



# Sustainability report

*“Our commitment to corporate social responsibility has grown and strengthened over the years, and continues to be demonstrated by our presence in the most prestigious international sustainability indexes, such as the Dow Jones and Ftse4Good Indexes. It is a fundamental choice, underpinning our Group’s vision and strategies for growth, in all our business areas and management decisions, throughout the world. It is based on a “multi-stakeholder” approach, with careful attention given to all those who have an interest in the company for whatever reason. In short, we are committed to doing our utmost to ensure that not only innovation, research, quality of products and services, attention to the needs of our employees and the demands of our customers, but also respect for the environment become an ever increasing part of a virtuous circle for a company that combines competitiveness with social responsibility. A new dimension of a business culture deeply rooted in our history, fully attuned to the contemporaneity of sustainable development.”*

**Marco Tronchetti Provera**  
Chairman, Pirelli Group

## A note on methodology

This, the third edition of the Pirelli Group Sustainability Report, is 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.

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[www.pirelli.com](http://www.pirelli.com) > Sustainability

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The perimeter of this annual report is the same as the Group's consolidated report. For any numeric/qualitative performance of one or more affiliates in relation to specific published data that has not been included, a note has been provided.

The report has been drawn up according to the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI). The analysis of sustainable performance is based on a set of "Key Performance Indicators" (KPI), developed in accordance with the GRI indicators (updated to the G3 standard) and the principles of the Global Compact, also taking account of data periodically monitored by the major rating agencies. The sections on economic and social dimensions have also drawn on the *Reporting principles* issued by the Italian Sustainability Report Study Group (GBS - *Gruppo di Studio per il Bilancio Sociale*).

In this section we have concentrated on what we believe will be of most interest to the Group's wide variety of stakeholders, highlighting and explaining the progress in 2007 in relation to the contents of the 2006 report.

As regards Corporate Identity and Group organization, please see the *Directors' Report* that precedes this section.

For detailed information on the Real Estate Sector, whose sustainability performance is in any case consolidated within this report, please consult the Sustainability Report for Pirelli Real Estate SpA, available on the web site [www.pirellire.com](http://www.pirellire.com).

For further explanations and information on the contents of the report below, please refer to the "**Contacts**" published in the areas of the website [www.pirelli.com](http://www.pirelli.com), including the Sustainability Area.





# Pirelli and sustainable development

## Identification of Stakeholders and approach adopted

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

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[www.pirelli.com](http://www.pirelli.com)

> Sustainability > Stakeholders

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

In particular:

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

The Group encompasses various different business areas, each with their own particular approach to the issues of sustainability. Consequently, relations with stakeholders are to a certain degree heterogeneous, which may be regarded as a beneficial diversity in Pirelli's ways of listening to and involving stakeholders.

There are many and varied initiatives, activities, tools for dialogue and projects of specific interest to the categories listed above. These are addressed in detail in the following sections, to which the reader is referred for further information.



# Sustainable Governance

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

## GUIDING PRINCIPLES – MISSION

Over its 135 history that has seen changes in businesses, markets, people, and political, economic and social contexts, Pirelli's corporate identity has not changed. This identity is built around innovation, pursuit of excellence, internationalisation and social responsibility, and forms the basis for our company mission: the sustainable growth and creation of value. Indeed, the **Group Mission** states that: *"... We attach the utmost importance to continuous improvement and to the environmental and social impact of our processes and products. Our conduct is dictated by an Ethical Code applied consistently and responsibly by all the Group's employees and collaborators the world over..."*.



[www.pirelli.com](http://www.pirelli.com) > Group > Mission

The Group Mission, published in the Group area of the Pirelli website is available to the External Community

## GUIDING PRINCIPLES – VISION

Pirelli prefaces its **Policy "Health, Safety, Environment and Social Responsibility"** as follows:

*"Pirelli Group 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 organising its activities. Pirelli adheres to the principle of 'Sustainable Development' and undertakes to put it into practice."*

[www.pirelli.com](http://www.pirelli.com) > Sustainability

The Policy cited above, published in the Sustainability area of the Pirelli website, is available to the External Community]

## GUIDING PRINCIPLES – MODEL

The United Nations **Global Compact** is a voluntary initiative, proposed on 31 January 1999 at Davos by the then Secretary General, Kofi Annan, in an appeal to the World Economic Forum. Specifically, the Global Compact asks businesses to implement and support, within their sphere of influence, ten basic principles in the areas of human rights, labour standards, the environment and anti-corruption. These involve universally shared values as they originate from the *Universal Declaration of Human Rights*, the *Declaration on Fundamental Principles and Rights at Work*, the *Rio Declaration on Environment and Development* and the *United Nations Convention against Corruption*.



