyres (ELTs), also in view of the Directive 1999/31/EC, which prohibits disposal in landfills of entire ELTs from 2003 onwards (and from July 2006, also fragmented ELTs).

This research has identified several different recycling opportunities for end of life tyres, both in terms of recovering the raw materials that make up the tyres ('material recovery') and in terms of recovering the tyre in the form of fuel with a high heat value\* ('energy recovery'), as a valid alternative to the use of fossil fuels.

#### AVERAGE CHARACTERISTICS OF END-OF-LIFE TYRES <sup>1</sup>

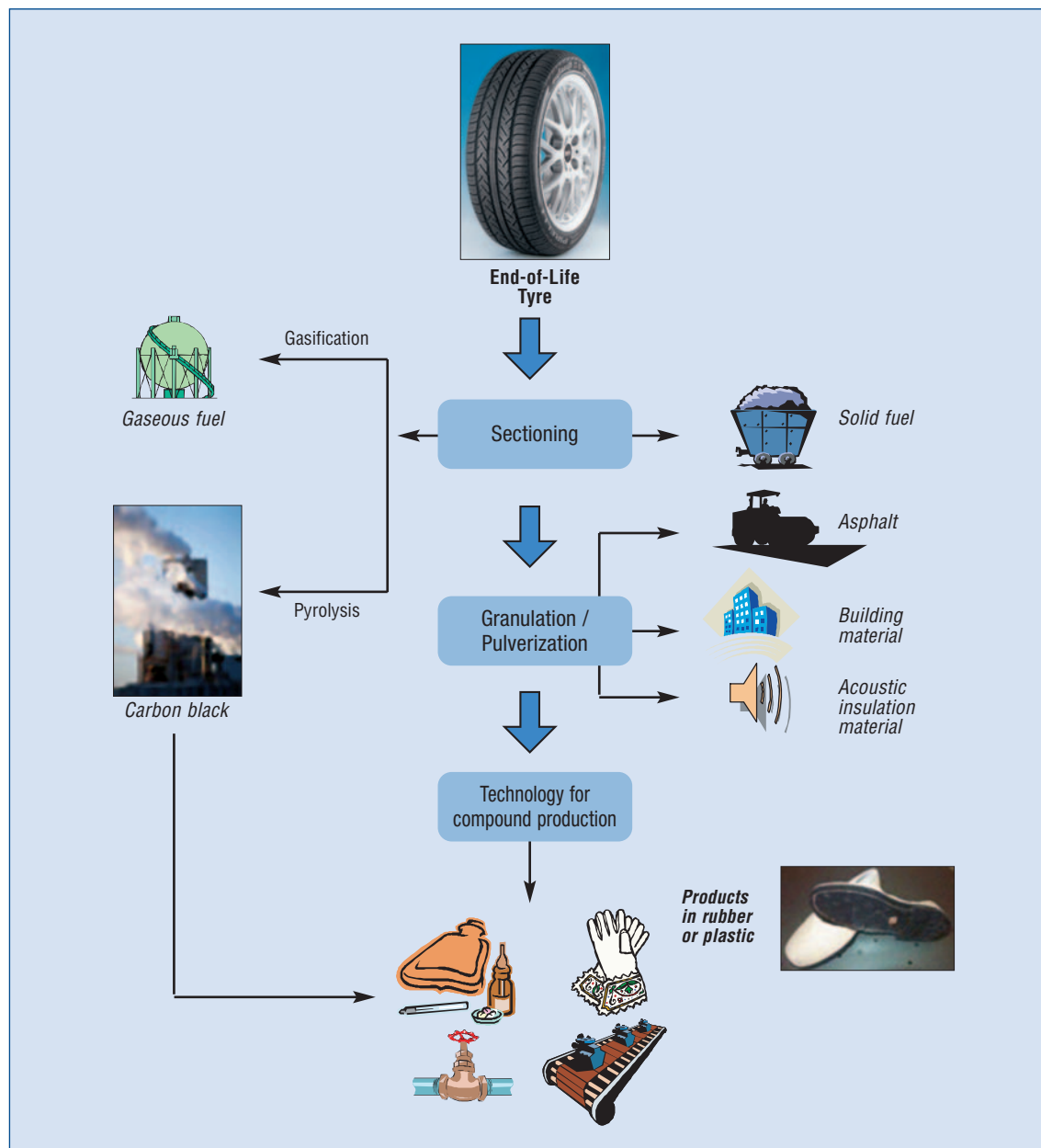
	Average values
Ferrous materials	15%
Ashes	2%
Fuel	81,5%
Sulphur	1,5%
Net heat value	> 7,400 Kcal/Kg
Volatile materials (of the fuel component)	> 70%

<sup>1</sup> U. Ghezzi, M. Giugliano, M. Grosso, S. Pollo, G. Zerbo "The use of tyres as fuel in a cement furnace".

Thanks also to the commitment of Pirelli Labs a number of projects have been developed in the fields of recycling and energy recovery.

As the diagram below shows, the activities in question are focused on the recovery of materials (for example through granulation which, once the 'textile' and 'metal' fractions are separated, provides a rubber granulate that may in turn be ground further to produce a finer powder).

## Tyre recycling diagram



## SUMMARY OF ENVIRONMENTAL PERFORMANCE OF TYRE PRODUCTION

The figures given in this section are relative to the Production Units that manufacture tyres which come under the car, truck/agro and motorcycle business units.

Consumption figures for the factories in Yangzhou (People's Republic of China) are not considered, since these facilities are not yet fully operational.

In line with the sustainability reports of the last five years, the following factors and their environmental indicators are examined:

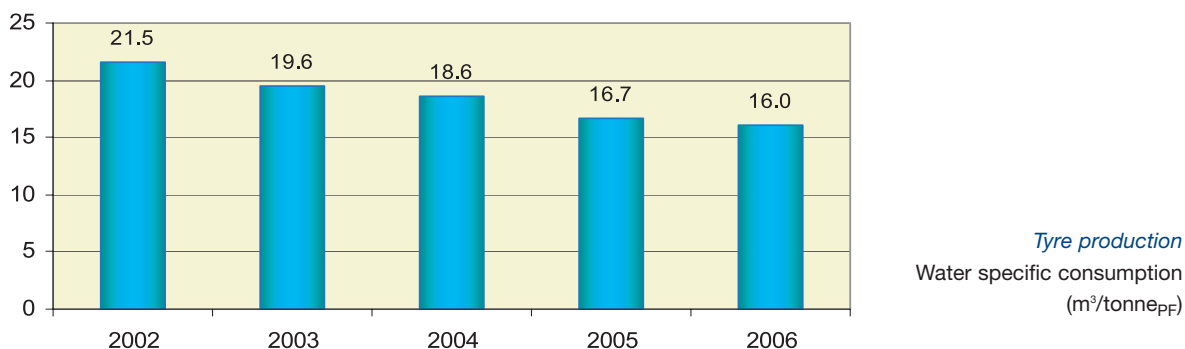
- » Water consumption (expressed in  $\text{m}^3/\text{tonne}_{\text{finished product}}$ )
- » Energy consumption (expressed in  $\text{GJ}/\text{tonne}_{\text{finished product}}$ )
- » Solvent consumption (expressed in  $\text{kg}/\text{tonne}_{\text{finished product}}$ )
- » Waste production (expressed in  $\text{kg}/\text{tonne}_{\text{finished product}}$ )
- » Equivalent emissions of  $\text{CO}_2$  and  $\text{NO}_x$  (expressed in  $\text{tonne}/\text{tonne}_{\text{finished product}}$  and  $\text{kg}/\text{tonne}_{\text{finished product}}$  respectively)
- » Presence of dielectric oils containing PCBs\* and/or PCTs (with concentrations higher than 50ppm)
- » Presence of ozone depleting substances (in kg)

The calculation of the consumption figures given for each factor in the charts below takes into account the increase in production over the year: from over 825,000 tonnes in 2005 to over 890,000 tonnes produced in 2006 (an increase of approximately 7%).

As it can be seen from the charts below, almost all the indicators show perceptible trends of improvement. This can be ascribed to the implementation of environmental management systems and to the effects of environmental investments, but it is also in no small part due to an increasingly attentive management of production. This last area is where the positive contribution made by tyre production using the MIRS<sub>TM</sub> technology (described above) assumes particular importance.

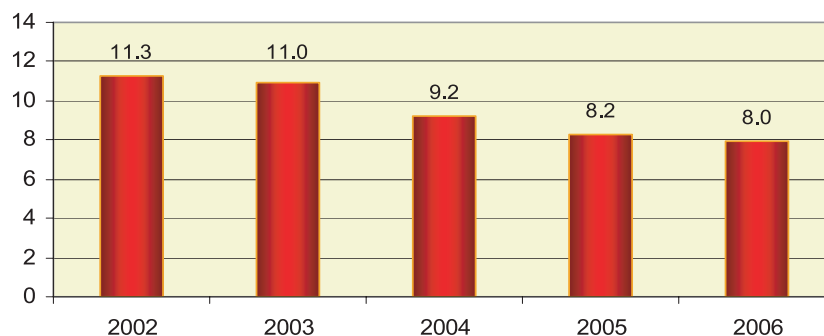
## Consumption trends

### Water procurement



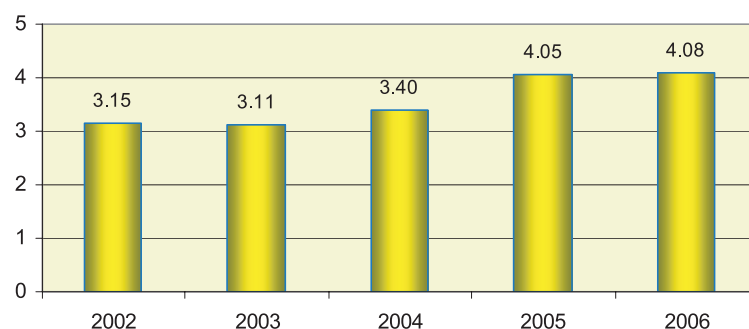


### Energy consumption



*Tyre production*  
Energy specific consumption  
(GJ/tonne<sub>PF</sub>)

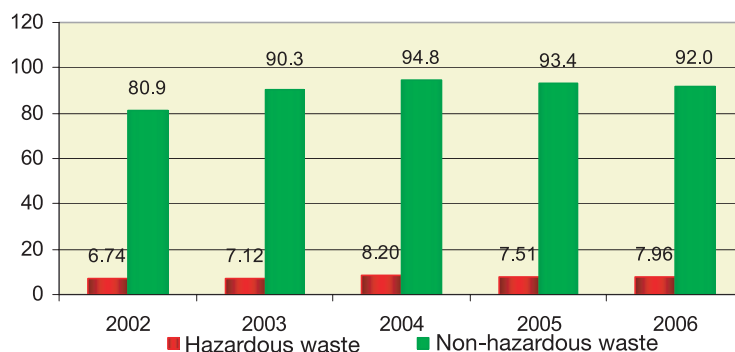
### Solvents<sup>1</sup>



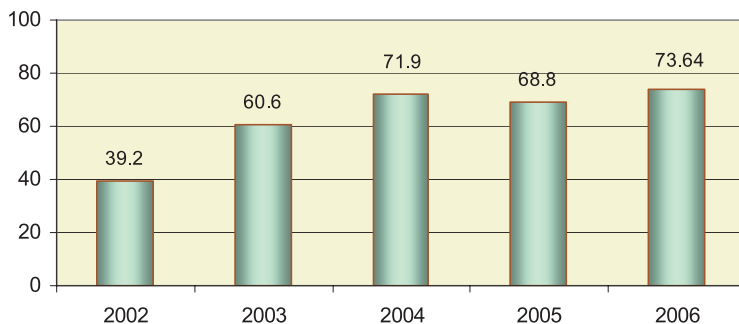
<sup>1</sup> For the 2006 data, the criteria of Directive 1999/13/EC ("on the limitation of emissions of volatile organic compounds\* due to the use of organic solvents in certain activities and installations") have been extended to cover sites outside the EU. For reasons of uniformity, this approach has also been used for 2005.

*Tyre production*  
Solvent specific consumption  
(kg/tonne<sub>PF</sub>)

### Waste



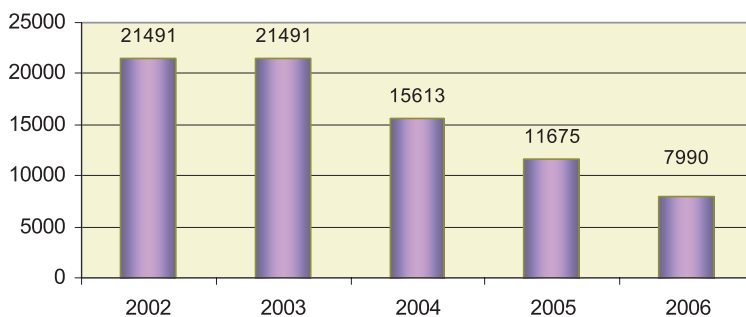
*Tyre production*  
Waste specific production  
(kg/tonne<sub>PF</sub>)



*Tyre production*  
Waste recycled (%)

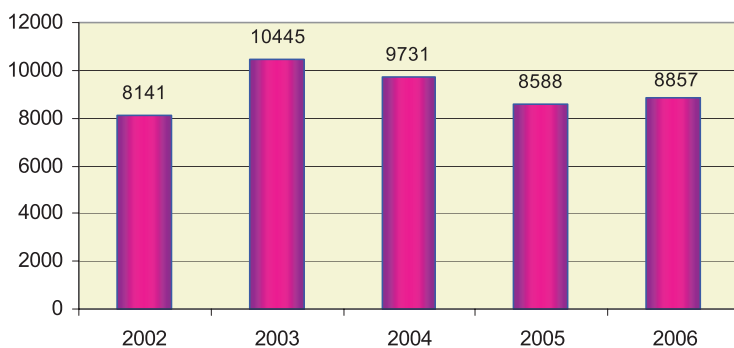
*Dielectric oils containing PCBs / PCTs <sup>2</sup>*

<sup>2</sup> The values from 2001 to 2005 differ from the values given in the previous sustainability report because a number of transformers – included in 2005, as a precautionary measure, in the transformers containing oils with a concentration of PCBs/PCTs\* higher than 50ppm – after detailed analysis were found to contain dielectric oils with concentrations of PCBs/PCTs lower than 50ppm.



*Tyre production*  
Presence of PCBs and/or PCTs  
in conc. > 50 ppm (Kg)

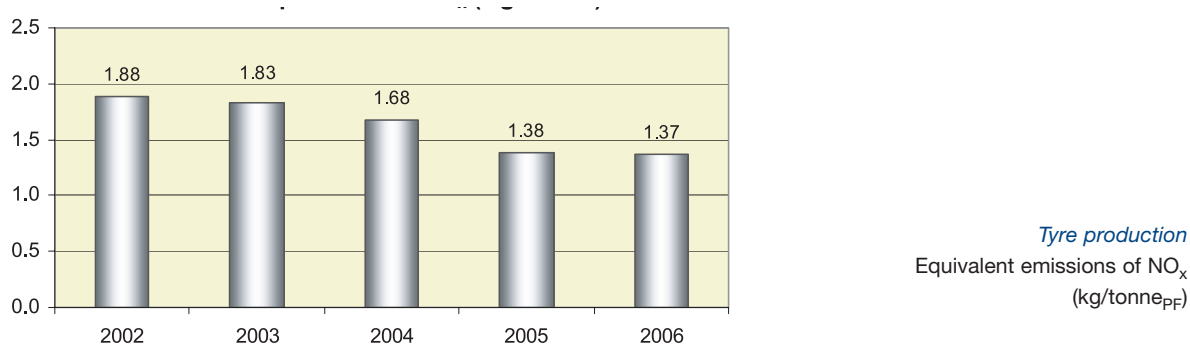
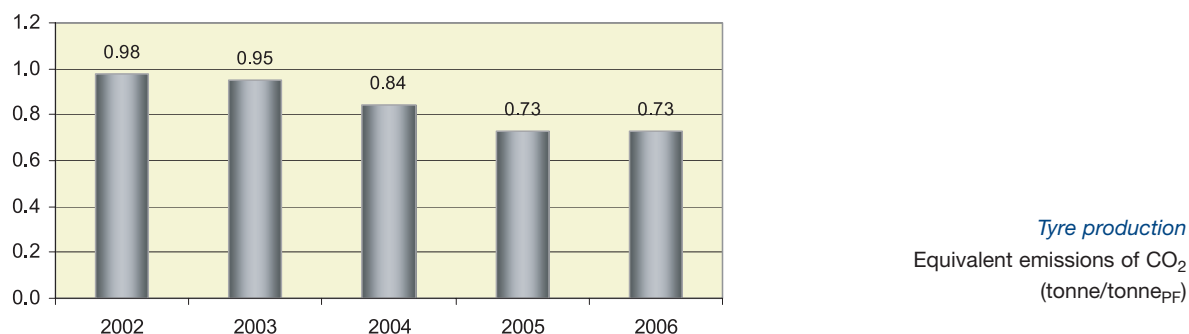
*Ozone depleting substances*



*Tyre production*  
Ozone depleting  
substances (Kg)



### Equivalent emissions of CO<sub>2</sub> and NO<sub>x</sub>



### STEEL CORD PRODUCTION

Steel cord is mainly used in the production of tyres, in particular for making two semi-finished products: metal fabrics and bead wires.

The five Operating Units managed by the Steel Cord Business Unit of Pirelli Tyre S.p.A. are located in Brazil, Germany, Italy, Turkey and Romania (a new factory).

The final products of the steel cord technological cycle (described in the next section) can be divided into two main types:

- » The actual steel cord, composed of several wires (drawn and brassed), for use in strengthening tyre structures
- » A single drawn/brassed wire, for use in strengthening rubber tubes intended for high pressure use

For both products, the raw material is a steel wire rod (high carbon steel) with an initial diameter of approximately 5.5mm.

## THE TECHNOLOGICAL CYCLE

Although there are some minor differences between the various different operating units, the processing of steel rod wire can be adequately explained in the following 9 main phases, which refer to the diagram on the following page:

- a) *Stripping and preparation*: elimination of surface oxide flakes that form during the hot-rolling process in the steelworks.
- b) *First drawing*: the prepared wire rod is reduced in diameter via cold drawing, using suitable lubricants (principally sodium stearate). The end products of this phase are divided into thick wires (diameter of 2.5-3mm) and medium wires (diameter of 1-1.7mm).
- c) *Patenting for thick wires*: patenting is a heat treatment which is necessary to restore the wire's structure and prepare it for a subsequent reduction by cold drawing. The heat treatment is usually done in a furnace at a temperature of approximately 1,000°C, followed by cooling down in molten lead at approximately 550°C.
- d) *Second drawing for thick wires*: a cold deformation process similar to that described in phase b) above.
- e) *Patenting and brassing* (for medium wires and for wires produced by phase d) above): In this phase, the patenting is similar to that described in phase c), and the brassing process consists of depositing a very thin layer (2÷4mm) of brass (with a zinc content of approximately 30%). This is necessary for the rubber compounds to adhere to the bead wires.

This phase consists of the following activities:

- » Sulphuric electrolytic pickling
  - » Copper deposition in an alkaline bath
  - » Copper deposition in an acid bath
  - » Zinc deposition in an acid bath
  - » Thermal diffusion to obtain the brass alloy
  - » Phosphoric pickling
- f) *Third drawing*: necessary to obtain wires with usable diameters (in general these diameters are around 0.25mm). In this phase, both the wire and the die are immersed in lubricating baths made up of synthetic oils in water emulsion.
  - g) *Stranding*: the wires are assembled into strands, numbering from 2 to 10, which may in turn be further assembled to make larger strands.
  - h) *Cording*: single wires and strands are assembled to make cords of varying complexity, geometry and number of components, depending on their intended use (in car tyres, truck tyres etc).
  - i) *Testing and packaging*: the product is subjected to tests and checks, both global and statistical.