[www.pirelli.com](http://www.pirelli.com) > Sustainability

The Letter of adherence, published in the Sustainability area of the Pirelli website is available to the External Community

In October 2004, in a letter addressed to the Secretary General, Kofi Annan, Pirelli Group formally declared its **adherence** to the Global Compact and its **commitment** to observe and support its Ten Principles.

## 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 adhered to by those working in the company, in July 2003 the Board of Directors of Pirelli & C. S.p.A. approved the *Values and Ethical Code of the Pirelli Group*, which has been translated into the languages spoken within the Group and issued to all Pirelli employees.

This document outlines the general principles (transparency, fairness and honesty) that inspire the way it does business. It also lists the objectives and values underpinning the company's activities with regard to the main stakeholders that Pirelli & C. S.p.A. regularly interacts with.



[www.pirelli.com](http://www.pirelli.com) > Sustainability > Pirelli and sustainable development

The documents published in the Sustainability area of the Pirelli website are available to the External Community

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

Within an international context in which economic, environmental and social expectations are ever more demanding, the policy adopted by Pirelli in June 2004 has 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 corporate policies on the environment (first drawn up in July 1995 and updated in September 2000) and on safety at work (September 1995).

This document has been translated into the various different languages spoken within the Group and issued to all Pirelli employees, in the same way as the Ethical Code.

### PIRELLI GROUP EQUAL OPPORTUNITIES STATEMENT

Pirelli's commitment to equal opportunities in the workplace is clearly set out in its *Equal Opportunities Statement*. This document is the focal point of the *Group's Equal Opportunities Programme*. For more information on this programme, please see the *Social Dimension* section.

This Statement has been translated into the languages spoken within the Group and was distributed to all Pirelli employees at the end of 2006.

# The Group's sustainability tools

## CORPORATE GOVERNANCE

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

Of particular note in this regard is the recent effort to appoint independent and minority representatives to the company's Board of Directors. As at 26 March 2008, independent directors represented over 55 per cent of the total (11 out of twenty, four of whom were appointed 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 further details and information on Corporate Governance please see the "*Directors' Report*" that precedes this section. The area dedicated to the Company's Corporate Governance system may also be accessed through the homepage of the website [www.pirelli.com](http://www.pirelli.com).



[www.pirelli.com](http://www.pirelli.com) > Governance

Further information is available in the Governance area of Pirelli's website

## INTERNAL CONTROL SYSTEMS

With regard to the systems adopted to further strengthen the company's internal control, the review of the current Organisational Model continued in 2007, still with the aim of aligning it with the developments in Regulation No. 231.

To develop further opportunities for the improvement of the internal control system, other Group companies also adopted some of the control activities envisaged in the Italian companies' Organisational Models, designed to reasonably prevent the risk of crime, by issuing specific policies and operational rules.

Of particular note is the "**Modelo de Governancia Corporativa**" implemented in **Brazil** in the second half of 2007.

The "Modelo" provides a regulatory platform designed to formalise, standardise and disseminate the following to employees, through specific communication and training:

- Rules of behaviour to be adopted within the company, contained in the Ethical Code, Pirelli's Group Values and the Group Code of Conduct.
- Internal control principles, in terms of the safeguarding of assets, operational efficiency and effectiveness, management of information and communications, and compliance with local laws, agreements and regulations.
- Internal control procedures (operative finance, selection and hiring of personnel, consultancies, complimentary offers, entertainment expenses, purchases of sales and services, sponsorships, management of agents and intermediaries, settlement agreements and legal proceedings, sales of goods and services, authorisations and concession, environment, relations with authorities, social security matters, and financial incentives),

[www.pirelli.com](http://www.pirelli.com) > Governance

and the related implementation procedures in terms of company processes.

- The obligations on Suppliers to comply with Pirelli's social responsibility and environmental policies.
- The disciplinary system.

The "Modelo" provides for a system of reporting to an "Internal Committee", which is also responsible for monitoring the correct functioning of the Organisational Model.

In 2008, a plan will be developed for the implementation of the "Modelo" in the countries of South America, other than Brazil, where Pirelli operates (Argentina, Venezuela, Mexico, Colombia and Chile).