### Diagram of steel cord production process

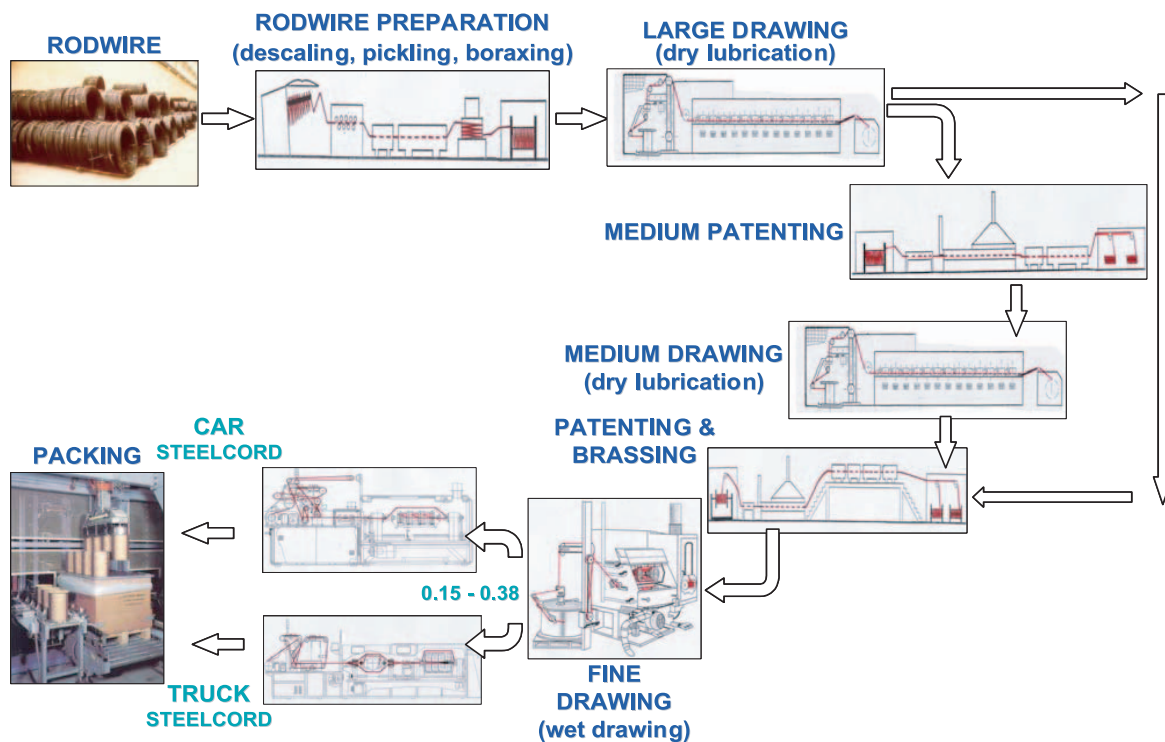


Diagram of steel cord production process

### QUANTITATIVE DATA FOR METAL CORD PRODUCTION

The figures given in this section are for the five Production Units that manufacture steel cord and which come under the Steel Cord business unit.

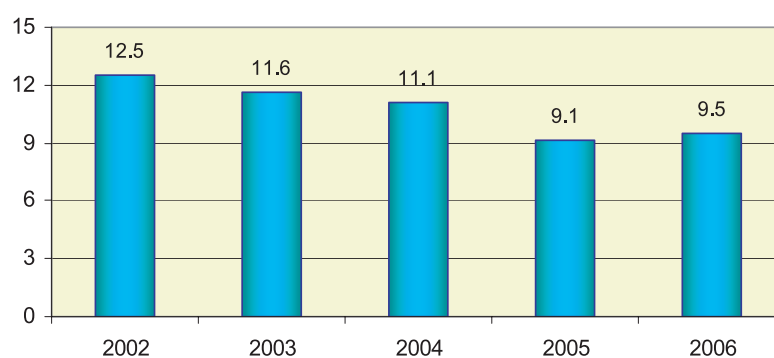
In line with the sustainability reports of the last five years, the following factors and their environmental indicators are examined for this business unit:

- » Water consumption (expressed in  $\text{m}^3/\text{tonne}_{\text{finished product}}$ )
- » Energy consumption (expressed in  $\text{GJ}/\text{tonne}_{\text{finished product}}$ )
- » Waste production (expressed in  $\text{kg}/\text{tonne}_{\text{finished product}}$ )
- » Equivalent emissions of  $\text{CO}_2$  and  $\text{NO}_x$  (expressed in  $\text{tonne}/\text{tonne}_{\text{finished product}}$  and  $\text{kg}/\text{tonne}_{\text{finished product}}$  respectively)
- » Presence of ozone depleting substances (in kg)

The results of the consumption figures for each environmental indicator\* are given in the charts below, and take into account the increase in production over the year: production rose by 5% over the previous year, i.e. from over 137,000 tonnes in 2005 to over 144,000 tonnes produced in 2006.

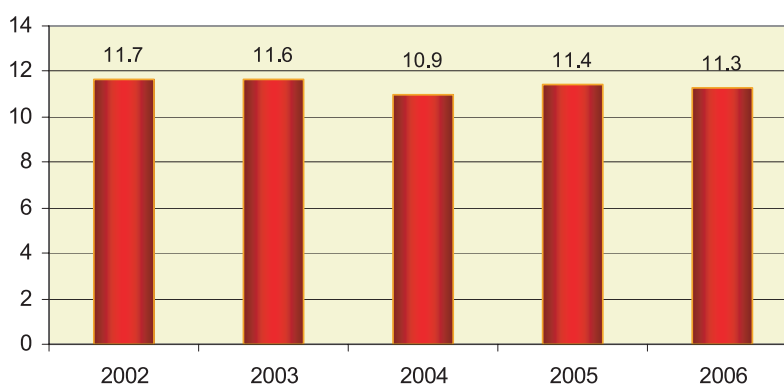
## Consumption trends

### Water procurement



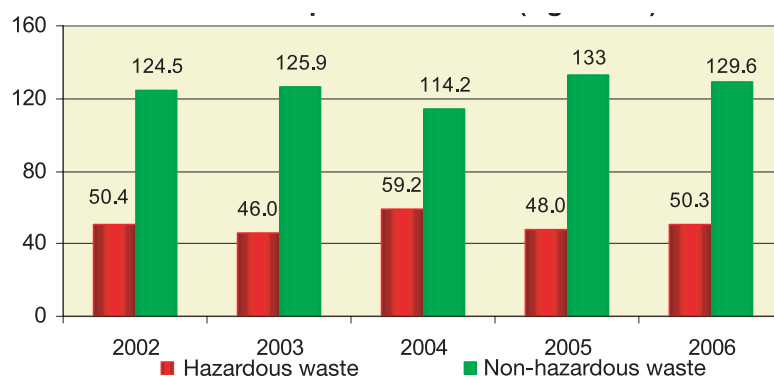
*Steel cord production*  
Water specific consumption  
(m³/tonne<sub>PF</sub>)

### Energy consumption

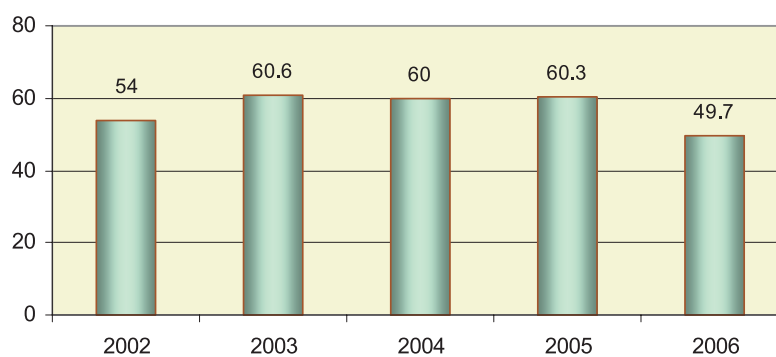


*Steel cord production*  
Water specific consumption  
(GJ/tonne<sub>PF</sub>)

## Waste



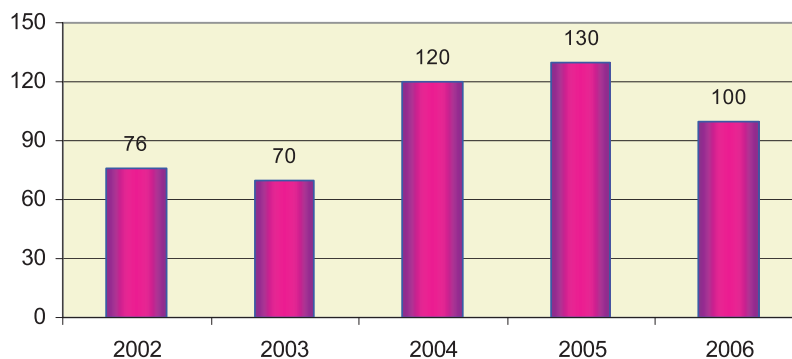
*Steel cord production*  
Waste specific production  
(Kg/tonne<sub>PF</sub>)



*Steel cord production*  
Waste recycled (%)

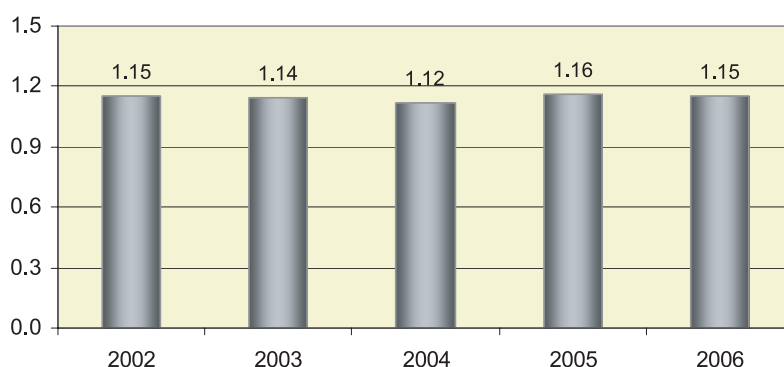
Dielectric oils containing PCBs/PCTs Not present in this business unit.

## Ozone depleting substances

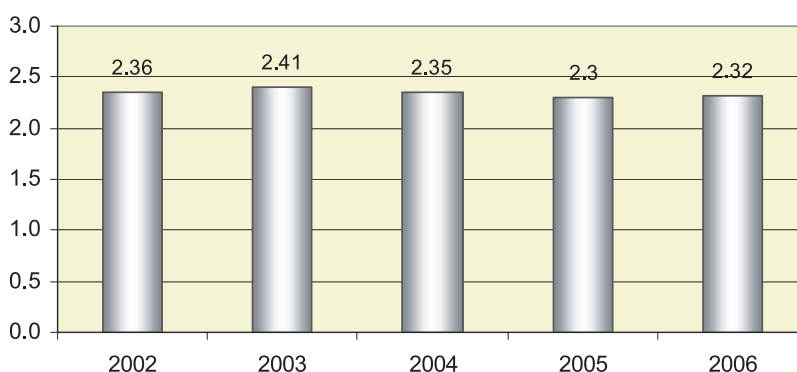


*Steel cord production*  
Ozone depleting  
substances (Kg)

### *Equivalent emissions of CO<sub>2</sub> and NO<sub>x</sub>*



*Steel cord production*  
Equivalent emissions  
of CO<sub>2</sub> (tonne/tonnePF)



*Steel cord production*  
Equivalent emissions  
of NO<sub>x</sub> (Kg/tonnePF)

### ENVIRONMENTAL TARGETS OF PIRELLI TYRE

For 2006, the targets for environmental improvement set by the General Management of Pirelli Tyre S.p.A. were a decrease of 2% in energy consumption (excluding the Steel Cord business unit) and a decrease of 4% in water consumption (for the entire sector, including steel cord production).

These objectives have been comfortably achieved and, in particular, energy consumption has been reduced by 5% while water consumption has been reduced by 4.9%.

The target for 2007 is to achieve further improvements in both of these parameters: 3% for the sector as a whole.

### 3.3. PIRELLI BROADBAND SOLUTIONS S.P.A.

Founded at the end of 2004, Pirelli Broadband Solutions operates in the research and development of advanced and innovative solutions for next-generation telecom infrastructures.

Supported by continual breakthroughs in technology from Pirelli Labs, Pirelli Broadband Solutions activities are based on integrating competences in the fields of photonics, nanotechnology and broadband access systems, both wired and wireless.

PBS develops competitive and innovative solutions that enable telecom operators to offer voice, data and multimedia services with customised products and end-to-end platforms. The products of Pirelli Broadband Solutions also enhance the increasing use of videoconferences and video calls, which in their turn help to reduce staff movements, and so creating positive effects, both direct and indirect, for the environment.

In 2006 PBS took steps to bring its product portfolio and processes up to the standards required by European Directives 2002/95/EC - RoHS (Restriction of the use of Hazardous Substances) and 2002/96/EC - WEEE (Waste of Electric and Electronic Equipment), reducing the presence of environmentally-damaging substances in its products and improving the product end-of-life management process.

In addition, in line with the Group's policy and in order to assist and improve the management of its environmental performance, the management of Pirelli Broadband Solutions has decided to govern its activities by adopting an Environmental Management System (EMS) in conformance with the UNI EN ISO 14001 standard.

The programme to introduce this system is to begin in 2007.

### 3.4. PIRELLI & C. REAL ESTATE S.P.A.

Pirelli & C. Real Estate operates in a particularly dynamic arena whose perimeters are subject to rapid changes. The company addresses its environmental aspects through three main activities.

The first is monitoring and reduction of the environmental impacts of activities in the company's sites. The second consists of offering customers who are properties owners solutions designed to reduce the potential environmental impacts deriving from the running of those properties.

The third activity is the development of designs for new building projects, in which particular attention is paid to aspects of social, economic and environmental sustainability, while simultaneously striving to preserve and enhance the territory in terms of attractiveness and competitiveness on a wider scale.



## ENVIRONMENTAL IMPACTS

Together with the obvious occupation and use of land, energy consumption represents one of the main origins of the environmental impacts generated by the company's activities, products and services.

Consequently, the principal measures for mitigating these impacts are aimed at saving energy. For example the company has adopted the use of district heating (central heating supplied by the municipal electricity supplier, AEM, via a remote central heating system that produces hot and cold water and then distributes it via underground pipes). District heating now serves the entire head office (HQ) in Milan, and is being considered as a solution for the second head office (HQ 2) currently being planned.

Another example of rational use of energy is the cogeneration plant at the administration centre in the Ivrea district, where Pirelli RE and other companies (Vodafone, Wind, Olivetti, Olivetti MS etc.) have their offices.

This cogeneration plant, which is owned by the Group and managed by Pirelli & C. Real Estate Facility Management, provides heat and electricity not only to Pirelli but also to other companies that have premises in the area. A similar solution is currently being installed in the Pozzuoli district.

### Energy and water consumption for 2006 at the main sites of Pirelli RE and managed districts

	Milan HQ	Rome site	Naples site	Total	Pozzuoli District (3)	Ivrea District (3) (4)
<b>TOTAL CONSUMPTION</b>						
Water (m³)	21,428	4,108	1,062	<b>26,598</b>	97,300	92,500
Electricity (MWh)	4,175	1,002	256	<b>5,433</b>	22,080	4,349
Fuel oil (Kg)	(1)	(2)	(2)		661,314	-

<sup>1</sup> Heat supplied by district heating system.

<sup>2</sup> Consumption not known because the building owner provides the heating and charges the cost as part of the rent.

<sup>3</sup> Other companies apart from Pirelli have premises in the district and therefore this figure does not apply to Pirelli Real Estate activities alone.

<sup>4</sup> Figures for office building 1.

	Milan HQ	Rome site	Naples site	Pozzuoli District	Ivrea District
<b>Specific consumption per m² <sup>5</sup></b>	<b>27,078 m²</b>	<b>7,000 m²</b>	<b>1,619 m²</b>	<b>57,000 m²</b>	<b>30,500 m²</b>
Water (m³)	0.79	0.59	0.66	1.71	3.03
Electricity (MWh)	0.15	0.14	0.16	0.39	0.14

<sup>5</sup> Figures are for consumption per square metre because parts of the premises are occupied by other companies, for which resource numbers are not known.

### Waste production for 2006 at the main sites of Pirelli RE and managed districts

	Milan HQ	Rome site	Total	Pozzuoli District <sup>6</sup>	Ivrea District <sup>6</sup>
<b>TOTAL PRODUCTION</b>					
Non-hazardous (Kg)	31,515	3,410	34,925	21,220	11,112
Hazardous (Kg)	500	938	1,438	593	7,596
<b>Total</b>	<b>32,015</b>	<b>4,348</b>	<b>36,363</b>	<b>21,813</b>	<b>18,708</b>

<sup>6</sup> Other companies apart from Pirelli have premises in the district and therefore this figure does not apply to Pirelli Real Estate activities alone.

## ENVIRONMENTAL CERTIFICATION OF PIRELLI RE FACILITY MANAGEMENT

Among Group companies, Pirelli RE Facility Management has developed its environmental management system in conformance with the ISO 14001 standard, for which it received certification in 2002.

The process of certification covered the planning, coordination and provision of services for running and maintaining buildings and systems, managing heating and air conditioning for public and private civil systems, and providing services for people, spaces and companies limited to the activities conducted at the operations sites coordinated by the Milan office.

The management system involves approximately 150 persons in the operations department, who manage around 250 buildings belonging to external customers, 40 belonging to Pirelli Group and 1,250 sites belonging to Telecom Italia. Building management functions and services are provided partly through the use of other suppliers.

The main objectives achieved in 2006 are in the following areas:

- » Limitation of the possibility of spills occurring during transport of diesel
- » Extension of the spill management procedure to all suppliers
- » Administrative management of waste
- » Purchase and development of software for energy assessment of property
- » Assessment of the environmental aspects and impacts of the 10 most important properties managed by the company

## TERRITORIAL DEVELOPMENT

Pirelli RE is one of the foremost Italian companies operating in the area of large-scale urban development projects (principally the redevelopment of disused areas). The company was a pioneer in this area, and is responsible for some of the most important urban renewal programmes in Italy, as well as defining new standards at international level.

The company's development projects are guided by a theory of urban development that centres on the concept of "metropolitan city" and which views the contemporary city as a poly-centric system. Each urban 'pole' or extreme is characterised by its own identity and independence, while being at the same time perfectly integrated with its surrounding territory, and so overcomes fragmentation and contrast between city centre and periphery.

In this light, the design phase of the urban environment takes on crucial importance calling for strategic thought about social trends and dynamics: phenomena like globalisation, technological progress, de-industrialisation, and multi-culturalism have brought about changes rapid and radical enough to call for the rethinking of the very concept of "city" and its functions.

The following sections describe two projects drawing on the best practices internationally available.

## THE MALASPINA PROJECT



THE MALASPINA PROJECT

The area of the Malaspina project is located on the outskirts of Milan. The Pirelli RE project, developed as a joint venture with Aedes and Banca Antonveneta, has been devised with particular attention to well-being and quality of life, so that people can live and work in a lovely environmental setting.

Residential areas and offices both overlook the Malaspina lake, in one of the biggest green areas in Lombardy, as part of a regional project called “Ten Big Forests for the Plain”, a breath of fresh air and nature extending over a total area of 720,000 m<sup>2</sup>.

**Residences** 44,000 m<sup>2</sup> of gross floor area (GFA)

**Business Park** 22,000 m<sup>2</sup> of covered surfaces, 81,671 m<sup>2</sup> of total build able, 80,850 m<sup>2</sup> of green areas

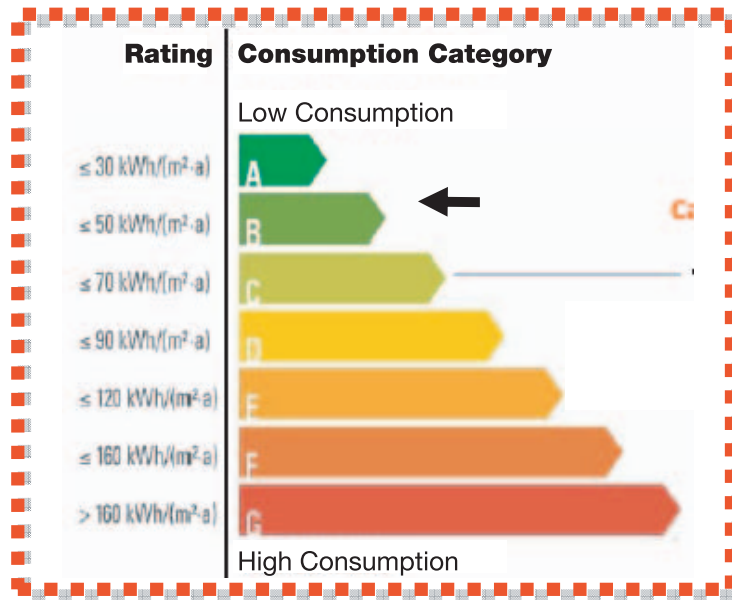
**Parking areas** 20,000 m<sup>2</sup> of public parking, 54,115 m<sup>2</sup> of private parking

Phase 2 of the Malaspina project has been designed and construction has begun. The buildings are being constructed in conformance with the European energy certification requirements for residential properties and individual apartments, even though the provisions of Directive 2002/91/EC (“on the energy performance of buildings”) specify that this certification will not be compulsory until July 2009 .

The certification specifies the annual amount of energy required to meet the needs associated with the standard use of the building, including winter heating and summer air conditioning, heating of water for sanitary use, ventilation and illumination.

Phase 2 of the project has been improved over Phase 1: the insulation of the building shell has been increased and the performance of the windows and doors has been improved, in order to raise the energy efficiency level from Class D (ranging from 70 to 90 kWh/m<sup>2</sup>/year) to the upper limit of Class B (ranging from 30 to 50 kWh/m<sup>2</sup>/year).

ENERGY EFFICIENCY  
CLASSES



Phase 3 of the Malaspina project has been designed in accordance with the requirements of energy efficiency certification. The following sections explain the main design choices that impact on energy savings:

### Thermal cladding

The introduction of the so called thermal cladding increases the efficiency of the building shell insulation, eliminating heat bridges almost completely. In terms of energy efficiency, this brings an improvement of around 10%, all other factors being equal. Installing the cladding does not involve changes to the structural design; only minor construction details need to be introduced. Contracting and beginning construction do not need to be postponed.

### Use of controlled ventilation

The project also features the use of a controlled ventilation system\* to reduce the heat lost due to the external air.

In a class B building the percentage of external air is over 30% of the total air flow and cannot be disregarded.

### Quality of door and window frames

Superior quality door and window frames are being installed in order to obtain low transmittance\* levels. Transparent surfaces are in stratified double glazing. The overall transmittance of the doors and windows is expected to drop from 2.3 W/m² K to approx. 1.6 W/m² K, allowing the occupant to maintain optimal internal levels of temperature and humidity in the apartment, allowing considerable energy savings at the same time.

These improvements also enable the building to approach energy efficiency class A, representing a further step towards high quality housing..

Moving from energy efficiency class B to A saves around 20 kWh/m² per year which, for a 100 m² apartment, corresponds to a saving of around 180-200 euros/year, and a reduction in CO<sub>2</sub> emissions of around 1 tonne/year.

## HQ2 - THE 'HEADQUARTERS 2' PROJECT

Known as HQ2, this project is the extension of the head office of Pirelli Real Estate S.p.A. The project has several features aimed at achieving major objectives in terms of energy efficiency and the use of renewable resources. The design criteria adopted are in line with current Italian legislation and with environmental sustainability criteria.

THE HQ2 PROJECT



### The façade

To minimise the use of artificial lighting, the windows will be located as close as possible to the ceiling.

The south-facing side of the building will feature an interactive ventilated-module façade with shading curtains and external glass.

In order to reduce energy consumption for air-conditioning in summer and at the same time make the maximum possible use of solar radiation in winter, the orientation of the Venetian blind shutter blades can be adjusted.

The north and east-facing sides will have a single-layer cladding façade and window frames designed to accept curtains that can be rolled up internally, but which – unlike traditional curtains – extend bottom up instead of top down, in order to take maximum advantage of available natural light.

Particular attention has also been given to the non-transparent areas of the building shell, with the adoption of a layer of a 10cm-thick insulating material in front of the building structure, a ventilated chamber and a lining in porcelain stoneware slabs.



### The air heating systems

The design of the heating systems allows energy needs to be controlled (this is in fact the principal cause of energy waste).

The building will be heated by the district heating system, powered by the Milano-Tecnocity cogeneration plant.

The energy needs of the HQ2 building will be just over 1 million kWh, with a gross heated volume of approx. 65,000m<sup>3</sup>. Taking into account the performance figures on heating systems, these values imply a primary energy need (PEN) of 8.2 kWh/m<sup>3</sup>year, which is largely less than the minimum requirements to be observed from 1 January 2010 onwards: 11.5 kWh/m<sup>3</sup>year.

Consequently, the energy savings that can be obtained stands at around 3.3 kWh/ m<sup>3</sup> anno, which implies a reduction in CO<sub>2</sub> emissions of around 100 tonnes/year (not to mention the economic savings of around 21,000 euros/year in winter alone).

The project also enables reductions in consumption during summer as well, resulting in savings of 20-30% referred to a standard building.

In order to make use as far as possible of renewable energy sources to meet energy requirements, the building will be equipped with a photovoltaic system to cover the roof of the main body of the building.

As far as internal air conditioning, the building will be fitted with a system of ceiling radiating panels, allowing comfortable levels of heat/humidity.

## 3.5. PIRELLI & C. AMBIENTE S.P.A.

A Pirelli Group company founded in early 2005 following the merging of Pirelli & C. Ambiente activities with Cam Tecnologie, Pirelli Ambiente produces solutions for the environment and sustainable development and proposes to the market a vast range of products with low environmental impact and high technological content.

Thanks to the synergies with Pirelli Labs – the Group's advanced research centre –the company's ongoing commitment is addressed to develop increasingly eco-compatible products and processes and innovative solutions, e.g. technologies to reduce emissions of harmful gases, or in the field of renewable energy production, and materials science.

Pirelli Ambiente consists of three specialized companies, each dedicated to a different business area:

- » Pirelli & C. Ambiente Renewable Energy – Renewable energy sources
- » Pirelli & C. Ambiente Eco Technology – Technologies for sustainable development
- » Pirelli & C. Ambiente Site Remediation – Environmental remediation

### PIRELLI & C. AMBIENTE RENEWABLE ENERGY (PARE)

With regard to the recovery of energy from waste, Pirelli Ambiente Renewable Energy has developed and patented – in collaboration with Pirelli Labs – a high quality WDF (Waste-Derived Fuel).

The fuel is obtained by adding to the dry portion of solid urban waste (S.U.W.) a number of components with a high calorific power such as end-of-life tyres (ELTs) and non-chlorinated plastics.

It is mainly used for co-combustion as a partial replacement for conventional fossil fuels in existing energy generation and power stations, such as thermoelectric power stations and cement works.

The product, created using Pirelli Ambiente Technologie technology, is of a higher quality than fuels derived solely from urban waste. Its distinctive features are:

- the product's consistency and homogeneity;
- type of raw materials used;
- low humidity and chlorine content;
- high calorific rating;
- definition of the relations of mass;
- physical form of the fuel's components, designed to smoothly feed a combustion chamber.

In addition to its formula enriched with end-of-life tyres(ELTs) and non-chlorinated plastics and the calorific stability this entails, the fuel stands out for its contribution to improving emissions.

It is used to partially replace carbon in percentages varying between 10-25%.

The cost of generating electricity is a quarter of the cost of using biomasses.

All the projects promoted by Pirelli Ambiente Technologie based on the use of quality fuel quantify and analyse the environmental benefits involved by means of Life Cycle Assessment (LCA), which evaluates the entire manufacturing process and flows of materials and energy involved in each separate operation supporting the chosen technology.

WDF-P CHART

## WDF-P in Italy

IDEA Granda is a consortium, 51% owned by ACSR (Azienda Cuneese Smaltimento Rifiuti, a waste disposal company in Cuneo) and 49% owned by PARE, whose objective is to produce a high-quality fuel derived from waste (WDF-P) at its plant in Roccavione (Cuneo), using as its main raw material the dry fraction of the urban solid waste produced by the 54 municipalities in Cuneo Province that have signed up to the ACSR consortium.

The integrated system, centred around IDEA Granda envisages that the waste produced by the municipalities adhering to the ACSR consortium, that was previously sent to the consortium landfill in Borgo San Dalmazzo, is processed to separate the dry fraction from the humid fraction. The dry fraction is then processed and enriched in the IDEA Granda plant to obtain high-quality CDR-P.

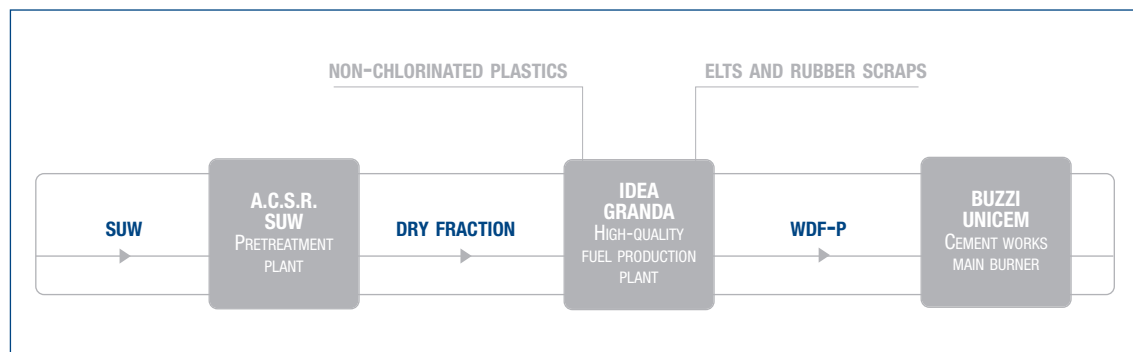
The actual energy recovery takes place when the fuel is burned in co-combustion at the largest cement works in Italy, owned by

VIEW OF IDEA GRANDA PLANT  
IN ROCCAVIONE, CUNEO





Buzzi Unicem Group and located in the nearby municipality of Robilante. WDF-P directly feeds the main burner of two of the four furnaces in the plant, partly replacing the fossil fuel traditionally used.



### The Integrated System

According to a study by the Bicocca University in Milan conducted using the Life Cycle Assessment method, the IDEA Granda integrated system is, respectively, 90 and 72 times better for the environment than alternative solutions like landfills and waste-to-energy incinerators, with a percentage of energy recovery from waste of 32% in the area served, compared with an average in Italy of 7% and a European average of 27%.

The use of WDF-P, in addition to contributing to the reduction of landfill waste disposal that today afflicts all industrialised countries, is an ideal opportunity for high energy consuming industries (particularly cement works and thermoelectric power stations) that are now required to increase the use of alternative energy sources over traditional fossil fuels, enabling them to make an important social contribution.

In the Buzzi Unicem cement works, use of WDF-P in 2006 resulted in a reduction of CO<sub>2</sub> emissions of over 30,000 tonnes into the atmosphere (each tonne of CDR-P used in co-combustion saves 1.75 tonnes of CO<sub>2</sub>), making an important contribution to Italy's objectives taken on for the Kyoto Protocol\*, and also a saving of over 20% of NO<sub>x</sub> emissions, or approximately 300 tonnes. Furthermore due to the biodegradable fraction contained in the fuel (approximately 50%), CDR-P is recognised as a renewable energy source, and therefore eligible for the financial incentives available for these sources.

PARE is also committed to the technical standardisation of waste-derived fuels, and contributes to the development and validation of technical specifications and analysis methods for solid recovered fuels, for the purposes of their upcoming conversion to European standards.

### WDF-P worldwide

In 2004 a study by the EEC (Earth Engineering Centre) in Columbia University gave its complete approval for the use of PARE's quality WDF in America, while a study conducted in 2005 by the IEFE (Institute of the Economics of Energy Sources) in the Bocconi University in Milan found it to be the cheapest renewable energy source available.

In 2005 Pirelli signed an agreement with the English company Re-Energy for the production and sale of WDF-P in the UK.



LOGO OF CLINTON GLOBAL INITIATIVE

In 2006 the Clinton Global Initiative (CGI), a foundation set up by ex-US President William J. Clinton to collect resources to tackle the macro-problems faced by the planet, approved the PARE initiative in the area of “climate change”. Through the spread of waste-to-energy technology, the PARE initiative aims to reduce CO<sub>2</sub> emissions by 5 million tonnes over 3-5 years in North America, Europe and Asia.

## PIRELLI & C. AMBIENTE ECO TECHNOLOGY – TECNOLOGIES FOR SUSTAINABLE DEVELOPMENT

### GECAM, the White Diesel™

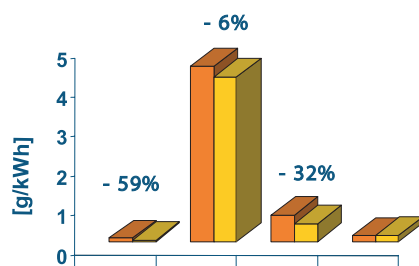
Pirelli & C. Ambiente Eco Technology operates with considerable success in the sustainable development technology sector; thanks to Cam Tecnologie's long lasting experience in low environmental impact fuels with GECAM, the white diesel™ and in antiparticulate filter technology with the Feelpure™ filtering system. The GECAM™, patented by the Group, reduces the pollutant emissions typical of diesel oil (fine particulates, carbon monoxide and nitrogen oxides\*).

GECAM™ is an emulsion of water (10%) in diesel oil which is usable by diesel-powered vehicles and in power stations. The presence of water ensures a more complete combustion of the hydrocarbon, reducing the formation of particulate and improving the consumption efficiency. Furthermore, GECAM™ lowers the temperature in the combustion chamber, and reduces the formation of nitrogen oxides.

Many centres of excellence in the field of research and certification of engines and emissions have verified the environmental benefits of emulsions. In particular, the tests performed on GECAM™ by the European Commission Joint Research Centre in Ispra and Eni Tecnologie laboratories showed reductions of over 50% in emissions of particulates, 5-6% in nitrogen oxides, and over 30% in carbon monoxide.

### GECAM™ TRACTION: ENVIRONMENTAL RESULTS

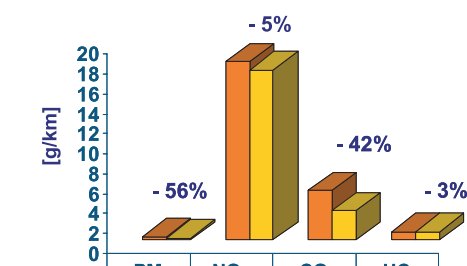
Engine: IVECO-Cursor Euro 3.  
Cycle: stationary ESC



<sup>1</sup> ULSD = *Ultra Low Sulphur Diesel*

Source: European Commission Joint Research Centre in Ispra

Vehicle: IVECO Euro 2 urban bus.  
Engine: IVECO 8360  
Cycle: ATM (Milan transport authority) line no. 61



Source: ENI TECNOLOGIE

Pirelli & C. Ambiente Eco Technology received a Special Award for the GECAM™ emulsified diesel and its innovative solutions in sustainable transport, at the 2006 World Renewable Energy Congress (WREC), an international conference held by the University of Florence and the ABITA Centre (Architecture, Bioecology and Technological Innovation for the Environment).

**Gecam, the white diesel™** is an environmentally-friendly fuel, patented by the Group, that is capable of reducing particulates by 50%.

It is an emulsion of water (10%) in diesel oil for use in vehicles and heating systems:

- largely adopted by over **10,000 diesel-powered vehicles** (buses, lorries, diesel trains, street-cleaning vehicles, waste collection and earth-moving vehicles) and over **400 public and private buildings**
- available at a **lower price than traditional diesel, such as to reduce operating costs**
- tested by **Eni Tecnologie** Laboratories, by the **European Commission Joint Research Centre** in Ispra, by the main engines and burners makers, by the **Municipality of Milan** in cooperation with the Experimental Fuel Station (**SSC, Stazione Sperimentale per i Combustibili**) and by **SGS Ecologia**
- available throughout Italy from 8 production sites and also in France and in the Czech Republic
- assists and improves the performance of particulate filtering systems in terms of emissions of PM and NO<sub>x</sub>

GECAM™ CHART

### Feelpure™

Feelpure™ is an exhaust gas treatment system for diesel vehicles already in circulation (via retrofit) with a mass of over 2.5 tonnes. Feelpure™ is made up of three elements:

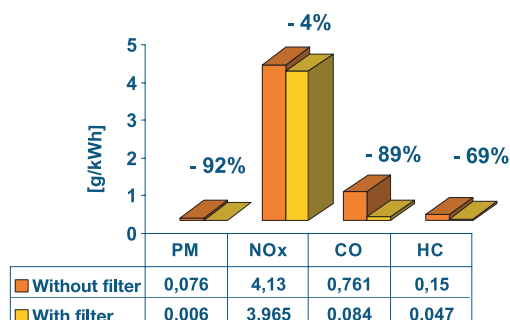
1. A **particulate filter** in porous silicon carbide (SiC) fitted in a stainless steel can inside the exhaust silencer.
2. An **additive** to be added to ordinary fuel, which allows for the complete combustion of the carbonaceous particulate previously trapped by the filter (a process of regeneration).
3. A **control unit** that monitors the entire system: this detects counterpressure at the exhaust and the exceeding of alarm thresholds. It doses the additive to be added to the fuel on vehicles with this kind of feature.

Recent tests, conducted by Eni Tecnologie Laboratories, the European Commission Joint Research Centre in Ispra and the University of Biel under the VERT programme, have shown reductions of over 90% in mass particulate and 99% in finer particles, over 90% in carbon monoxide and up to 69% of unburned hydrocarbons.

Nowadays several hundred buses in Italy are using the Feelpure™ filter system and more systems are being installed on earth-moving vehicles, heavy transport vehicles, diesel trains and electricity generators.

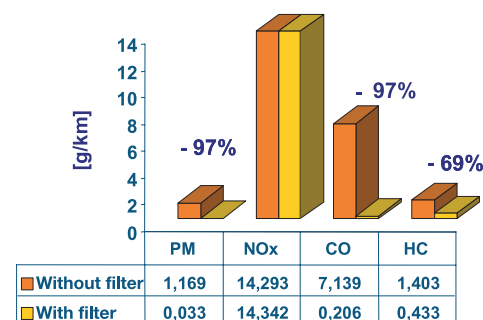
## FELPURE™: ENVIRONMENTAL RESULTS

Engine: IVECO-Cursor Euro 3.  
Cycle: stationary ESC



Source: European Commission joint Research Centre in Ispra

Vehicle: IVECO Euro 2 urban bus.  
Engine: IVECO 8360  
Cycle: ATM (Milan transport authority) line no. 61



Source: ENI TECNOLOGIE

Feelpure™ is an exhaust gas treatment system for diesel vehicles already in circulation (via retrofit). The Feelpure™ system can reduce particulates by over 90%.

The filtering system developed by Pirelli Ambiente Eco Technology:

- Contains a **silicon carbide filter (SiC)**.
- Uses an organometallic **additive** molted in the fuel, which is necessary to regenerate the filter.
- Can be adapted to all engine types – from Euro 0 to Euro 4 – running on fuels with **normal sulphur content**.
- Can be used on buses, trucks, earth-moving vehicles (quarries, building sites, tunnels), diesel trains and electricity generators.
- Has been tested by **Eni Tecnologie** Laboratories, the European Commission Joint Research Centre **JRC in Ispra** and the TTM-University of Biel under the VERT qualification programme.
- Unlike other technologies on the market, the Feelpure™ filtering system **does not result in increased emissions of NO<sub>2</sub>** (nitrogen dioxide), a dangerous pollutant with negative effects on health and which is on the rise in our cities.

FEELPURE™ CHART

In 2005 Pirelli & C. Ambiente Eco Technology was awarded the *Premio all'Innovazione Amica dell'Ambiente* (Friend of the Environment Innovation Award) by Italian environmental association Legambiente together with the Lombardy Region Council.



## PIRELLI & C. AMBIENTE SITE REMEDIATION S.P.A. ENVIRONMENTAL REMEDIATION

The initial experience gained by Pirelli & C. Ambiente Site Remediation S.p.A. in environmental remediation was the redevelopment of Pirelli Group's historical industrial site in the Bicocca area in Milan in the early 1990s.

Over the years the company has widened its expertise by providing support to other companies in the Pirelli Group in the management of industrial areas throughout Italy, as well as providing support to Pirelli & C. RE in the acquisition and environmental remediation of new disused areas and/or property assets.

Pirelli & C. Ambiente Site Remediation has gained considerable experience in the remediation of disused industrial sites and offers a complete management service that includes all phases of the process, from the preliminary assessment of environmental liabilities (Environmental Due Diligence\*) of property assets and/or sites that may require property broking services, to the development of the necessary engineering activities and management of relations with the relevant authorities through to complete redevelopment and valorization of the areas, with respect to the environmental aspects, timing and specific customer requirements..

Whenever possible, remediation operations make use of on-site decontamination systems (e.g. bioremediation) or in situ systems (e.g. bioventing), to reduce the volume of contaminated materials for disposal.

In situations where site remediation has required the excavation of contaminated materials, to reduce the overall volume of waste to be disposed off, the following activities have been carried out:

- » Enhanced characterisation during the investigation phase, to best determine the characteristics of the soil to be dug up
- » Riddling and separation of the fine fractions, for best reuse of uncontaminated materials on-site
- » Enhanced characterisation of the soil to be sent to landfill
- » Complete on-site recovery of materials originating from demolitions

The following table shows the extent of the work carried out by Pirelli & C. Ambiente Site Remediation to date:

Total surface area redeveloped or undergoing redevelopment	approx. 3,000,000 square metres
Buildings demolished	approx. 3,800,000 cubic metres
Material salvaged from demolition work	approx. 800,000 cubic metres
Earth dug up and processed for remediation	approx. 1,700,000 cubic metres
large-scale remediation projects via on-site remediation	4
large-scale remediation projects involving site safety	4

### 3.6. PIRELLI LABS S.P.A.



A PIRELLI LABS TECHNICIAN

Founded in May 2001 with an overall investment of 135 million Euros, Pirelli Labs represents the Pirelli Group's pole of technological excellence.