In 2007, the Corporate Internal Audit Department carried out 66 auditing interventions within the Group, including 10 performed 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 guidelines set down by the Organisational Model adopted.

For further details and information on the Internal control systems see the specific subsections within the "*Directors' Report*" that precedes this section.

The area dedicated to the Company's Corporate Governance system may also be accessed through the homepage of the website [www.pirelli.com](http://www.pirelli.com).

## ORGANISATIONAL STRUCTURE

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

In 2005, the Chairman appointed an **Equal Opportunities Steering Committee**, a high-level body to guide and supervise programmes for equal opportunities in the company. At the same time, in order to steer the implementation of the Equal Opportunities Programme throughout the company, and also to achieve greater organisational balance and to monitor the advancement of equal opportunities within all the affiliates, a **Group Equal Opportunities Manager** was appointed. Finally, **Country Equal Opportunities Managers** are responsible for guiding and supervising the advancement of equal opportunities at a local level.

On 17 July 2007, all the Group's CSR Referents and Equal Opportunity Managers met in Milan for a training seminar on sustainable management and on diversity in particular. The session also provided an update on future projects and objectives that Pirelli intends to pursue within its affiliates.

## GROUP OPERATING PROCEDURE "CORPORATE SOCIAL RESPONSIBILITY"

The *Operating Procedure on Corporate Social Responsibility* (issued on 16 September 2006) sets out and regulates the methods for the 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 management of the dissemination of CSR information to the external community.

These rules specifically provide for 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*".

## IT SYSTEM FOR CSR INFORMATION MANAGEMENT

As announced in last year's report, during 2007 Pirelli developed the "CSR-DM" (CSR Data Management) system. This is a new IT system for the management of CSR information, which improves the efficiency of the process of contribution, validation, consolidation, analysis and management of information relating to CSR. The system, still in its start-up phase, has already been used to collect the data as at 31/12/2007 and will come into full operation during 2008.

## MANAGEMENT SYSTEMS ADOPTED 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. The Group employs 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 the relevant subsections in the sections below.

In 2004, the **SA 8000** international standard was adopted as the point of reference for assessing the consistency of the Group's conduct with the Sustainability principles set out in the standard.

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[www.pirelli.com](http://www.pirelli.com)

> Sustainability > Certifications

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# Stock market indices and ethical finance

Pirelli has gained significant recognition for its commitment and the results achieved in the field of Corporate Social Responsibility through its inclusion in some of the most prestigious international stock exchange indexes for Sustainability.

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[www.pirelli.com](http://www.pirelli.com)

> Sustainability > Index & Ratings

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## DOW JONES SUSTAINABILITY INDEXES

Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes to track the financial performance of leading companies in terms of sustainability. Compiled on the basis of cooperative efforts between Dow Jones, STOXX Limited and Sustainability Asset Management Group (SAM), they provide reliable and objective information in the form of benchmarks for managers of sustainable fund portfolios. Pirelli was selected for the **Dow Jones Sustainability STOXX** (DJSI STOXX) index for the first time in 2002, and has also been included for many years now in the **Dow Jones Sustainability World Index**.



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[www.sustainability-index.com](http://www.sustainability-index.com)

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Pirelli has also been declared as the **2008 World sustainability Leader in the “Autoparts and Tyres” Sector and a Gold Class Company** by SAM Group. This recognition was published in the prestigious *Sustainability Yearbook 2008*, edited by SAM in collaboration with PricewaterhouseCoopers and presented in January at the World Economic Forum in Davos.



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[www.sam-group.com](http://www.sam-group.com)

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The Yearbook is the most complete and authoritative global benchmarking tool for sustainable finance specialists. Only 15 per cent of the companies listed in 57 business sectors are included, following an assessment by SAM of several thousand multinationals.

## FTSE INDEXES

Pirelli has been included in the **FTSE Global and European STOXX** indexes since 2002. FTSE is an independent company, held by the Financial Times and the London Stock Exchange.



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[www.ftse.com](http://www.ftse.com)

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The **FTSE4Good Series** indexes were created by the 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.

## ASPI INDEX

Pirelli has been included since the beginning of 2005 in the **ASPI EUROZONE®** (Advanced Sustainable Performance Indices) index, which includes the 120 best-performing companies in terms of sustainability on the basis of CSR ratings issued by Vigeo, a social and environmental rating agency.