The research centre, extending for around 13,000 m<sup>2</sup> in the Milan Bicocca area, is active in the fields of photonics and new materials.

Organised into three departments – Optical Innovation, Material Innovation and Process Innovation – Pirelli Labs represents the point of reference for all Pirelli research activities worldwide and is directly linked to the research centres of the group's business units and also with leading privately-owned and university research centres in the US, Russia and Italy.

In 2006 Pirelli Labs continued its research into the development of components (membranes and electrodes) for fuel cells\*, which are an ideal solution for producing electricity at a time when fossil fuels are coming under increasing pressure and there is a growing demand for clean energy sources to reduce emissions of greenhouse gases.

Development work continues to be focused on SOFC (Solid Oxide Fuel Cells) and PEM (Polymer Electrolyte Membrane), concentrating on the optimisation of components for small-scale cells (max 1000 W) for powering mobile electronic devices and for cathodic protection of gas transport lines.

Results obtained in the synthesis of ceramic materials and their miniaturisation have been applied in the manufacture of electrodes for SOFC, as part of the cooperation with the prestigious Alberta Research Council (ARC) in Canada. The combination of the fuel cell miniaturisation technology developed by the ARC with the electrodes made from innovative materials developed at Pirelli Labs has resulted in efficient cathodic protection devices to be used on transcontinental gas pipelines in North America.

Unlike products already on the market, which are made from fluoridated polymers, the PEM membrane developed by Pirelli Labs has the capacity to operate at high concentrations of methanol, the fuel envisaged for use in consumer portable electronic devices.

These characteristics have been evaluated by the major players in the world market for fuel cells. Samples of the material were provided to these companies for evaluation of their performance as components in the main applications for mobile electronics. The outcome of these evaluations was positive and has led one major player to begin a joint programme of evaluation and development of the Pirelli Labs membrane, aimed at creating a next-generation industrial reference.

In the field of hydrogen-powered fuel cells, the technological development of a membrane has been completed and a technical/economic assessment of production *scale up*\* of this material has been completed.

Pirelli Labs continued its research into the development of applications based on the recovery of end-of-life tyres (ELTs). Of particular note is the initial industrial development of products obtained by mixing ELT granules with suitable bonding materials and so producing materials ideal for reducing footstep noise. A number of pilot sites have been identified and large-scale (over 1,000 m<sup>2</sup>) trial installations performed in premium residential buildings.

Field tests have confirmed the product's noteworthy features, especially in terms of economy and ease of laying, while acoustic tests, conducted by an accredited laboratory in accordance with the ISO 140/7 standard, returned noise reduction values better than current market standards.

2006 saw the conclusion of another major development programme of great importance in terms of environmental impact. Pirelli Labs has developed poles for telecommunications networks, made of a composite material of recycled polypropylene and fibreglass. These poles will replace current wooden poles impregnated (to provide resistance to environmental agents) with CCA

(Chrome Copper Arsenic) compounds, now banned by the European Union. The cost benefit of the product has been demonstrated and a sound process has been implemented to make these new poles both competitive with older wooden poles and largely cheaper than fibre glass poles.

In 2006 progress was recorded in the joint research programme with Telecom Italia, involving the study of innovative materials suitable for use in radiofrequency devices for telecommunication applications.

In this particular field is worth mentioning the so called Telemedicine Project carried out with important international partners provides experts with innovative means of checking key medical parameters of non-hospitalised patients, without requiring them to change their usual lifestyle.

The project, through the field trial phase has demonstrated its applicability and reliability on a significant sample of patients and it has attracted significant interest from the medical community.

In the field of renewable energy, of note is the experimentation with a series of innovative prototypes based on photovoltaic concentration technology aimed at direct field evaluation of the efficiency of these systems compared with conventional systems made of flat panels in crystalline silicon.



## 4. SOCIAL DIMENSION

### 4.1. INTERNAL COMMUNITY

Group companies recognize the central importance of human resources in the belief that the key to the success of any business is the professional contribution of the people that work for it, in a climate of fairness and mutual trust. Group companies shall safeguard health and safety in the workplace and consider respect for workers' rights as fundamental to the business. Working relationships are managed with a view to guaranteeing equal opportunities and promoting the personal development of each employee. (Article 6 of the Ethical Code – Human Resources).

#### THE FIGURES - BREAKDOWN OF HEADCOUNT

Headcount breakdown by sectors as at December 31st, 2006:

##### BREAKDOWN OF EMPLOYEES ON 12.31.2006

	Corporate <sup>1</sup>	Tyres	Real Estate	PBS	Ambiente	Total
Executives	89	210	194	15	9	517
Staff	1262	4946	1401	145	41	7795
Blue-collar	15	20013	269	6	2	20305
<b>Total</b>	<b>1366</b>	<b>25169</b>	<b>1864</b>	<b>166</b>	<b>52</b>	<b>28617</b>

Δ 2006 Vs 2005	Corporate <sup>1</sup>	Tyres	Real Estate	PBS	Ambiente	Total
Executives	(16)	22	28	4	1	39
Staff	15	246	256	41	7	565
Blue-collar	(8)	1228	(34)	(1)	1	1186
<b>Total</b>	<b>(9)</b>	<b>1496</b>	<b>250</b>	<b>44</b>	<b>9</b>	<b>1790</b>

Geographical breakdown by sectors as at December 31st, 2006:

##### GEOGRAPHICAL BREAKDOWN OF EMPLOYEES ON 12.31.2006

	Corporate <sup>1</sup>	Tyres	Real Estate	PBS	Ambiente	Total
Europe	1349	12993	1864	166	52	16424
North America	-	265	-	-	-	265
Latin America	16	9786	-	-	-	9802
Asia, Africa and Oceania	1	2125	-	-	-	2126

##### Δ2006 VS 2005

	Corporate <sup>1</sup>	Tyres	Real Estate	PBS	Ambiente	Total
Europe	2	332	250	44	9	637
North America	(14)	39	-	-	-	25
Latin America	3	663	-	-	-	666
Asia, Africa and Oceania	=	462	-	-	-	462

<sup>1</sup> Pirelli & C. SpA, SSC, Pirelli Labs, PISEFI, CSAP, SAP, Polo Viaggi, Foreign Corporate Companies

Type of employment contract as at December 31th, 2006 and comparison of 2006 vs 2005:

TYPE OF EMPLOYMENT CONTRACT	2006 VS 2005	
Permanent	87.9%	(0.5%)
Fixed term	9.4%	0.6%
Agency workers	2.7%	(0.1%)
Part-time (% on total of FTE*)	0.8%	0.1%
Stage / Other <sup>4</sup>	543	(72)

<sup>4</sup> Non included in total employees.

Employment flows as at December 31th, 2006:

EMPLOYMENT FLOWS ON 12/31/2006 <sup>5</sup>	
New Hiriings	5016
Employee Leavings	3156
Average length of service (years):	
Executives	10
Staff (cadres included)	10
Blue-collar	9

<sup>5</sup> Not including people involved in corporate acquisitions or assignments of companies or of company branches.

The Group's workforce trend is characterised by consistent growth (+1790 employees), compared to the previous year. This increase especially results from the tyre sector's hiring of personnel to strengthen the new industrial plants in China and Romania, the increased labour workforce in Brazil subsequent to changes in the Campinas factory's work pattern and the increased production volumes in the Feira de Santana and Gravatai factories. An addition of 250 employees was recorded in Pirelli & C. RE due to the consolidation of the Credit Servicing Company.

Concerning the movements of incoming and outgoing personnel, we must take the issue of seasonal work into account - a typical phenomenon in the tyre sector that requires temporary workers to stand in for permanent workers (approx. 700 people between Germany and Turkey) to maintain production volumes constant during the summer months.

The group does not employ anybody under the age of 14.

The tyre sector employs 45 young workers aged between 16 and 18 years (26 in Brazil, 4 in UK and 15 in Germany) and as an exception 18 young workers aged between 14 and 16 years in Brazil, as part of training and induction schemes in line with local laws.

<sup>6</sup> Human Resources

## HR<sup>6</sup> POLICIES

To steer the crucial phases of integration and development of human resources, the Pirelli Group applies an extensive policy system on both a group (Corporate initiatives) and Sector/foreign affiliate Company level.

**Salary Review** policies are locally applied by individual countries except for procedures involving Executives worldwide and key resources involved in international mobility schemes, since these categories are centrally coordinated by the Group's Parent Company according to a common rationale and always respecting the requirements of an international Management team. In 2006 a Development Centre phase coordinated by the Group's Parent Company and focused on

objectively evaluating the potential of individual candidates was introduced to the assignment process of new executives.

Policies concerning **Performance Assessment/Improvement** are closely linked to salary review policies.

100% of Executives and 50% of Cadres take part in the Group's annual incentive scheme (MBO), which sets clear Group/Business and individual economic-financial targets and pays out bonuses varying according to assessment and the extent to which the said targets are achieved.

An important project is geared towards relaunching of an assessment and performance refining system (referred to as Performance Management), aimed at improving the relations between managers and their staff. This system will be launched *en masse* in 2007, in the whole Group.

In 2006 Pirelli Tyre launched a worldwide project to map the skills of key resources in the Sales, Industrial and Quality Departments. The programme was geared towards creating a common platform to start planning and implementing dedicated training tracks and compensation and development actions along common lines and coordinated by the sector.

The **International Mobility** policy, which bears witness to the international framework's strategic value in the development of leadership within the Pirelli Group, deserves special focus and visibility.

Over the past ten years, an average of approx. 250 people, numbering executives, cadres and staff of various nationalities and cultures, have yearly compared notes, developed professional skills and made the most of new managerial opportunities, thus contributing to build a truly international Group.

Many features of the new global labour market have triggered the need to define a more flexible approach to the international framework to speedily meet both the organisation's requirements and the needs of individuals who work therein.

The new policy provides flexible answers to requests/demands that were once perceived as an obstacle to international mobility, i.e. dual careers (considering the partner's work-related/personal needs), family requirements, different schooling systems, etc.

Over the past 5 years the maximum duration of foreign travel has, for instance, been reduced from 5 to 3 years, thus enhancing the rotation of personnel in the Group's developing/strategic sites, while concurrently meeting family requirements and the issue of dual careers. The option of commuting (widely chosen especially in Europe, this involves a Monday to Friday routine and a relatively close location to enable an easy weekly return to the country of origin) has also been introduced.

Job transfers abroad and missions are still the most widely used methods.

Lastly, international mobility perceived as a real development opportunity can be fully considered as a supporting tool in the Group's Equal Opportunities project. At the close of 2006 the percentage of women on the total number of personnel transferred abroad was approx. 15% (slightly higher than the previous year). We believe this percentage, thanks to the greater flexibility adopted tools, is set to increase in the near future.

## THE GROUP'S EQUAL OPPORTUNITIES PROJECT

The Group's **Equal Opportunities Project** was begun in 2005, in compliance with the principle "...to ensure equal opportunity and to, promote the development of each individual" declared in the aforementioned Policy for Health, Safety, Environment and Social Responsibility and to imple-

ment provisions in art. 6 of the Group's Ethical Code, in the section that says "...*Working relationships are managed with a view to guaranteeing equal opportunities and promoting the personal development of each employee*".

The goal of the Project is to guarantee equal opportunities for professional growth in all company functions and environments, thus enabling the entire Company to manage the "diversity" issue in an effective and cutting-edge manner as it strives to achieve its business goals.

From an organisational perspective, in 2005 the Project involved the appointment of an *Equal Opportunities Steering Committee*, a high standing body appointed to direct and safeguard corporate plans on the issue of equal opportunities. A *Group Equal Opportunities Manager* was concurrently appointed to direct the Project's operational implementation inside the Group, to pursue greater organisational balance and to monitor the progress of equal opportunities in all Affiliates.

The organisational framework was completed in 2006, when Country Equal Opportunities Managers were appointed to locally direct and monitor the progress of equal opportunities.

2006 also witnessed the early stage of communication of the project content.

The first step in this direction consisted in drafting and publishing the Group Equal Opportunities Statement (already mentioned in the first chapter of present sustainability section).

Translated into the 11 main languages commonly spoken in our Group, this statement has already been conveyed to all employees - both electronically and in hard copy - with an introductory note signed by the Chairman. The Document is published in the Pirelli Group's website and can be accessed by the external community in the "Sustainability" area.

The second initiative involved the draft of a leaflet describing the project's most relevant contents. This too has been translated into the main languages spoken by Group employees and is currently being distributed. Distribution will be completed in 2007.

Concerning contents, the Project envisages the Group's commitment in two main action areas: the first is human resources management, which is increasingly inspired by the principle of making the most of differences and guaranteeing equal opportunities for professional growth; and the second concerns a greater care on work-life balance issue, with a view to facilitating the reconciliation of the professional/private lives of company employees.

It is clear that the first area is a challenge that presumes the specific intention to really influence corporate mentality.

To this end, the Company has undertaken to implement specific "positive actions" for selecting, developing and training human resources.

In particular, the screening and development framework aims to:

- » Establish a joint male-female *short list* as a basis for the selection process for all types of personnel search geared to the placement of said personnel at any level of the organisation.
- » Promote tailor-made measures in functional areas that most lack balance
- » Guarantee equal access opportunities to training initiatives, international mobility programmes, promotions and new responsibilities
- » Guarantee the principle of equal opportunities in all analysis and assessment phases related to career tracks
- » Implement local periodical control processes for the abovementioned actions throughout the different affiliates.

Training will be the tool aimed at raising awareness within the organisation as regards the issue of acknowledging and valorising diversity. encouraging personnel to really shoulder their responsibilities concerning the abovementioned topics.

The second action area, which is closely related to the typical socio-economic frameworks of individual countries where the Group operates involves corporate commitment to pay more heed to demands that may surface from time to time. Initiatives that can both influence working hours and support to employees' families have, for instance, been theorised.

The Internal Equal Opportunities Complaint Procedures – designed to totally defend the principles of equal opportunities announced by the Statement and to be implemented in all Group affiliates – reached the final drafting stage at the close of 2006. They will be enforced in all affiliates in 2007, consistently with local regulations.

Concerning the subdivision of headcount by gender, figures as at December 31st 2006 show an approx. 20% (vs. 17% in 2005) incidence of females holding managerial functions, 36% (same as 2005) of females in staff functions and 3% (vs. 2% recorded in 2005) in the labour group. Dynamics have improved, compared to last year, due to the natural course of events, since specific positive actions targeted at promoting /increasing female presence both in the areas that most lack balance and in managerial/leading posts will be launched in 2007.

Another aspect of **equality of treatment** that the company seeks to ensure and monitor group-wide is that of **remuneration**.

In this regard and as already recorded in the 2005 Sustainability Report, basically equal salary conditions for men and women have been confirmed at all organisational levels (i.e. executives, cadres and staff).

## EMPLOYER BRANDING\* AND SELECTION

### Talent attraction initiatives tools\*

To control the crucial phases of the human resource integration and growth process, the Pirelli Group applies an extensive system of policies both as Group (corporate initiatives) and in the various sectors/foreign affiliates.

Policies that define and regulate the Personnel Research & Selection process are locally applied by affiliate companies, consistently with currently enforced practices and local regulations. In Italy, for instance, the screening mode adopted for recent graduates is centralised and managed by the HR Department during the first stage of CV sourcing and screening . Later and with the collaboration of a specialized external company an assessment phase takes place, based on Group dynamics, tests and individual interviews; finally probing cognitive interviews are directly carried out with the Line Manager who is assisted by the HR Department. Positively evaluated candidates are integrated in the Company through a training and orientation track.

Talent Attraction initiatives through which the Group expresses itself include:

- » **Employer Branding:** choice of reference universities/faculties/Master's Degree courses in leading universities in Italy, Romania, China and Brazil – the Group's international development centres; than brand management and Pirelli's presence there through contacts, corporate presentations, case hystories, practical training sessions and recruitment days held by the HR Department with the Line Managers from the various departments/business areas.

This activity has lead in 2006 to an increased number of candidates, recording for instance an average 600 a month in Italy.

- » **Career Days:** this international job meeting network envisages a cycle of events that yearly involve some of the leading university cities, thus enabling Pirelli to directly meet graduates, under-graduates and young professionals. Pirelli considers participation in such events an important employer branding tool. In 2006 Pirelli had its own stand at universities in Milan (Bocconi University, Polytechnic, Bicocca), Pavia, Turin and Naples.
- » **Career Books:** this is a career service for work orientation, post-graduate training, recruitment and communication targeted at undergraduates, recent graduates and young professionals. These guide-books are organised into three sections – post-graduate orientation, company profile (which describes the corporate profile, screening procedures, career tracks and has a brief section on CV presentation) and training – and are distributed in placement offices in universities, orientation offices, internship programmes, associations for graduates, bookshops and during Career Days.

In this framework Real Estate has started an integration and “job rotation” programme called **Campus Project** for twelve recent graduates in economics, architecture and engineering.

The project envisages a one-year job rotation period in 3 corporate departments or areas through the scheme for transversal skills development to learn how to conduct real estate business in an all round perspective. The on the job training project is completed by a classroom training track designed to develop and transfer both technical and managerial skills.

60% of participants in the project found employment in the Company. In 2007 the Campus Project will be organised for the second consecutive year.

Another project organised in 2006, in this case by Pirelli Tyre, was “**Recruiting day at the Vizzola track**”. On this occasion 70 undergraduates from the most prestigious universities had the opportunity to attend a course on safe driving during the early part of the day; they later participated in a first screening phase held by means of an innovative team game.

Another initiative organised in the Career Days’ framework was **Recruiting Day at the Milan Polytechnic – “Lunch with Pirelli”**. This event saw the participation of staff from the Pirelli HR Department to explain the corporate framework and the Company’s recruiting process.

A number of Line Managers belonging to three different areas (i.e. managerial, mechanical and electronic/TLC) also participated in the event. They elaborated on job openings and answered the participants’ technical and specific questions on the type of work. Finally, all candidates participated in individual interviews.



RECRUITING DAY 2006 IN  
VIZZOLA

## TRAINING AND DEVELOPMENT

### Training & development tools

Summarised below are the Group’s main training & development tools:

- » **Skills Catalogue:** the Skills Catalogue is geared towards creating a common landmark to define training activities, in order to meet the need to develop skills and the organisational behavioural patterns required of Pirelli Group employees.

The Top Management defined reference skills (grouped into 10 categories to enable easy identification) during the Pirelli Values certification process. To enhance a common language, the Skills Catalogue backs the spreading and implementation of Group skills. It enables to perform a training analysis and meets the specific require-



ments related to the role of Pirelli managers.

- » **Potential Assessment Manual:** Assessment Centres, Development Centres and overall Feedback Questionnaires sustain both moments of awareness enhancement and the monitoring of managerial potential. Such tools are also used in the Group Talent development framework (in various phases of corporate life) and they also photograph various professional family populations.
- » **Performance Gauge Tool (PM):** based on a transparent, shared and objective performance evaluation system, it is an important tool both from a performance improvement perspective and to back manager-associate relations.

In 2006 the Group focused on relaunching this process through a more slender and flexible online tool.

Early in 2007 all managers will be involved in classroom training sessions.

- » **Global Grade System:** this handbook provides guidelines for using the Global Grade System and how it is related to the Standard Positions. Each Standard Position may be broken down into: technical-professional skills, competencies/attitudes, background and organisational structure. Finally, it provides support in designating specific roles, recruiting, job posting, organisation charts, pay schemes, development schemes, and target-setting for the incentive scheme.

° Pirelli's classification  
system of corporate  
positions/roles.

## Training & Development Projects

Described below are the main Training & Development projects:

- » **Executive Best Practices** (designed for the Tyres Operations sector's senior management): project goals envisage the creation of dialogue, vision and common commitments to facilitate effective organisational changes, construct "teams of leaders and team leaders", spread managerial culture inside the organisation, provide self-development tools and opportunities, align managements and backing systems to promote and strengthen the constant development of management in the Tyre Business's Operations area.

The programme includes the following 4 modules: Managing People, Managing Relations, Managing Innovation and Managing the Unexpected. The project's follow up was developed through two individual coaching meetings to define each manager's personal professional development and growth track.

- » **Intercultural Management in China:** 2006 saw the close of the workshop cycle designed to enhance the skill to recognise differences in "cultural frameworks" resulting from the convergence of European and Chinese culture, besides acquiring more detailed knowledge and information on the latter's macroeconomic framework.
- » **Managerial Development in China:** a Development Centre programme was organised for a group of fifty managers to define each one's progress concerning skills and a personal training programme.
- » **Training online on CSR:** an awareness-raising tool on the topic that was spread through the Group's Intranet system to all employees.

The communication project for all Pirelli Group employees was implemented by defining posters and leaflets dedicated to the topic of CSR; the distribution of material to all Group employees will be completed in 2007.