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[www.vigeo.com](http://www.vigeo.com)

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The reference universe for the ASPI are the companies included in the DJ EURO STOXX SM index.

## 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 it was created). Pirelli is also included in the investable universe of both Axia Euro Ethical Index and Axia Euro CSR Index.

The Axia indices interact with the major international platforms for financial operators and encompass international best practices in corporate social responsibility for a range of companies selected from those with the largest capitalisations in the S&P MIB and the Eurostoxx60.

Pirelli's current rating is **A+++** (until 2006 it was **A++**), which is the highest obtainable in the "ethical class".



[www.axia.org](http://www.axia.org)

## KEMPEN INDEXES

Pirelli has obtained "Pass Status" within the entire Kempen Capital Management's investable universe, the "SNS Socially Responsible Universe".



[www.kempen.nl](http://www.kempen.nl)

## SIRI SUSTAINABILITY ASSESSMENT

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

In 2007, Pirelli achieved a further improvement in its 2006 rating, with a score around 30 per cent above the sector average.

[www.siricompany.com](http://www.siricompany.com)

# Principal institutional commitments

See above about Pirelli's adherence to the United Nations **Global Compact**.

## EUROPEAN ALLIANCE FOR A COMPETITIVE AND SUSTAINABLE BUSINESS

Pirelli's participation in the European Alliance, formalised in 2007, is based on its 100% agreement with the competitive vision that generated the Alliance, namely that sustainability is not a mere accessory or an extra, but a strategic and competitive way of managing a company. Pirelli's adherence to the European Alliance has been expressed so far through active participation



<http://ec.europa.eu/enterprise/csr/alliance.htm>

in the Alliance's European Workshops, coordinated in Italy by the Sodalitas Foundation (where Pirelli also sits on the Steering Committee).

The Workshops on Equal Opportunities and Innovation provided a significant opportunity for dialogue with businesses that – like Pirelli and with Pirelli – have set up a network aimed at exchanging best practices. The Equal Opportunities Workshop, in particular, produced a toolkit encompassing all the best practices for the management of gender diversity. The toolkit, which describes the *Pirelli Group Equal Opportunities Project* in terms of key operating procedures, is aimed at the businesses that, regardless of their size, have understood the competitive importance of the promotion of diversity and have decided to implement it drawing inspiration from existing best practices.

The toolkit was presented by Sodalitas to the European Commission on 29 November 2007 in Brussels during the third “Marketplace on CSR”.

### ETRMA - EUROPEAN TYRE AND RUBBER MANUFACTURERS ASSOCIATION

The ETRMA (European Tyre and Rubber Manufacturers Association) is chaired by Francesco Gori, CEO and Managing Director of Pirelli Tyre.

Founded in Brussels in May 2006, it replaced the previous representative office for the rubber industries (Bureau de Liaison des Industries du Caoutchouc or “BLIC”) founded in 1959. The Association represents the tyre and rubber manufacturing industry at the European Union institutions and other international organisations in initiatives aimed at road safety, environmental protection and competitiveness.

In Brussels on 27 April 2007, during the “European Road Safety Day” and in the presence of Jacques Barrot, Vice Chairman of the Commission, Francesco Gori, as chairman of the ETRMA, signed the *European Road Safety Charter*. The objective of this charter is to reduce the number of deaths on the roads by at least 50% by 2010, through a series of awareness raising campaigns targeted at consumers, public bodies and associations throughout Europe.



[www.etrma.org](http://www.etrma.org)



[www.etrma.org](http://www.etrma.org) > Activities

### WBCSD - WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

Pirelli is also a contributing member of the **World Business Council for Sustainable Development** (WBCSD), an association of around 200 international companies distributed throughout 30 countries that have made a voluntary commitment to unite economic growth with sustainable development.



[www.wbcsd.org](http://www.wbcsd.org)

Since 2005, the WBCSD has identified a list of global issues (including the protection of ecosystems and biodiversity, the

promotion of sustainable production and consumption) which are destined to transform the current economic system. Pirelli's active participation in the WBCSD has undoubtedly contributed to expanding the Group's knowledge in terms of the methods that can be used to achieve real sustainable development.

Pirelli Tyre is also an active member of the **Tyre Industry Project Group**, which includes the 11 largest tyre manufacturing companies. The objective of the project, launched in January 2006, is to identify the potential impact on health and the environment of the materials associated with the manufacture and use of tyres.