The material comprises part of the classroom training activities that will take place in 2007 for all employees who work by Pirelli's production facilities based in emerging countries

- » **Start-up Romania Tyres:** training opportunities especially for on the job training were organised for approx. 125 workers during the start-up phase of the new Tyre production plant in Romania. These workers were provided with both theoretical and on the job training in the Group's production plants based in Italy, Turkey and Germany.

Staff were given a prolonged training period (approx. 3–4 months) depending on the role played. Topics of discussion numbered Group values, its Ethical Code and multicultural differences.

**In the framework of training activities provided by Pirelli Real Estate,** 2006 saw the completion of the traditional training catalogue. It was designed to develop managerial and professional skills with targeted integrated training geared towards meeting the requirements of well defined professional families and sectors.

The following projects are worthy of note:

- » **Company Kitchen – Ingredients for a Team:** this outdoor team building project resorted to the kitchen as a “metaphor of the corporate team”.

The Residence Business Unit's entire team experienced the 'innovative trend of learning by doing at the stove, based on the theory that high quality cuisine requires the use of resources, knowledge, organisation and methods, as basically occurs in a corporate team.

It was an opportunity for everyone to exchange ideas and experiences and to engage in some healthy competition: the people involved were divided into three teams that competed in various tests by preparing savoury lunches under the guidance of a professional chef. The experience encouraged discussion on relational and communicational dynamics, in an entertaining manner in the breath-taking setting of the Barilla Academy in Parma.

- » **Training for Buyers:** project inspired by a well defined organisational need, i.e. to group the professional family of buyers under a single Department, even if they come from different companies and experiences. The project commenced by mapping all buyers' skills to define the required training level. The training track, which is organised in 11 days (3 held in 2006 and 8 to be held in 2007) that alternate the development of technical expertise and managerial skills, is designed to encourage all round considerations on the various skills required of buyers in the current corporate framework.
- » **Training for Credit Servicing:** this training project centres on the corporate framework of Credit Servicing, which in 2006 experienced a merger between Pirelli RE Credit Servicing and SIB. The training track is organised in different levels, ranging from training on newly adopted software (Fenice system) to course tracks with specific goals, such as integration, regulatory updates and the development of typical managerial skills for the activity performed.
- » **Mirror:** this track differs from classical training modules in that it involves a preliminary phase for participants to evaluate and establish their self-development plan after the Development Centre experience. The project comprises 5 *Mirror Workshops* that are preceded by an introductory kick-off and an analysis of training

requirements, besides a wrap-up to summarise and evaluate the situation. Every workshop centres on a “set” of specific managerial skills, such as, for instance, leadership, negotiation, relational skills and self-development. Specific practical training sessions designed to create a sense of commitment and continuity in participants are launched between one workshop and the next.

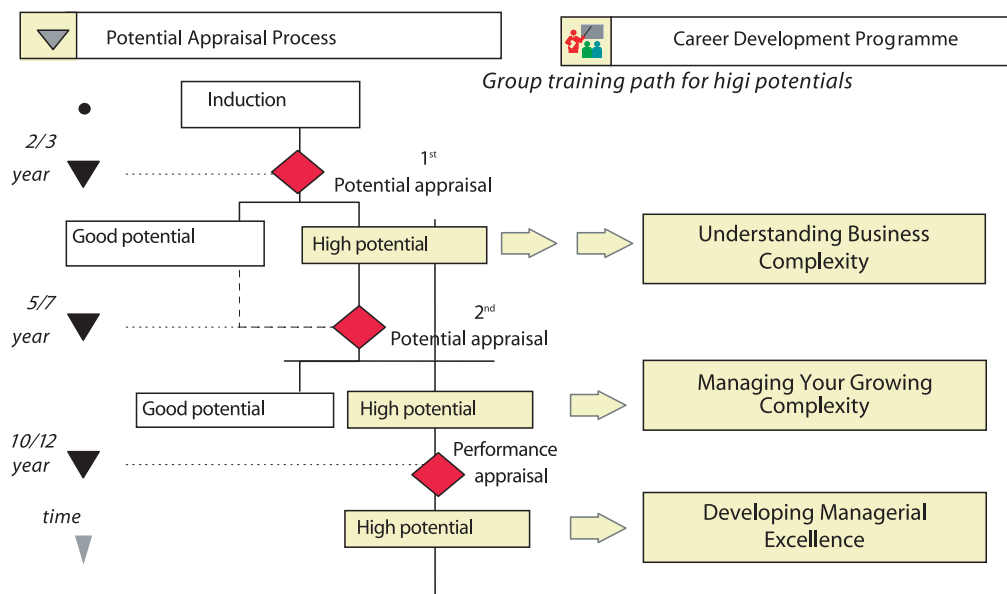
- » ***Getting Ready for Management:*** this is both a celebration and a training session targeted at newly appointed executives in the Real Estate Group. The meeting’s training goal is to inform participants about the latest in the administrative field, providing food for thought in a managerial framework in the light of their new role
- » ***Accelerating Self Enhancement:*** a 7-day training track targeted at newly appointed executives in the Real Estate Group. The meeting is geared towards developing and enhancing the participant’s cognitive and emotional personal resources to achieve effective leadership that can produce significant changes in his or her progress.

### Talent retention initiatives and tools\*

Talent Retention levers through which the Group operates are organised as follows:

- » **Career Development Programmes:** these tracks are designed to promote the development process of High Potential Personnel in various phases of their professional life. In association with the best European business schools, these programmes are organised, managed and coordinated at a Group level to provide solid skills and the capacity to make the most of one's potential. Each step envisages a specific training and development plan.

The following diagram describes the entire process, course placement and the respective programmes:



The Career Development structure will be updated in 2007. This updating will include an increase in the number of Development Centres, including regional centres with courses in the local language.

The 3 main steps (i.e. UBC, MGC, DME workshops) that envisage one week periods of pure training remain unchanged.

The following is a concise but brief description of the contents of the three mentioned workshops

- 1) **Understanding Business Complexity (UBC)** – the workshop is designed to view business from the right perspective to move in multiple directions – to this end personal experiences are compared with those of colleagues from the other Group businesses corporate departments and different cultural frameworks; to encourage greater awareness of personal professional skills and values; to assess participants' alignment with both high potential profile skills and Pirelli values; and, to construct personal future development; in this regard instead Pirelli Real Estate envisages a Development Centre.
- 2) **Managing Your Growing Complexity (MGC)** – develops skills to help face the

managerial role's growing complexity, understand success factors in the decision making framework, provide participants with feedback on motivations, skills and areas open to improvement and provide assistance in defining a well structured development plan.

- 3) **Developing Managerial Excellence (DME)** – designed to understand the links between the various functional frameworks and their impact on the management of business projects and to develop complex managerial skills (i.e. analysis of difficult contexts, problem solving, multicultural teams, stress management).

The following tables show attendance at the three workshops held in 2006 and 2005 in terms of number of participants by country of origin:

CAREER DEVELOPMENT PROGRAMME 2006							
UBC	10 Italy	2 Germany	1 Spain	1 Turkey	2 Brazil	2 UK	1 Argentina
TOT UBC 2006: 19							
MGC	12 Italy	3 Germany	2 Egypt	1 Turkey	2 Brazil	1 UK	
TOT MGC 2006: 21							
DME	13 Italy	1 Germany	1 Japan	1 Greece	2 Brazil	-	
TOT DME 2006: 18							

CAREER DEVELOPMENT PROGRAMME 2005											
UBC	23 IT	3 GER	2 SP	5 BR	4 GB	1 US	1 VENEZ	1 FR	1 CINA	1 MEX	1 COM Units
TOT UBC 2005: 43											
MGC	21 IT	5 GER	1 SP	4 BR	2 GB	3 US	1 AUSTRALIA	1 UNGH	1 MIDDLE EAST	-	
TOT MGC 2005: 39											
DME	16 IT	1 GB	1 RUSSIA	1 BR	-						
TOT DME 2005: 19											

Further Talent Retention tools in the Training and Development framework, besides Talent enhancement and development, are *Development of Skills by Professional Area*, *Development of Professional and Managerial Skills*, the *Fostering ACF Skills* programme and the *Running the Market Project*.

- » **Development of Skills by Professional Area** – this path includes training programmes that are geared towards improving, deep-rooting and spreading expertise of specific professional areas (e.g. Administration and Control; Sales and Marketing; Manufacturing and Quality; Personnel; R&D), focusing on the “hard” and “soft” professional skills required to achieve professional excellence. Talents required for the various roles are especially highlighted.

- » **Development of Professional and Managerial Skills** – this path includes training programmes designed to improve, strengthen and spread Pirelli Group professional and managerial skills that are deemed necessary to hold increasingly complex posts (e.g. integration programmes for new recruits, transition programmes from junior to senior posts and programmes for recently appointed managers). In this case too special focus is reserved for Group Talents. In 2006 a new course called “Coaching & Feedback” dedicated to help managers better develop their associates’ management skills through feedback and coaching techniques was added to Pirelli’s training catalogue.
- » **Fostering ACF Skills** – this training programme was developed for the professional family Administration, Control and Finance to construct a growth track for future CFOs, to improve specific skills and to enhance the sense of belonging to the professional family itself by capitalising the most significant best practices both inside and outside the Company. Designed and managed in collaboration with SDA Bocconi, the training track will continue in 2007 with further modules geared to develop managerial skills that are closely linked to the roles envisaged in the professional considered area.
- » **Running the Market** – a project designed to map commercial skills required in the European area. A training plan focused on filling the gap in skills and on developing role skills has been defined on the basis of mapping results. The training course envisages technical, professional and managerial training modules. In 2007 the same courses will also be organised in English for personnel belonging to the European commercial units.

### Training Activity Figures

The following table reports the number of average training days per person by professional category. The table also shows variations recorded in 2006, compared to 2005:

2006 (AND VARIATION 2006 VS 2005)					
Personnel Training (average days per person)	Europe	U.S.A.	Latin America	Others	Total
Executives	2.2	0.0	6.9	1.1	2.4
Staff (including Cadres)	6.3	0.9	7.2	6.3	4.6
Blue-collar	2.4	0.5	5.2	1.5	3.5
<b>Total 2006</b>	<b>2.9</b>	<b>0.7</b>	<b>5.5</b>	<b>2.5</b>	<b>3.8</b>
total 2005	2.7	0.2	3.4	1.3	2.8
<b>Variation 2006 vs 2005</b>	<b>0.2</b>	<b>0.5</b>	<b>2.1</b>	<b>1.2</b>	<b>1</b>

The above reported increase in training days per person organised in Europe in 2006 is the outcome of more catalogued training activities dedicated to the Management and to initiatives implemented for specific professional families. We must also consider the impact of training provided in the new site in Romania (Slatina).

The significant increase in figures for Latin America is a result of training provided to blue-collars, especially concerning professional/legal activities (safety etc...).

The increasing training results in the “others” item stems from new training/development activities implemented at Pirelli’s Chinese branch and targeted at enabling blue-collars and staff to correctly carry out their roles.

## INTERNAL COMMUNICATION

### COMMUNICATION CHANNELS

#### Pirelli Corporate Press

In the internal communication framework promoted by Pirelli, the corporate press plays a primary informative role, as witnessed by both the high number (currently 28 magazines) and quality of publications produced by the Group's Affiliates and targeted at employees, stakeholders, authoritative institutions and external opinion makers.

This 'mixed' distribution is proof that the Pirelli Group's corporate press plays an increasingly extensive role of information and interaction, since it is not solely designed for internal circulation, but also for 'communities' of associates, suppliers and, in a broad sense, for all those who operate around the Group and for local communities in whose framework Pirelli operates in the various countries.

2006, in particular, witnessed the release of a considerable number of magazines in countries with remarkable market differences. The Italian production plant in Figline Valdarno has created the exquisitely technical bulletin "Il Filo di Arianna" – designed solely for internal circulation, which witnesses the high standards of discussions on production and safety issues.

In Spain, HR and Marketing Departments have introduced two new magazines – "Pirelli News" and "Planet Pirelli" – that enhance and integrate communication with employees and external stakeholders in response to an increasingly mature market. In Brazil, the new monthly magazine called 'Giro' – published in recycled paper consistently with the Group's environmental policy – has absorbed the previous three magazines, thus optimising the use of resources and distribution in the large South American area.

Lastly, a new publication – "Pirelli Newsletter" – published in two editions (English and Chinese) and targeted at all South-East Asia has been released in Singapore, where a Chinese version of the magazine Pirelli World published in Italy was already distributed. The first issue of "Pirelli Tre Newsletter", whose print run of 20,000 copies has just been distributed in China and will reach and inform the drivers of Asian market dynamics,

The full colour 28 periodical magazines published by the Group both in Italy and worldwide are a highly relevant and significant asset for Pirelli because they spread information, strengthen corporate identity and promote visibility. The table below briefly reports their main details.



<sup>2</sup> Published and distributed in the steelcord production plant in Figline Valdarno.

<sup>3</sup> 10,000 at the SEMA Show in Las Vegas.

<sup>4</sup> In 2006 it replaced Pirelli Flash and PQT Ativo.

<sup>5</sup> Distributed since January 2007.

<sup>6</sup> Distributed since January 2007.

<sup>7</sup> In 2006 it replaced Pirelli World in Chinese.

<sup>9</sup> From 2002 to 2006 also in Chinese.

COUNTRY	TITLE	LANGUAGE	TARGET	FREQUENCY	PRINT RUN
Italy	Fatti e notizie	Italian	Employees	Bimonthly	13,500
	Pirelli Flash	Italian	Employees	Monthly	6,600
	Pirelli World	English <sup>9</sup>	Management Pirelli (worldwide)	Quarterly	13,500
	Il Filo di Arianna <sup>2</sup>	Italian	Employees	Six-monthly	500
Germany	Pirelli News	German	Employees	Monthly	2,000
Great Britain	Pirelli News	English	Dealers and Consumers	Six-monthly	7,000
	Inside Pirelli	English	Employees	Quarterly	1,000
	Team Pirelli	English	Consumers	Six-monthly	8,000
Portugal	Planet Pirelli	Portuguese			
Czech Republic	Messaggero	Czech	External public	Four-monthly	20,000
Spain	Pirelli In	Spain (Castilian)	Employees	On special occasions	250
	Flash quality	Catalan	Employees	Quarterly	800
	Flash security	Catalan	Employees	Quarterly	800
	Pirelli News	Spanish (Castilian)	Employees	1,000	
	Planet Pirelli	Spanish (Castilian)	Dealers	Four-monthly	3,500
Turkey	Pirelli Radial	Turkish	Employees and External public	Bimonthly	7,500
United States of America	Pirelli Newsletter <sup>3</sup>	English	Dealers and Consumers	Quarterly	7,000
Argentina	Pirelliando	Spanish	Employees and External public	Bimonthly	1,000
	Mejorando	Spanish	Employees and External public	Bimonthly	1,000
	mkt <sup>3</sup>	Spanish	Employees, dealers and national press	Six-monthly	5,000
Brazil	Giro <sup>4</sup>	Portuguese	Employees	Monthly	7,200
	MotoPneu	Portuguese	Dealers	Quarterly	10,000
	MotoPasioN <sup>5</sup>	Spanish	Dealers	Quarterly	6,000
COUNTRY	TITLE	LANGUAGE	TARGET	FREQUENCY	PRINT RUN
Brazil			(Columbia, Argentina, Mexico)		
Chile	Pirelli E-News	Spanish	Employees and Dealers	Bimonthly	online
Mexico	Pnewss	Spanish	Employees and External public	online	
Venezuela	Mundo Pirelli	Spanish	Employees and External public	Bimonthly	online
China	Pirelli Tyre Newsletter <sup>6</sup>	Chinese	Dealers, Retailers, Consumers, the Press	Bimonthly	20,000
Singapore	Pirelli Tyre Newsletter <sup>7</sup>	English Chinese	Management and External public (Singapore, Malaysia, Indonesia, Thailand, South Korea, The Philippines, Taiwan, Hong Kong)	Quarterly	8,000



A rich and diversified publishing scene indeed: a family of magazines linked by goals and contents. Each magazine has its distinguishing features that mirror the specific traits of the country where it is conceived and circulated. The coordination and check of content consistency with the Group's ethical values and communication policies are ensured by the Milan-based Pirelli Corporate Human Resources and Media Relations Departments. Three Italian magazines are registered periodicals as they are of public interest, and not at prevalent advertising content; these magazines are edited by a pool of editors and are directed by a professional journalist.

Beyond language, format, periodicity and circulation differences, the content and function of all publications considered in this Sustainability Report are chiefly informative with low advertising content. They focus on the dual goal of conveying information that is as consistent, complete and capillary as possible and of encouraging the Pirelli Group, its associates, stakeholders and local communities where they operate to exchange and share facts and values.

### Knowledge Management Methods

The Pirelli Group has always been committed to spreading knowledge within the corporate framework to generate wealth from its very intellectual capital.

Expertise development is valuable for the creation of increasingly efficient and effective processes that improve quality and reduce times and costs, thus creating value for the client on the one hand and for Pirelli personnel on the other.

Pirelli knowledge management activities can be divided into two macro-areas: online activities and offline activities.

Many online activities can be accessed by the corporate intranet system, which is the most widely used knowledge management tool by Pirelli worldwide employees. We can, for instance, mention the following tools and activities:

- » *Learning communities* to learn content categorised by functional area
- » *"Knowledge at work" platforms* for information exchange on the state of projects advancement
- » *Electronic notice boards* targeted at conveying corporate messages to all employees
- » *Handbooks* to refer to for technical expertise
- » *Mailing lists* for internal communication campaigns and social promotion.

With regard to offline knowledge management, we note the following:

- » The *Chief Knowledge Officer's* role and activities – who is the reference corporate figure for technical expertise on product and research
- » *Road shows* – meetings that convey corporate strategies at all organisational levels
- » *Corporate training and targeted training* – large scale learning programmes designed to cover an extensive range of both business and managerial contents
- » *Improvement Teams* in industrial areas designed to improve processes
- » The use of *corporate notice-boards* to communicate with factory personnel. Tailor-made courses are also organised for factory employees to compensate for the impossibility of conducting online training.

Knowledge management tools are steadily developing to improve both employee satisfaction and customer-oriented performance.

In this perspective 2007 will see the implementation of a development project for the corporate intranet system and of new communication tools targeted at both the internal and external community (suppliers, clients, local communities, etc.).

### Group Opinion Survey

2006 saw a wide-ranging communication action of results that emerged from the first worldwide opinion survey launched by Pirelli in November 2005.

Considering a result analysis conducted in a specific mode and differentiated by country, professional family and business, results were published in the corporate intranet systems with the same segmentation. Intranet communication was enhanced with informative moments and feedback first involving Country Managers and Central Department Directors and, gradually, other levels in each facility (through specially organised focus groups) to effectively share and interpret the results that surfaced and to encourage the identification of targeted bottom-up improvement actions.

Such a structured wide-ranging action was geared towards encouraging greater focus on effective internal communications (this need emerged from the survey outcome).

Awareness of the results obtained led to the Group's commitment to implement both local and Group improvement actions, in response. In particular, in response to areas defined in 2006 as requiring improvement, the *Performance Management process* that will be massively launched and implemented in 2007 was redefined (it is described exhaustively in the Training & Development section); the *Career Development Programme* was also revisited by highlighting and distinguishing assessment moments from training; and, lastly, worldwide communication of the *Equal Opportunities Project* was commenced. In 2007 the latter will involve the implementation of "positive actions" in the framework of Human Resources Management and work-life balance, based on the principle of optimising differences and equal opportunities.

In the light of the high participation rates in this first worldwide opinion survey (approx. 70%) – a sign of people's involvement and their wish to contribute towards the Pirelli Group's improvement – in 2007 the Group will conduct a second edition of the opinion survey, this time involving labour categories as well as management and staff.

## INDUSTRIAL RELATIONS

The Group's Industrial relations are carried out as a constructive dialogue, fully respecting fairness and the respective roles. Guaranteeing and respecting employees' freedom to engage in union activities has always been one of the company's key points.

Relations and negotiations with Trade Union are managed locally, in accordance with the laws, national and/or company level collective agreements and customs and practices in force in each country. This is supported by the guidance and supervision of central Company Functions, which intervene to ensure the appropriate aspects of activity coordination and to guarantee the aforementioned principles.

In 2006 Industrial Relations activity reached important goals: the renewal of collective agreements in many of the Group's production plants without unrest, as occurred in Italy, United Kingdom, Germany, Turkey, Romania and Brazil. This confirms the relevant effects of the aforementioned policies on the outcome of negotiations.

Two important projects to establish two new modern production plants designed to replace the current sites in Settimo Torinese (Lombardy, Italy) and Manresa (Spain) have commenced, involving Trade Unions and the local Public Administration.

#### THE EUROPEAN WORKS COUNCIL

Set up in 1998, the Pirelli European Works Council (EWC) was designed to encourage dialogue between the Company and its employees, namely, the information and consultation through Delegates on the overall progress of the Group's European companies and on its general directions.

EWC Delegates are provided with the IT tools required to perform their duties and a connection to the corporate Intranet system, for the real time communication of official Company's press releases.

The Council meets in ordinary session once a year, following the presentation of the financial statement, to learn about economic trends, financial-economic forecasts, investments carried out and planned, progress in research, etc.

Extraordinary meetings are also envisaged whenever information and consultation are required in the light of transnational events that concern important corporate changes, new openings, the restructuring or closure of sites and relevant widespread work organisation innovations, always in Europe.

During the 2006 annual meeting, the Equal Opportunities Project, the report of the relevant results achieved by Pirelli Real Estate and options for its future expansion abroad were introduced and discussed, besides the usual topics.

In light of the European Union's enlargement, as from 2007 participation in the Pirelli EWC will also be extended to Romania.

#### COMPLIANCE WITH LEGAL AND CONTRACTUAL REQUIREMENTS ON OVERTIME AND TIME-OFF

The policy of complying with all legal and/or contractual prescriptions concerning overtime work and the right to periodical days of rest applies to the entire Pirelli Group. These topics are often the focus of understandings both with trade unions and individual workers, respecting the many different regulatory contexts.

Every worker's right to use his or her total number of holidays suffers no restrictions. The holiday period is generally agreed between the worker and the Company.

#### LABOUR AND SOCIAL SECURITY LAWSUITS

Broadly speaking, conflicts recorded level is low, hence the low entity of labour and social security lawsuits.

In the entire Group, except for Brazil, 56 new lawsuits were filed in 2006.

In Brazil the incidence of labour-related lawsuits is traditionally high, numbering over 90% of lawsuits brought against the whole Group, to date.

This phenomenon is also present in other multinationals operating in this country, where, generally labour-related lawsuits are brought when an employment contract is terminated and the suits usually concern the interpretation of regulatory, legal and contractual issues that has long been controversial.

## UNIONISATION INDEX AND INDUSTRIAL ACTION

The Group's unionisation index cannot be precisely calculated, since this information cannot be provided by all countries. We can however estimate that about half the Group's employees are trade union members.

The percentage of employees covered by collective agreement in 2006 remains unchanged compared to the previous year's and is around 85%. This percentage is the result of the various national frameworks' historical and cultural differences. In some countries, e.g. Italy, all employees' employment contract are regulated by collective agreement, while local laws are applied in other countries, like China.

Individual contracts are held by approximately 10% of the employee population, e.g. executives worldwide, except for Italy, *Managers* in the UK, "*Non Tarifs*" in Germany, "*Excluidos*" in Spain, "*Senior*" and "*Esecutivi*" in Brazil.

The overall conflict rate recorded in 2006 was very low.

Industrial actions during the year were only recorded in Italy and Brazil.

Concerning the Brazilian production plant Santo André, the two-hour strike demanded a better canteen service.

Disputes in Italian production plants, instead, concerned managerial aspects. They were all speedily and positively solved.

## OCCUPATIONAL PENSION PLANS AND HEALTHCARE SCHEMES

Turning to pensions and healthcare plans, the situation has undergone no relevant changes in 2006. Most affiliates still provide supplementary pension schemes for their employees.

The Group's policy envisages removing defined-benefit funds to the advantage of defined-contribution funds. Almost all supplementary pension funds in the Group are indeed defined-contribution.

Defined-benefit funds can only be found in the UK (they concern employees who were hired prior to an established date, while those hired after that date participate in a defined contribution fund), in the USA (some years ago these funds were closed to active employees to the advantage of defined-contribution funds; since then they only cover retired personnel and they are not influenced by wage increases) and in Germany (the plan was closed to new hires in 1982).

Pension schemes are generally completed by insurance policies against death and permanent disability.

In Italy the subject is developing with the introduction of supplementary pension funds in recent years and with recent provisions on the allocation of the retirement allowance.

Even regarding supplementary healthcare schemes, 2006 is basically the same as 2005, since no essential events have influenced them.

Healthcare schemes envisaged by the Company offer levels and forms of coverage that differ from country to country, in compliance with local needs. Most of these schemes are managed by Insurance Companies and specially created Funds. The Company participates by paying a fixed rate, as occurs in Italy, or an insurance premium, as occurs in Brazil and in the USA.

## OCCUPATIONAL HEALTH & SAFETY AND INDUSTRIAL HYGIENE

Health, Safety and Hygiene Management complies with the Pirelli Group Policy for Health, Safety, Environment and Social Responsibility, whose contents can be found in the introductory section.

The Policy's complete text, which was conveyed to all Group employees in their respective languages, can also be accessed from the company website, [www.pirelli.com](http://www.pirelli.com), in the "Sustainability" area.

To ensure greater precision, the various topics discussed below will be divided under "Pirelli Tyre", "Pirelli Real Estate" and "The Group's Other Sectors/Companies".

### SAFETY MANAGEMENT

#### Pirelli Tyre S.p.A.

A Safety Management System organised and certified to meet OHSAS 18001 standards has long been in operation in the Tyre Sector (which also comprises steel cord production plants).

At the close of 2006, the Operational Units certified to this standard numbered 19 (on a total of 24 production plants); 5 plants are now implementing their Safety Management System.

The Safety Management System implemented in the Group's production units has been developed on the basis of centrally drafted common procedures and guidelines. This has enabled the use of a "common language" inside the Group, in terms of key elements for Safety Management in workplaces and a common one-track operating mode.

#### Pirelli Real Estate S.p.A.

In the light of Pirelli Real Estate S.p.A.'s kind of performance, which is basically related to "services", a formal certification of the Safety Management System based on the OHSAS 18001 standards was not deemed necessary.

The corporate organisation is structured as follows:

A delegating process (delegating chain) for Safety Management, including a "spending power", envisaging a Control System for delegates has been implemented.

"Peripheral Management Committees" have been established – since 2006 Safety Department representatives have also participated in Peripheral Committees for Operational Areas (only Pirelli RE Facility's operating areas spread throughout the national territory: Milan, Ivrea, Genoa, Rome, Naples and the Italian islands) to sensitise all operational area personnel on topics concerning health, safety, accident prevention and work hygiene.

Moreover, from 2006 the Safety Manager has organised meetings with groups of Pirelli RE Facility operatives both to involve them and to hear their opinions on work safety issues.

These meetings were also extended to some Territorial Trade Union Organisations to describe the "Safety Management Models adopted by Pirelli RE" and to sensitise the workforce on the topic of prevention and safety, even with the external trade union's contribution.

Since 2005 Pirelli Real Estate SpA's Central Safety Department has participated in Periodical Committees for the General Management of Pirelli RE Property and of Pirelli RE Facility with the precise purpose of constantly updating Department Managers on the topic of Accidents,

Prevention, Protection and on actions designed to gather information and to steadily manage and improve company's and managed real estate assets safety levels & standards.

A system was also introduced for emergency and First Aid services mapping and management.

Since March 2005 Prevention and Protection Department Managers have been present in all Pirelli RE Facility's territorial operations areas (i.e. Milan, Ivrea, Genoa, Rome, Pozzuoli and Palermo), while a dedicated department operates centrally for the other companies.

Besides receiving the legally envisaged training, appointed personnel are constantly updated about new legal provisions and they are provided specific technical updates through the documentation and implementation of sustaining actions.

The Prevention and Protection Service continues its assistance, information and "proactive control" service for all company operational facilities.

Pirelli Real Estate devotes special attention to safety management in building yards in compliance with Legislative Decree no. 494 dated 14 August 1996, which implemented the Directive 92/57/EEC concerning the minimum safety and health measures to be ensured in either temporary or mobile building yards (i.e. large building yards for construction works/extraordinary maintenance).

For such activity, a safety control and monitoring system has been established for individual building yards, in order to guarantee the specific law's application level and relevant requirements.

Though the following is not directly related to health and safety issues, to ensure completeness we wish to mention other actions implemented in the aforementioned large building yards:

- » Definition of a periodical monitoring system to check that all contractors/subcontractors have regularly paid their tax contributions (INPS, INAIL, Cassa Edile)
- » Creation of a special team to combat concealed labour and tax evasion (via surprise inspections in building yards: a project enforced from January 2007 onwards)
- » Periodic meetings with control bodies (LHA, only in Milan) to compare notes on experiences, to discuss new regulations and to fight concealed labour / tax evasion

### Other Group Sectors / Companies

As already implemented by the Group's operational units, Pirelli Broadband Solution, Pirelli Ambiente, Pirelli Labs and Corporate also encourage the development of a Safety Management System based on the Group Policy for Safety, Environment and Social Responsibility.

As already specified for Pirelli Real Estate and, in the light of the characteristics of the said facilities and the business performed therein, a formal certification of the Health and Safety System was not deemed necessary in the companies mentioned. It was, instead, deemed appropriate to encourage the local development of management systems that could better adapt to each facility's features.

A delegating system for Safety with Expenditure Value has been implemented at organisational level. There are also local organizational structures designed to support corporate safety management.

At corporate level, the Health, Safety and Environment Department directs and controls safety, work hygiene and environmental protection throughout the Group.

In particular, corporate structures have drafted the appropriate guidelines and procedures that have been locally adopted to define Management Systems.



## HEALTH & SAFETY PERFORMANCE GAUGING

### Pirelli Tyre S.p.A.

Concerning safety and focusing on injuries data recorded in **production plants**, the 2005 performance has been basically maintained.

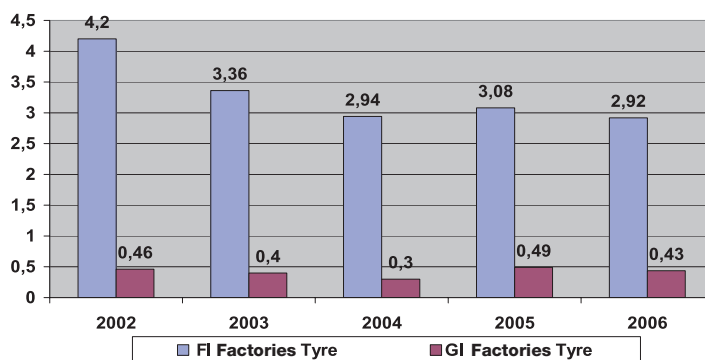
**Including all injuries that have occurred in tyre factories and based on the sector perimeter considered in 2005 , the Frequency Index (FI) was exactly the same as in 2005, while the Gravity Index (GI = 0.45 ) recorded a 6.6% per cent improvement, compared to 2005.**

Considering the total number of production plants and also data on the recently opened production plant in China, which did not exist during the 2005 survey, performance indexes improve further by reaching **FI = 2.92 and GI = 0.43**, due to the low injury rate recorded in the Chinese production plant.

To better understand this data, we remind that the GI was calculated by considering as "lost" all calendar days between the injured person's interruption of work and his/her return to the factory, without counting the day of the accident\*. Holidays and weekly rest days that occurred in the said period have been included(10).

The calculation of the aforementioned indexes did not include the so called "*in itinere*" injuries, of wich we specify below.

See the graph below.



FI-GI Tyre Factories

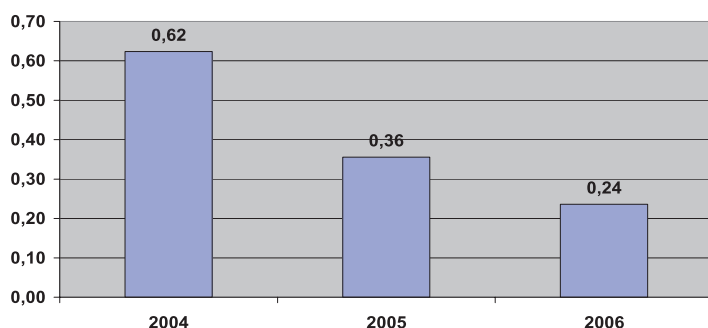
$$^{10} \text{ FI} = \text{Frequency Index} = \frac{\text{Total number of injuries with work interruption}}{\text{Total actually worked hours}} \cdot 100.000$$

$$\text{GI} = \text{Gravity Index} = \frac{\text{Total days lost due to injuries}}{\text{Total actually worked hours}} \cdot 1.000$$

Remarking on the above data, we must take into account that the 2005 increase in indexes was basically due to the extension to all secotor's production plants of the European "definitions" adopted to calculate both injuries and lost working days, which generated a concurrent impact on indexes.



Referring now to employees' "Health" issue, the 2006 Frequency Index of new occupational disease cases was 0.24, marking a net improvement compared to previous years. This can be clearly noticed in the trend of the below graph.



*Occupational diseases in Tyre Factories  
per 100,000 worked hours*

Even though there is a net improvement recorded, continuous improvement of health, hygiene and work conditions remains our goal.

Shifting focus to injuries occurred in Tyre Sector's **non production units**, the following values were recorded in 2006:

FI = **1.61**

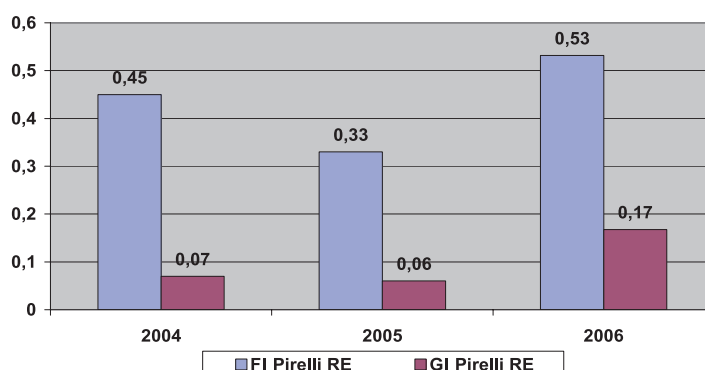
GI = **0.33**

Values given only considered injuries that caused the worker to interrupt work for more than 3 days (without counting the day of the injury). Data was, in fact, collected from legally required recordings, which, in most cases, only consider accidents that cause absences exceeding 3 days.

2007 will witness the extension of actions designed to reduce the number of injuries in non production areas, exactly as specified above for production areas.

### Pirelli Real Estate S.p.A.

Considering injuries that required interruption of work for more than 3 days, 2006 recorded the following index values: FI = **0.53** and GI = **0.17**.



*FI-GI PIRELLI RE*

The increase in 2006 number of injuries compared to 2005 (due almost entirely to Pirelli RE Facility), was caused both by road accidents, which cannot be classified as "*in itinere*" injuries, and by the Company's effective industrial injury rate.

It should also be noted that, compared to the Sector Index (last INAIL available data), the Real Estate Group's accident rate was **approximately half** the sector's average rate.

To fight injuries' increase in 2006 the following initiatives were implemented:

- » Raising of both Facility operations areas Managers and specially appointed personnel awareness (prevention campaign for operational personnel);
- » Publication of a "Safe Driving" Handbook to prevent road accidents;
- » Half-year injury analysis: classification and analysis of each injury and relevant circumstances;
- » Prevention and Protection Department's on site visit, each time an injury has occurred

No work-related illnesses were recorded in 2006.

#### Other Group Sectors / Companies

Pirelli Broadband Solution, Pirelli Ambiente, Pirelli Labs and Pirelli Corporate's injury rate also highlight that 2006 basically maintained the 2005 performance, with FI = **0.05** and GI = **0.001**.

#### *In itinere* injuries:

Information on *in itinere* injuries (i.e. occurred during work transfers or while travelling to reach the workplace) was collected and elaborated in 2006.

The total number of *in itinere* injuries recorded by the whole Group was 128 (i.e. 4.5 accidents every one thousand workers).

#### Fatal accidents

In 2006 Pirelli Group employees met with no fatal accidents.

Yet, two employees employed by an external company died. The accident occurred in Brazil – in Pirelli Tyre's Feira de Santana production plant – during a work on electrical energy distribution cables.

#### SHARING OF EXPERIENCES BETWEEN PRODUCTION PLANTS

All information on injuries is collected in a tailor-made IT systems (injury analysis, corrective measures adopted, etc.). In case of significant accident dynamics, all production plants are informed and requested to: 1) internally check the existence of conditions being similar to the ones that have caused the specific injury and, 2) define corrective actions, if the case.

Through the IT systems the solutions adopted by the various production plants are recorded and solutions deemed as the best ones are shared.

Staying with this knowledge sharing perspective, along with the above information we also wish

to mention Pirelli Real Estate's Web project. To better study and develop a shared safety-oriented culture and to allow availability/access to useful information for safety issues practical management, in 2006 the Company developed a dedicated website. At the close of the year the website contained over 60 work tools that could be shared, many of which are highly innovative and targeted, among the others, also at operative employees, specially appointed personnel and project managers.

## AWARENESS-RAISING AND TRAINING ACTIVITIES

### Pirelli Tyre S.p.A.

As in previous years, 2006 too witnessed active actions in terms of sensitisation and training on health and safety issues with initiatives targeted at all responsibility levels and designed to encourage naturally safer conduct.

The Safety Training Programme for new hires and for those who, in various capacities (agencies, interns etc.), have commenced work with Pirelli was continued in 2006.

Training for personnel with operational assignments was provided through specific sessions held both in the classroom and, especially, on the workplace. Educational tools also numbered operational instructions that describe the typical duties of the various roles. Experience gained following risk analysis reviews and those resulting from past injuries were also shared.

All production plants trained a number of workers to handle emergencies.

Considering the different nature and potential gravity of injuries that can occur in the Group's production plants, every unit targeted and adjusted both the number of people trained and the type of training to suit its specific requirements.

### Pirelli Real Estate S.p.A.

The *periodic information programme* targeted at all Safety Delegates and at specially appointed personnel for new regulations concerning safety, prevention, protection, environment and management of property assets was continued in 2006.

As in previous years, Health & Safety Training involved both new hires and personnel in service in both general and specific issues (e.g. electrical risks, building site safety, etc.).

"User request" training forms were also designed and customised in 2006. They led to courses on the "Facility Manager's Role and Responsibility for Prevention and Safety", on "Safety Operations Plans for Facility Workers" (with a special section on "extractable" risks for individual exposed workers) and, on "Work at Heights" (training for the use of Individual Protection Devices).

### Other Group Sectors / Companies

Also in Pirelli Broadband Solutions, Pirelli Ambiente, Pirelli Labs and Corporate, Safety is a central element of training programmes for employees.

In 2006 training organised in the abovementioned companies also concerned, among the others, safe working practices in laboratories and during experimentation.

## HEALTH & SAFETY EXPENDITURE AND INVESTMENTS

In 2006 the highest expenditure and investments were recorded by Pirelli Tyre and Pirelli Real Estate, as described in the following sections.

### Pirelli Tyre S.p.A.

In 2006 safety investments and expenditure reached a total of approx. 6,500,000 euro.

Investments focused on improving machinery and plants and, in a broad sense, on the overall work environment (i.e. improvement of microclimate and lighting conditions, layout changes to improve operating ergonomics, interventions to protect infrastructures healthiness, etc.).

Expenses sustained for safety reasons, instead, basically focused on work environment controlling activities (i.e. sampling and analysis, consultations, etc.), purchasing individual protection devices (e.g. injury prevention shoes, gloves, safety eye-glasses, etc.) and collective protection devices (e.g. better protection of machinery, suction systems and, in general, workplace environment).

### Pirelli Real Estate S.p.A.

Though expenses were faced for Safety Management, such expenses/investments were not separately recorded; hence it is not possible to report on a precise consolidated data.

Specific projects aimed at improving this reporting aspect will be implemented in 2007.

## HEALTHCARE ASSISTANCE DURING WORKING HOURS

For decades Pirelli has implemented infirmaries operating at its production plants, with nurses and doctors available to provide employees with medical care during working hours.

These facilities provide first aid care, consultancy on non work-related health problems and supervision for workers exposed to specific risks.

Healthcare promotion campaigns developed in line with local programmes also make use of these facilities.

## GROUP FLU PREVENTION CAMPAIGN

Again in 2006 Pirelli gave its workers the free of charge opportunity of being inoculated with the seasonal anti-flu vaccine.

This initiative takes into account the geographical location of Pirelli facilities; hence there is a need to provide vaccinations in different periods of the year, depending on the country, in order to follow the periods of the flu's seasonal spreading (workers in the northern hemisphere were the first to be vaccinated in autumn 2005).

In 2006 the anti-flu campaign was given new impetus through widespread information tools targeted at all organisational levels (it targeted workers in the southern hemisphere in spring and those in the northern hemisphere in autumn).

The number of employees who joined the initiative was approx. 8,000, as at 31/12/2006.

In view of the initiative's success, this prevention opportunity will be offered again to all personnel in 2007.

## NO-SMOKING COMPANY

In June 2003 a letter sent by the Top Management to the Group's Chief Executive Officers announced the corporate decision to become a "No Smoking Company", to safeguard both smokers' and non smokers' health. This decision was consistent with Pirelli's long-standing policy of protecting the health of its employees in every country where the Group operates.

Specific training/information initiatives on damage caused by cigarette smoke were also implemented by distributing handouts, by organising conferences on nicotine addiction and by publishing questionnaires on smoking on the Company's Intranet System.

Three and a half years later the smoking ban is applied in most of the Group's sites, involving 97.6% of employees.

In most cases (78%) areas have been specially fitted out for smokers, while other facilities have totally prohibited smoking in all areas inside buildings.

In 2006 the Pirelli Group detected and fined 40 internal violations of the smoking ban.

## COMPANY INITIATIVES FOR THE INTERNAL COMMUNITY

Initiatives implemented by the company for its internal community differ from country to country, to meet the typical needs of the various social contexts in which the affiliates operate.

Listed below are the most recurrent initiatives implemented in affiliates:

- » Funded holidays for employees' children
- » Scholarships and financial aid for employees' children training
- » Corporate clubs for social and sports meetings
- » Disease prevention activities through scheduled specialist visits, awareness-raising and vaccination campaigns
- » Agreements with shops and medical practices to the advantage of employees

Starting this year Pirelli has decided to introduce a specific focus paragraph in its Sustainability Report – in the sections dedicated to both internal and external community initiatives - , aimed at describing its activities in a specific geographical area where the Group operates.

For 2006 Latin America was chosen. In this area the various Group Affiliates perform many targeted actions for the internal community, as well as activities aimed at involving and sustaining local communities.

## FOCUS ON LATIN AMERICA

Pirelli's activities in Brazil are many and varied, also considering the Group's wide presence in the country. "*Young Apprentice*" is a national two-year programme for apprentices in industrial companies; it is financed by these companies. Participation in "Young Apprentice" is generally recognised both by Pirelli and by the market; hence it offers youth an important opportunity for professional development.

All Pirelli production frameworks in Brazil are involved in the programme. In Pirelli's case it is primarily targeted at employees' relations (i.e. brothers, children and cousins) aged at least 14 years.

During the training period, apprentices are registered as Pirelli employees, they enjoy all the relevant rights and guarantees (i.e. insurance, healthcare, etc.) and they are paid wages for the envisaged hours per month.

**“Where does Dad Work”** is another initiative that is proposed every Sunday in all Pirelli's Brazilian production sites. Booking is compulsory. Designed for employees' close family, it especially focuses on the youngest family members. Participants are initially welcomed to the production plant with breakfast. Some safety information and a corporate introductory video are followed by a tour round the production divisions and outside the production plant. The visit comes to a close with a demonstration of the fire-fighting unit and lunch in the Company's canteen. All participants are finally given a small gift to take home. Pirelli's **“Children's Day Party”** in Campinas, Sumaré and, especially, in Gravataí, are also targeted at employees' family members. They have recorded over 3,500 participants, numbering approx. 1,500 children. Around fifty employees will volunteer to organise games, competitions, shows, demonstrations, a visit to the fire-fighting unit and, naturally, a snack for the kids. Satisfaction levels, which are regularly gauged at the end of the event, exceed 98% of participants.

In Venezuela too Pirelli organises a day for employees' families to visit production plants (**“Dónde Trabaja Papá”**). In 2006 the same Affiliate also organised the **“Concurso de Debujo Infantil”** for kids - a drawing competition centring on the topic of Pirelli in Venezuela. In 2007 the Company means to select the best drawings done by kids for a special calendar targeted at all Pirelli employees in Venezuela.

Still in Venezuela Pirelli organises **“Plan Vacacional”** for employees' children aged between 6 and 12 years. In August and September approx. 160 children spent a three-day holiday packed with games and entertainment. As with all shared experiences, the holiday also had a high educational profile.

**“Health Week”** - concurrently held on Sundays in all production plants, this is an exceptionally relevant social responsibility initiative designed for Pirelli's Brazilian employees and extended to their family members. This dual phase programme initially involves tests and medical examinations, whose results enable the creation of homogeneous groups of people concerning health risks and diseases, to later adopt effective actions to ensure prevention and care. An equally important goal is to spread a strong prevention-oriented mentality through precise information, advice and practical suggestions on diet habits, sources of risks, etc.

In Argentina, Pirelli supports the studies of employees' children by providing them with books and educational material. The most deserving students are also given a study grant. Pupils and students who receive Pirelli's study grants number over 700.



CHILDREN'S DAY PARTY  
IN BRAZIL



## INVOLVEMENT OF THE INTERNAL COMMUNITY FOR THE EXTERNAL COMMUNITY

### FAI ON LINE

In September/October 2006 a group of 60 Shared Service Centre employees participated in an outdoor training project organised in collaboration with MAP Responsibility and the Fondo per l'Ambiente Italiano (FAI) that has been created to safeguard and preserve the Italian cultural goods and heritage. The project involved participants in creating innovative tools to optimise information on certain sites belonging to the FAI heritage.

Participants performed field work to update photographic, historical and artistic documentation of six important artistic sites in Italy in order to update FAI Web pages on these sites. Accompanied by specialists in an enthusiastic interpretation of each monument's art and architecture and, assisted by the consultation of bibliographical material placed at their disposal by the FAI, participants focused on reconstructing the cultural and artistic history of each of these places.

The initiative was a remarkable tool to develop and optimise participants' skills with special reference to team building, team work and results-orientation. The same participants were also given the opportunity to place their qualified skills at the FAI's disposal; hence, the proposal of new Web pages with more items, texts and images. These pages will contain new photographs with many enlarged details and many pictures relating the "before and after" renovation works, the history of the architectural and pictorial works, cultural events, services offered and all information required to reach the site.

### CHILDREN IN CRISIS ITALY

**"Children in Crisis Italy"** is a lay and independent non profit NGO organisation designed to improve the lifestyle of children who are the victims of conflicts, poverty and illness. Considering the association's many activities, Pirelli Broadband Solution and Pirelli Labs – that are deeply convinced of the importance of spreading a solidarity-oriented culture and ethical behaviour – have decided to fully finance the reconstruction of the middle school in Bushushu, in the Democratic Republic of Congo. It was destroyed by an earthquake. Along with the school building, the project also envisages the construction of a cereal-grinding mill to enable the local community to start up a small business to face the new school's operating costs. But, besides the direct commitment, Pirelli also deemed it important to spread this sensitivity among its employees, suppliers and clients by informing them and inviting them to contribute with their own donations. The involvement of the entire corporate community, on the one hand, and of the business community in which Pirelli operates, on the other, is this project's most interesting detail. It shows the Group's authority and credibility with its interlocutors.

### MY TIME FOR INDONESIA – RECONSTRUCTION WORK COMPLETED

After the devastating tsunamis that struck South and South-East Asia at the close of 2004, Pirelli decided to contribute towards the reconstruction of damaged zones with the project ***"My Time for Indonesia"***.

The project's financial goal was to collect – 500,000 to construct two schools in the Indonesian regions of Aceh, one of the most damaged sites.

Specifically, the schools are two upper secondary technical institutes – one is in the capital Banda





RECONSTRUCTION WORK IN  
BANDA ACEH THANKS TO  
MY TIME FOR INDONESIA

Aceh and hosts approx. 1,400 students and, one is in the Aceh Besar province, numbering approx. 400 students.

The decision to allocate funds was made in agreement with the Indonesian authorities with whom Pirelli signed an agreement on 28 April 2005, considering the essential social role played by schools and convinced that, besides training new generations, the facilities can also be a landmark for the entire population in the reconstruction process that followed the calamity.

The amount required to implement the project was collected through the voluntary offers of Group employees – payment for the number of hours they decided to donate was withheld by the Company – and a contribution from the Company.

Employees offered a total of 9,900 hours of work - equivalent to – 166,713 – while the Company donated – 333,287 to reach the sum of – 500,000. A further contribution was donated in 2006.

A Guarantee Committee for Italy (comprising Pirelli's Management, the Trade Union and a representative of Price Waterhouse Coopers) and a Guarantee Committee for Indonesia (comprising Pirelli's management, the Indonesian Minister for National Education and a representative of Deloitte) were formed in the project's framework to ensure transparent fund collecting operations, to ensure the use of funds in the envisaged modes and times, to approve projects proposed by the local work group and to authorise the transfer of funds to third parties for project implementation.

**Construction work on the two schools was completed by the close of 2006 and early 2007.** Both institutes, whose official inauguration is scheduled for the first half of the year, are already operating.

Updates on the progress of reconstruction works are constantly published in a special section of the corporate Intranet system; they can be accessed by all employees who are interested in the initiative.

## 4.2. EXTERNAL COMMUNITY

### CORPORATE INITIATIVES FOR THE EXTERNAL COMMUNITY

*Group companies encourage and, where necessary, provide support for social, cultural and educational initiatives geared towards promoting personal development and improving standards of living (Article 5 of the Ethical Code - Community).*

The awareness of its role in promoting the civil and cultural progress of communities in which Group companies operate has always been a focal point in Pirelli's entrepreneurial culture.

Hence, the Pirelli Group organises and backs social, cultural and educational initiatives by collaborating with both public and private institutions, local administrations, associations and institutions in all countries where it operates.

This commitment is both consistent with the principles expressed in the Code of Ethics and it is an important part of Pirelli's positioning strategy, which aims at defending and improving the Company's role as one of the most integrated and active international companies in the various local communities where it operates.

From a promotional perspective and considering socially oriented actions, the Pirelli Group is involved in social, welfare, healthcare, cultural, educational and sports initiatives. All activities are carried out in association with authoritative partners, the choice of whom is based on criteria designed to guarantee their high quality profile.

Concisely described below are some of the most significant initiatives either promoted or supported by Group companies.

A Focus on Initiatives in favour of Latin America external community will also follow.

## SOCIAL, WELFARE & HEALTH



THE "DIALOGUE IN THE DARK" EXHIBITION

"*Dialogue in the Dark*" is an exhibition that was organised in association with the Milan Institute for the Blind to enable anyone to experience the world of the blind by building confidence with their problems and, especially, with the extraordinary skills developed by their "disabled" status. Pirelli has decided to confirm its support for 2006 too, both for the important results achieved by supporting this activity organised by the institute and, for the excellent response met by the exhibition in 2005.

Concerning commitment in the healthcare sector, we must mention Pirelli's membership in "*Global Business Coalition on AIDS*", a private American body that combines the efforts of many companies throughout the world against the plague of the 21st century.

Of the various Italian non profit organisations partnered by Pirelli, a primary role is doubtless played by *Emergency*. A neutral, non political association with independent humanitarian purposes, it is designed to assist the civil victims of war the world over. It is internationally famous.

Pirelli RE's "*Piccolo Fratello*" project plans on opening a new home for street children (Mdugu Ndogo, "small brother") in Kibera (Kenya) to enable deep permanent contact with street children's living frameworks and to interact with children who still live on the streets.

The house is, hence, designed to **physically remove children from the streets** by giving them the opportunity to **attend school** and to reside in an **environment that protects them**, in contact with **skilled youth workers** who love them. It will also be a place where young educationists who have already attended theoretical courses can experience full immersion in the real life of street children.

The project envisages **two phases**:

- » Short term (6 months) as Reception Centre (refuge for the night and meal distribution during the day) and residence for two expert educationists;
- » Middle term (within a year) – the house will permanently host 30 – 40 former street children who will regularly attend state-run schools in the neighbourhood. It will also host 4 – 6 young educationists during their training period.

A *–Training Centre for Young Educationists–* has also been built in close collaboration with the house to back people who are motivated to dedicate themselves to this work in order to give them high quality professional skills.

Hence, the intention – by working together with institutions like the Università Cattolica's Milan's Centre for Research and Studies on Social Difficulty and Maladjustment, directed by Prof. Giuseppe Vico – is to start a training centre for Educationists specialized on "street children education" in Nairobi. The programme initially envisages a three-year theoretical and practical course with a final diploma. The Centre may later organise a Degree Course and a Master's Degree.

Pirelli also pursues its mission of supporting the local Milanese youth by supporting associations such as **“Fondazione Boccafolli”** - dedicated to winning over street youth by encouraging their artistic and expressive potential and **“Fondazione Benedetta d’Intino”** which treats autism and perception disorders in childhood.

## THEATRE AND VISUAL ARTS

The Pirelli Group actively supports the valorization of artistic heritage, intelligence, energy and local resources of all the countries where it operates. It promotes a model of active collaboration to integrate partners' skills with company's skills in the fields of technology, organisation and communication.

In this regard, Pirelli has always been involved in backing artistic, cultural and training initiatives. Historical operations like the construction of the Etruscan wing at the Louvre, Paris, or renovation works in the Victoria and Albert Museum's Italian Gardens, London, date back to the 1980s.

Even prior to these events, the Group has long distinguished itself as the Milanese area's cultural engine by developing the Pirelli Cultural Centre. The Pirelli magazine has been one of the most exciting examples of international “enterprise culture” for over twenty years.

It is precisely the prestige acquired on the Italian cultural scene that has associated Pirelli – since its formation – with **Fondazione Teatro alla Scala**. In the early 20th century the Company was also one of the founding members of the theatre's museum, which has organised highly successful initiatives over the years, including Strehler's exhibition “The chamber of witchcraft” on dioramas in small 18th century theatres and “The Poet's Scene”, which Ronconi dedicated to Gabriele D'Annunzio's works.

Again in the musical filed, we must also mention the Group's organisation of the “Concerts for Peace”, which have been held since 1998. This series of musical events, wished by Maestro Riccardo Muti as part of the Ravenna Festival, were held in places that symbolise music's mission to restore peace: Beirut, Jerusalem, Sarajevo, Erevan, Istanbul and New York, one year after September 11. And again, over the past two years Pirelli has sponsored **“Per non dimenticare”** (Lest we forget) – a concert organised by Fondazione 8 Ottobre at the Scala Theatre every year in memory of the victims of the 2001 air accident at Linate airport.

During the two-year period when Piermarini's theatre was closed for renovation works, the **Teatro degli Arcimboldi** – which Pirelli RE built in record time in the framework of its project for the reconversion of Milan's industrial area Bicocca – became the base for the Scala Theatre. This theatre is today the property of the Milan Municipality, which has appointed the Arcimboldi as the second Milanese musical theatre that is open to all expressions of music and modern shows.

Always concerning theatres, Pirelli is the historical partner of **Fondazione Pierlombardo**. It also backs activities organised by Teatro Franco Parenti – one of the most active theatres that is deeply rooted in the Milanese cultural fabric. This highly relevant role played by the Group has been acknowledged by naming the exhibition area the theatre dedicates to the artistic expressions of youth “Pirelli Hall”.

In view of an intervention on the territory, one of the most significant experiences carried out in Italy is doubtless the **Hangar Bicocca**. With a surface area of 15,000 m<sup>2</sup>, it was the Ansaldo factory's former production site, which Pirelli RE decided to convert into a space for Contemporary Art. Temporary exhibitions are the core of its activity, which is strongly oriented towards research and experimentation. Every space becomes an inspiration for the creations/interpretations of artists and curators; hence, the facility's key to its success is its skill in attracting and generating artistic and cultural creativity.

At the same time Hangar Bicocca is also a place at the disposal of the public, a privileged site that witnesses the convergence of art and visitors – a permanent centre for initiatives geared towards understanding visual culture and towards active participation in the role of art in contemporary culture.

Events are, hence, scheduled to ensure dialogue between the protagonists of contemporary culture and various audience types. International artists and curators play a central role and so do the protagonists of various cultural frameworks (i.e. music, drama and cinema) who are called to contribute towards research on contemporary visual culture.

The initiative's success, the great interest of both the public and of international contemporary art operators and, the very high response of schools (1,500 schools in northern Italy joined the educational programme launched by Hangar Bicocca in September) have convinced Pirelli RE to make the operation even more significant and noteworthy by forming an independent structure that is professionally related with interlocutors in the world of art, thus depersonalising the Company's role.

The "Hangar Bicocca Foundation" is currently being formed to meet the principles and legal pattern of a partner foundation, with the aim of spreading the expressions of contemporary culture, with special reference to art.

Very active in the world of art, it is almost a decade since Pirelli agreed to provide corporate support to the **Brera Art Gallery**, the city of Milan's most ancient art collections and one of the most important in Europe.

This agreement envisages Pirelli's active collaboration with the Art Gallery to gradually renovate 16th century Veneto paintings that are displayed in the 14th Hall. After Giovan Gerolamo Savoldo's "Pala Pesaro", whose restoration was completed in 2005, 2006 witnessed the commencement of restoration works on Jacopo Palma il Vecchio's gigantic "Adoration of the Magi".

An example of a highly absorbing collaboration between partners, Pirelli's support for the Art Gallery has led to the design and creation of an innovative and rather unique machinery designed by architect Sottsass to perform renovation works in full view of the public, without concealing paintings from visitors.

Pirelli has also agreed on Company's cooperation with another great player on the Milanese cultural scene by recently becoming one of its "corporate members" – it is now an official supporter of the **Poldi Pezzoli Museum**. Today the Company actively participates in the museum's initiatives, sharing its guidelines and strategies.

## CULTURE & TRAINING

An initiative entirely promoted and organised by Pirelli is the "**Pirelli International Award**", which is, by now, extensively consolidated. Since 1996 it has been an important multimedia competition to spread scientific culture. It is entirely organised over the Web. Every year the prize is assigned to the best multimedia presentation in the field of physics, chemistry, mathematics, biology, information technology and communication.

In 2006 Pirelli participated in the exhibition "**Science, City and Life**" organised by the Università di Bicocca to celebrate one hundred years of the Sempione Universal Exhibition that was held in Milan in 1906. Pirelli was a protagonist at the event, featuring as an exemplary company for the remarkable Italian industrial development of the time. In fact, Pirelli has always been a landmark for corporate culture and, its over 130 years are doubtless a heritage of historical interest. Pirelli also preserves and optimises its corporate culture as a founding member of the Web portal [www.archiviefuturo.it](http://www.archiviefuturo.it), which is dedicated to the history of leading Italian companies.



RESTORERS IN THE BRERA  
ART GALLERY

Pirelli's partnership with **Fondazione Silvio Tronchetti Provera** looks, instead, to the future by promoting research in economics, science, technology and management, besides talent development in these sectors. It allocates funds, prizes, study grants and contributions for the equipment of universities and scientific institutions. The activity is conducted either directly or in collaboration with other individuals, especially making use of the partnership with the three Milanese universities – Milan Polytechnic, Università Commerciale Luigi Bocconi and Università degli Studi di Milano Bicocca, whose rectors are members of the Foundation's Board of Directors.

On the other hand, scientific and technological culture is the very core of Group actions; hence the need to mention an initiative promoted by Fondazione Silvio Tronchetti Provera along with Fondazione Veronesi and Fondazione Cini – **"The Future of Sciences"**. This cycle of conferences and debates on scientific topics witnessed the participation of many Nobel prize winners and internationally famous scientists and researchers. The three-day initiative, which has now been organised for the second time, is held at the Cini Foundation on the island of San Giorgio Maggiore in Venice.

Pirelli has long partnered the **FAI – Fondo per l'Ambiente Italiano**, in various initiatives, numbering also the organisation of courses on history of art for the extensive public. The two-year period 2005/2006 witnessed Pirelli and FAI committed – with the patronage of the Lombardy Regional Administration, the Lombardy Provincial Administration and the Milan Municipality – in a new edition of "Lunedì dell'Arte, a cycle of lessons held at the University of Milan by the most famous experts in the sector. They retraced and illustrated the works and experiences of international contemporary art.

Training plays a crucial role in a company's real estate sector. As process and product innovator, it is in line with Pirelli RE's "positioning responsibilities" and mission to encourage improvements in the sector's professional standards. The quest for professional excellence and training professionals to face the "new way" of conducting real estate business in an Anglo-Saxon style are perfectly summarised in the **Master in Real Estate**, a postgraduate qualification designed, promoted and implemented in association with two of the most prestigious Italian universities – the Bocconi and the Milan Polytechnic. They both provide the skills required by current real estate professionals – finance, technical aspects, economics, architecture, business planning and town planning. The first year over 30 students participated in the Master (but applications were three times this number); they were immediately employed in high quality professional outlets;



THE 15<sup>th</sup> COLEÇÃO PIRELLI  
HELD AT THE MASP



## SPORT

Pirelli has always been involved in sports, not only in motoring competitions on either two or four wheels. The Group's other choice sports are historically also football – it sponsors FC Internazionale in Italy, Palmeiras in Brazil, Peñarol in Uruguay and Basel in Switzerland – and sailing – it yearly organises the Pirelli Coppa Carlo Negri Regattas in the waters of Santa Margherita.

But the Group's commitment to sports is not limited to participation in the highest professional standards. Quite the reverse; Pirelli is involved in the extensive promotion of a sports-oriented culture to spread social life based on values of solidarity and ethical conduct, even among the youngest.

In the field of "solidarity sailing", Pirelli created the initiative "*Matti per la Vela*" (Crazy about sailing). A group of healthcare professionals, voluntary workers and professional skippers with a passion for sailing designed the project in Genoa in 1998 to use sailing as a therapeutic tool to help and recover people who suffer from various psychic diseases and disorders.

Lastly, Pirelli has organised the "*Derby del Cuore*" for over ten years. Every summer famous figures from the show biz and sports world and Inter and Milan fans challenge each other before the typical audience of great occasions in a football game, whose profits are assigned to charity.

## FOCUS ON LATIN AMERICA

As described for activities targeted at the internal community, even concerning those for the external community,, this year's social report will concentrate on Latin America where the Group's many frameworks perform a wide range of actions to both involve and sustain local communities.

Starting with kids, "*The Kid Project*" in Brazil is a governmental project to encourage the social and cultural integration of young Brazilian citizens aged between 8 and 18 years. Implemented in 1995, the project focuses on teaching music in 375 centres, many of which are sponsored by leading companies present in the country. The overall project today involves over 48,000 youth. Pirelli runs the Santo André Centre.

The Group's cultural activities in Brazil are many and highly differentiated. Pirelli, in fact, partners the *MAM – San Paolo Museum of Modern Art*, the oldest and one of the most important museums of modern art in the continent. This sponsorship encourages the development of museum activities, also numbering cultural events, workshops and courses. Pirelli's sponsorship of the MAM also ensures employees and their relations a free visit to the exhibition.

Always in San Paolo, the famous *MASP – Museu de Arte de São Paulo* hosts "*Coleção Pirelli*" with approximately 900 works portraying the many aspects of Brazilians' daily life photographed by over 200 leading photographers in the country over the past fifteen years. In fact, 2006 celebrated both the collection's 15th anniversary and such a close and significant partnership. Focus on local communities' social life was finally confirmed by Pirelli's participation in the cultural project "*Projeto café*", twelve monthly instalments annexed to the bilingual magazine "Panorama Rural" on coffee's three hundred-year history in Brazil. It highlights the social responsibility and related commitments of international companies operating in the global markets to the advantage of local communities, even by investing in educational, environmental and cultural projects to establish a sustainable development model.

Concerning training, Pirelli has undersigned an agreement in Venezuela to implement the "*Centro Tecnológico y Conocimiento del Caucho Pirelli*", a corporate unit created to offer the Company services on the use of new technologies in training human capital. The project is also targeted at suppliers, clients and especially employees' families.

In Argentina Pirelli has started a **cooperative project with two technical institutes near Merlo** to enable students to integrate educational training and factory work in order to build experience and expertise directly in the work framework. Students who have worked for Pirelli for two years are anyhow paid for their services.

But in countries where economic embarrassment and a precarious lifestyle primarily concern children, the passion for sports becomes a very precious aid for solidarity and educational programmes. Of all sports, football's popularity is unrivalled. Hence, following the model of Inter Campuses opened in Italy, when the team's ambassador was Ronaldo, Pirelli and Inter started the project **"Inter Pirelli Campus Brazil"** in San Paolo, Brazil, in 1997. Their goal was to offer youth aged from 8 to 14 the opportunity of leaving the alleys of the favelas, while facilitating social integration by associating school attendance with the opportunity to cultivate the passion for football.

The Brazilian initiative's success (i.e. over four thousand children are yearly won over to schools) led FC Internazionale to organise similar programmes in other "risk" areas in the world. Today 20 countries in the four continents host these "solidarity football" projects.



AN INTER PIRELLI CAMPUS  
IN BRAZIL



## RELATIONS WITH PUBLIC ADMINISTRATIONS

*Group companies maintain relationships with local, national and supranational authorities in a spirit of full and active cooperation and transparency that does not compromise their independence, economic targets or the values enshrined in this Code (Article 5 of the Ethical Code – Community).*

Group companies are represented in national and super-national institutions in the framework of relations with Public Administrations (i.e. Governments, Parliaments, Public Institutions, central and local administrations, both Italian and foreign).

The dialogue on which relations with Public Administrations are based is conducted believing that business and relational ethics must be pursued along with the Company's success.

In 2006 Relations with Institutions actively concerned both the countries where the Pirelli Group's presence has long been consolidated and those where the Group's presence is more recent, such as. Romania and China.

In particular, in these two cases Relations with Institutions basically concerned Pirelli's integration in the local system from an industrial and social perspective (i.e. investments to open new production sites, professional integration/training programmes for human resources), always respecting the country's cultural specific features.

Pirelli's actions in the framework of Relations with Public Administrations number defining/monitoring modes and procedures envisaged by the specific reference regulations to obtain and manage information, contributions, grants and funds from national/foreign public bodies for investment, scientific and technological research and, social and economic projects (training programmes, upgrading programmes, etc). During the entire procedure, relations with PA are based on the utmost transparency and truthfulness of the information conveyed (i.e. from defining funding sources to checks and inspections conducted by the funding institution), thus avoiding technical and financial assessment errors, trends unduly directed to the advantage of Group interests and conflicts of interest.

Concerning systems adopted to further enhance the Company's internal control, the Group's Italian Affiliates have long adopted an organisational model geared towards perfecting a system that is modulated by specific requirements envisaged by the local legislation (Legislative Decree n° 231/2001) concerning companies' administrative responsibility in crimes committed by their employees to the advantage of the said companies. A special Supervisory Body that is envisaged in each Group's Italian Affiliate has been assigned the task of monitoring both the organisational model's correct function and the internal behaviours' compliance with the same.

In 2006 the Organisational Model was also reviewed to align it with the developments of Regulation n° 231.

To build further opportunities to improve the internal control system, other Group companies too adopted some control activities envisaged in Italian companies' Organisational Models, which are suitable to reasonably prevent the risk of crime, by issuing specific policies and operational rules.

In 2006 the Internal Audit Department carried out 60 auditing interventions in the Group's framework; 18 of these were carried out following a mandate issued by the Italian Companies' Supervisory Bodies. The audits were aimed at verifying the extent of compliance of company processes with the internal control procedures set down by the Organisational Model adopted.

## GRI (GLOBAL REPORTING INITIATIVE) TABLE OF CONTENTS

This section is designed to enable readers to relate topics discussed in the report to the international experience of the GRI and the Global Compact.

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## GLOBAL COMPACT PRINCIPLES AND GRI INDICATORS

Global Compact Areas	Global Compact Principles	Directly relevant GRI indicators	Indirectly relevant GRI indicators
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	Principle 2 – To ensure that they are not indirect accomplices in the violation of human rights.	HR1-2, HR8	
Labour	Principle 3 – Companies are requested to support the free association of workers and to acknowledge the right to collective contracts;		
	Principle 4 – Remove all forms of either forced or compulsory labour;	HR7	HR1-3
	Principle 5 – Effectively remove child labour; and,	HR6	HR1-3
	Principle 6 – Remove all forms of employment and professional discrimination.	HR4, LA2, LA13, LA14	HR1-2, EC5, EC7, LA 3
Environment	Principle 7 – Companies are requested to follow a preventive approach towards environmental challenges;	Profile disclosure 4.11	EC2
	Principle 8 – Undertake initiatives that promote greater environmental responsibility; and,	EN2, EN 5-7, EN10, EN13-14, EN18, EN21-22, EN26-27, EN30	EC2, EN1, EN3-4, EN8-9, EN11-12, EN15-17, EN19-20, EN23-25, EN28-29, PR3-4
	Principle 9 – Encourage the development and widespread use of environment-friendly technologies.	EN2, EN5-7, EN10, EN18,	EN26-27
Combat corruption	Principle 10 – Companies undertake to fight all forms of corruption, including extortion and bribes.	SO2-4	SO5-6

## GLOSSARY

<b>Accident</b>	A damaging event caused by a violent occurrence during the performance of an employee's work duties, and which leads to death or a permanent inability (total or partial) to perform these duties, or a temporary inability requiring absence from work.
<b>B2B</b>	Business to Business: the relationship that a company entertains with its suppliers or with its professional clients.
<b>Banbury</b>	Machinery for preparing polymer blends, which are used as the raw material for producing plastic- or rubber-based components. The ingredients are put into the Banbury according to their various specified quantities and times, then mixed at a determined temperature and pressure until they form a blend, which is then extruded in granules or strips.
<b>Best Practices</b>	These are practices that the company follows to analyse and measure the organisational processes, policies and indicators of its quality of service.
<b>Body-ply</b>	Basic element used to make up the resistant structure of the tyre carcass.
<b>Carbon dioxide (CO<sub>2</sub>)</b>	Colourless and odourless, carbon dioxide is a naturally-occurring component of the Earth's atmosphere. It is one of the compounds produced during combustion of materials containing carbon, and it contributes to the <b>greenhouse effect</b> (see separate entry).
<b>Coaching &amp; Feedback</b>	The name of a course aimed at developing managers' skills in managing their staff by means of getting feedback on their work and then coaching them (i.e. providing assistance and support) to help them identify the resources they need to reach their objectives.
<b>Company Health and Safety Management System</b>	Part of the global system of management that facilitates management of health and safety risks in the workplace that are connected with company activities. It includes the organisational structure, planning activities, responsibility, practices, procedures, processes and resources for developing, putting into place, implementing, re-examining and maintaining the workplace health and safety policy.
<b>Computer-aided telephone interviews (CATI)</b>	An interactive system involving an interviewer and a computer, based on the use of a software package developed for data collection. The questionnaire resides on a computer and the questions are displayed on the video screen.
<b>Controlled ventilation system</b>	System for extracting and recovering the heat from the air in the environments.
<b>Corporate Social Responsibility(CSR)</b>	The voluntary acknowledgement of social and ecological concerns by a company in its commercial operations and in its relations with the parties concerned.
<b>Employer Branding</b>	Defined as the set of activities implemented by a company to build and communicate its identity to a target that includes both candidates and employees, so that the company (as brand) will attract and retain persons who fit in with the company's culture and values.
<b>Environmental Due Diligence</b>	A systematic survey of the environmental conditions on a site in order to establish its current or potential environmental liabilities.
<b>Environmental impact</b>	Any change to the environment, detrimental or beneficial, total or partial, as a consequence of an organisation's activities, products or services.
<b>Environmental indicator</b>	Numeric parameter or value that describes the impact of a human activity on the environment.
<b>Environmental Management System</b>	Part of the overall system of management that includes the organisational structure, planning activities, responsibility, practices, procedures, processes and resources for developing, putting into place, implementing, re-examining and maintaining the environmental policy.
<b>Extrusion</b>	A process of assembling blends to make semifinished products, via specific fusion processes on those blends.
<b>FTE (Full-Time Equivalent)</b>	A method of accounting for part-time employees. The work hours of part-time employees are expressed taking the work hours of a full-time employee as a base. So a full-time employee is 1 FTE, and a part-time worker who works 50% counts as 0.5 FTE. For example, two part-time 50% workers (FTE=0.5) equal one full-time worker (FTE= 0.5 x 2 = 1).
<b>Fuel cells</b>	Electrochemical devices that convert chemical energy to electrical energy. They are classed according to the electrolyte used in the process. Various different fuels can be used (natural gas, hydrogen etc.).

<b>Global Reporting Initiative (GRI)</b>	The Global Reporting Initiative is an international programme for the global development and dissemination of guidelines for reporting on sustainability. The promoters of GRI are CERES (Coalition for Environment Responsible Economies) and UNEP (United Nation Environmental Programme).
<b>Greenhouse effect</b>	An increase in the Earth's temperature due to the excessive presence of certain gases (mainly carbon dioxide, some oxides of nitrogen and ozone) which do not allow heat to dissipate.
<b>Grooves</b>	Shallow engravings on the tread (the surface of a tyre that comes into contact with the road), generally indented and/or finely subdivided. The function of the grooves is to improve the road-holding and adherence of the tyre, especially on smooth or wet road surfaces.
<b>Hazardous waste</b>	Categories of waste that present substantial or potential danger to human health or to the environment, classified according to European legislation (see also <b>non-hazardous waste</b> ).
<b>Heat value</b>	Quantity of thermal energy (heat) released by a determined mass of fuel burning under standard conditions. A distinction is made between <i>Gross Heat Value</i> (GHV), which represents all the thermal energy developed during burning, and <i>Net Heat Value</i> (NHV), which represents the difference between the total heat released and the heat lost due to evaporation of the water produced during combustion. Heat value is normally expressed in joules per kilogramme (J/kg) or kilocalories per kilogramme (Kcal/kg) for solid and liquid fuels, and in joules per cubic metre (J/m <sup>3</sup> ) or kilocalories per cubic metre (Kcal/m <sup>3</sup> ) for gaseous fuels.
<b>Intermediate energy sources</b>	Forms of energy produced by converting primary energy into other forms. The two most common examples are electricity and steam.
<b>ISO 14001</b>	A standard, issued by the ISO (International Organisation for Standardization), specifying the requirements of an Environmental Management System that enables an organisation to formulate an environmental policy and establish objectives, taking account of legislation and information on significant environmental impacts.
<b>IT systems</b>	Information technology systems.
<b>Job meeting</b>	A work orientation meeting.
<b>Job rotation</b>	Rotation of work duties. A number of workers are periodically assigned to different areas of the company, and this rotation of workers between different jobs creates a group of employees who have a knowledge of all the different phases of the production process and who also have a global view of the problems that can arise in the work environment, both in terms of production and in terms of human relations.
<b>Kyoto Protocol</b>	An international agreement to reduce atmospheric emissions of gases that cause the <b>greenhouse effect</b> (see separate entry), which is responsible for global warming.
<b>Life Cycle Assessment (LCA)</b>	A method of calculating the overall environmental impact of a product, by taking account of its entire life cycle, starting from the extraction and processing of the raw materials and including the processes involved in its manufacture, transport, distribution, use, recycling/reuse and finally disposal.
<b>LPG</b>	Liquid Propane Gas.
<b>MBO</b>	Management By Objectives: a system of annual incentives based on objectives defined at the start of the year.
<b>Nanocomposite</b>	A blend of materials (ceramics, metals etc.) with dimensions in the order of nanometres.
<b>Nanomaterials</b>	Materials with dimensions in the order of nanometres (10 <sup>-9</sup> m).
<b>Nanotechnology</b>	Technology for developing nanomaterial-based applications.
<b>Newton</b>	Unit of measurement of force (abbreviated to N) in the International System. One Newton is equal to the force necessary to impart an acceleration of 1 m/s <sup>2</sup> on a mass of 1kg.
<b>NGO</b>	Non-Governmental Organisation.
<b>Nitrogen oxides</b>	Gases produced by the combustion of fossil fuels. These gases contribute to the formation of ozone in the lower atmosphere and to 'acid' deposits during ordinary rainfall.
<b>Non-hazardous waste</b>	Categories of waste that present no danger to human health or to the environment, classified according to European Community Directive 2000/532, modified by Directives 2001/118/EC, 2001/119/EC and 2001/573/EC.

<b>NO<sup>x</sup></b>	See <b>nitrogen oxides</b> .
<b>OECD</b>	Organization for Economic Co-operation and Development.
<b>OHSAS 18001</b>	International certification standard for safety in the workplace and industrial hygiene. The standard gives the requirements for a Health and Safety Management System in the workplace, enabling a company to manage its risks in this area and improve its performance.
<b>Organic solvent</b>	Any <b>VOC</b> (see separate entry) used on its own or in combination with other agents to dissolve raw materials, products or waste material without undergoing chemical transformations, or used as a cleaning agent to dissolve contaminants, or as a dissolving agent, means of dispersion, viscosity correction agent, surface tension correction agent, plasticizing agent or preservative.
<b>Ozone</b>	Allotropic form of oxygen with the chemical formula O <sub>3</sub> . Ozone is found in minimal quantities in the air and it is formed by electrical discharges and ultraviolet rays, which convert oxygen molecules to ozone. Approximately 25km from the Earth's surface there is a concentrated layer of ozone that absorbs ultraviolet rays and essentially protects life on the planet; it is known as the ozonosphere. The reduction in the thickness of the ozone layer in the atmosphere (commonly known as 'the hole in the ozone layer') seems to be linked to activities of human origin and resulting in the release of <b>nitrogen oxides</b> (see separate entry) and <b>chlorofluorocarbons</b> (see separate entry) into the atmosphere.
<b>Pascal</b>	Unit of measurement of pressure in the International System. One Pascal is equal to 1 Newton per square metre (Pa = N/m <sup>2</sup> ).
<b>PCB/PCT</b>	Acronym for polychlorinated biphenyls/polychlorinated triphenyls. These substances are potentially extremely dangerous and can be bioaccumulated. They have insulating properties and are fire-resistant, and are mainly used in electrical devices, e.g. capacitors and <b>transformers</b> (see separate entry).
<b>Photochemical smog</b>	A type of atmospheric pollution mainly caused by gaseous emissions from urban vehicular traffic. It is the result of a complex chain of photochemical oxidation reactions, i.e. reactions resulting from sunlight and favoured by specific meteorological conditions (e.g. a temperature inversion). One of the consequences of photochemical smog is that it increases the concentration of ozone in the <b>troposphere</b> (see separate entry), which then becomes a secondary pollutant. In addition, the low-volatility organic compounds that form can condense, forming a mist of microscopic globules.
<b>Photonics</b>	The science and technology of a class of devices that use photons. The term 'photonics' was invented by analogy with 'electronics': instead of electrons, photons are used in operations that we normally associate with information processing, transmission and storage.
<b>Pressure</b>	A physical quantity expressing the relationship between the intensity of a force (expressed in Newtons) applied to a surface perpendicular to it, and the area of the surface (expressed in square metres).
<b>Primary energy sources</b>	Energy sources consumed to provide final energy services (e.g. heating, transport) or to produce intermediate forms of energy like electricity or steam. Examples of primary energy sources are: coal, natural gas, liquid propane gas, fuel oil, and biomass.
<b>Process owner</b>	The point of reference and person responsible for a process.
<b>Rolling resistance</b>	The component of a vehicle's resistance to movement which is ascribed to the tyre alone.
<b>SA 8000</b>	International standard issued by the CEPAA (Council of Economical Priorities Accreditation Agency) on respect for human rights, respect for workers' rights, protection against the exploitation of minors, and standards of safety and proper conduct in the workplace.
<b>Stakeholder</b>	"Holders of legitimate interests" in the company, i.e. parties (individuals or groups) who have an interest in the company's decisions, influence its success and/or are influenced by the organisation's activities.
<b>Standard Positions</b>	A document that illustrates a task and the requirements for performing it.
<b>Steering Committee CSR (Corporate Social Responsibility)</b>	The committee responsible for evaluating, directing and coordinating all activities of the Group that come under the heading of Corporate Social Responsibility. It includes managers from the following departments: Administration & Control Department, Public and Economic Affairs Department, Personnel Department, Health, Safety and Environment Department (this last department is also the Committee Secretariat).
<b>Stranding</b>	Mechanical process of assembling brass-coated wires.

<b>Sustainability</b>	See <b>Sustainable development</b> .
<b>Sustainability rating</b>	An investment bond rating based on criteria regarding the sustainable performance of the company being evaluated. The rating is issued by an independent third party.
<b>Sustainable development</b>	Development that meets the needs of the current generation without compromising the capacity of future generations to meet theirs. This type of development is not a pre-set harmonious state, but rather a process of change in which the use of resources, management of investments and institutional change are made compatible with future needs as well as with current needs.
<b>toe</b>	<p>Tonne of oil equivalent: a unit of energy that expresses the thermal energy that can be obtained from fuels other than oil, taking oil as a base. The conversion factors adopted by the Group are as follows:</p> <p>1 toe = 41.86 GJ</p> <p>Electricity: 1 kWh = 860 Kcal = 0.000086 toe</p> <p>Fuel oil: 1 toe = 0.98 tep</p> <p>Diesel: 1 toe = 1.08 tep</p> <p>LPG: 1 toe = 1.10 tep</p> <p>Natural gas: 1000 m<sup>3</sup> = 0.82 toe</p>
<b>Transformer</b>	A static (i.e. with no moving parts) electrical apparatus that transfers electricity from one circuit ( <i>primary</i> ) to another ( <i>secondary</i> ) and changes the voltage and current. In its simplest form, a transformer comprises a closed magnetic circuit, made with silicon iron core lamination, and two reels obtained by helically winding two conductors on an insulating base.
<b>Transmittance</b>	A physical phenomenon that allows the conduction of heat from outside the environment to inside and vice-versa via contact with a vertical barrier.
<b>Troposphere</b>	The lowest layer of the atmosphere, extending from the Earth's surface to the stratosphere. The troposphere is where the most common meteorological phenomena occur.
<b>Volatile Organic Compounds (VOCs)</b>	Any organic compound – of natural or artificial origin – which has a vapour tension of 10 Pascals or higher at a temperature of 20°C, or which has a corresponding volatility under particular conditions of use. VOCs can contribute to the production of <b>photochemical smog</b> (see separate entry), with consequent impacts on health and the environment.



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