## THE "BALI COMMUNIQUÉ" AND THE CHALLENGE OF CLIMATE CHANGE

During the United Nations Climate Change Conference held in Bali last December, 150 international businesses, including Pirelli Tyres, signed *The Bali Communiqué*. This document underlines the need to tackle climate change through negotiations aimed at reaching an ambitious and comprehensive world level agreement, based on concrete strategies to be developed through a joint engagement from governments. The objective is to set out a roadmap for the negotiations on climate change after the expiry of the Kyoto protocol in 2012.

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[www.balicomunique.com](http://www.balicomunique.com)

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## Main awards received

For the main awards received from outside organisations for sustainable performance in 2007, please see the sections below where these are discussed within the specific subsections.





**PIRELLI 倍耐力**  
**倍耐力轿车轮胎经销商大会 2006**

*Pirelli Car Tire Distributor Conference 2006*

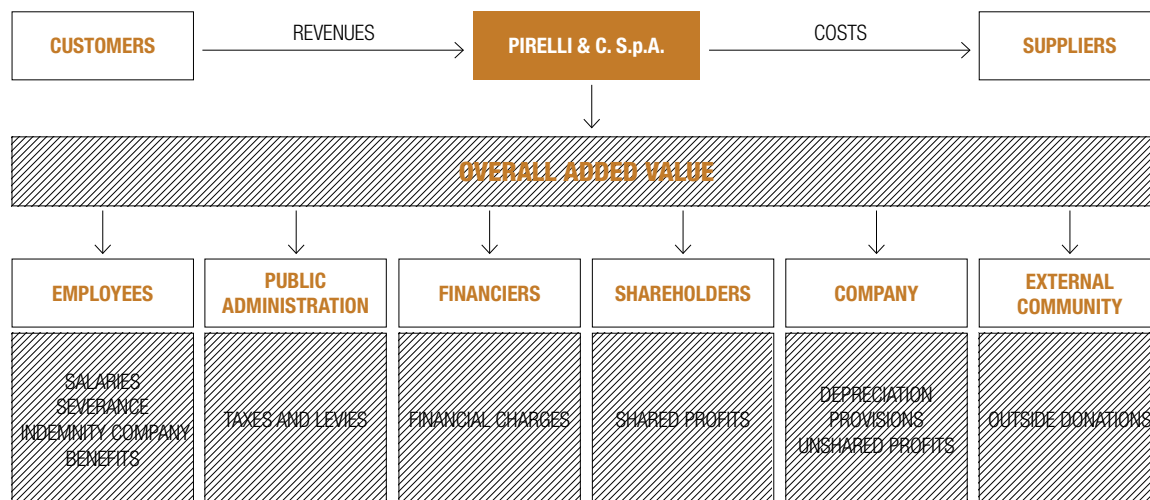


# Economic dimension

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

## Added value

*Added value* means the wealth created over a given reporting period, calculated as the difference between the revenues generated and the external costs sustained in the period. The distribution of added value among the stakeholders enables the expression, in monetary terms, of the existing relations between Pirelli and the major stakeholders, thus shifting attention to the socio-economic system in which the Group operates (as shown in the diagram below).



The added value created by Pirelli & C. Group in 2007, 2006 and 2005 was shared out as follows:

#### ADDED VALUE (thousands of euro)

	2007		2006*		2005	
<b>GROSS OVERALL ADDED VALUE</b>	<b>1,871,969</b>		<b>1,996,516</b>		<b>1,836,320</b>	
Payments to personnel	(1,156,170)	61.8%	(1,075,819)	53.9%	(1,029,880)	56.10%
Payments to Public Administration	(133,503)	7.1%	(127,849)	6.4%	(128,484)	7%
Payments of credit capital	(36,288)	1.9%	(126,976)	6.4%	(90,672)	4.90%
Payments of venture capital	(169,503)	9.1%	(78,299)	3.9%	(149,492)	8.10%
Payments to the company	(368,132)	19.7%	(579,535)	29.0%	(429,361)	23.40%
Outside donations	(8,373)	0.4%	(8,038)	0.4%	(8,431)	0.50%

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

The table below shows the contributions and donations made by Pirelli & C. Group in the three year period 2007, 2006 and 2005, broken down by category:

#### AREA OF INTERVENTION (thousands of euro)

	2007	2006	2005
Education	1,035	1,246	799
Culture	5,774	5,188	5,533
Sport	287	244	450
Research	483	339	290
Solidarity	656	739	914
Other	138	282	445
<b>TOTAL</b>	<b>8,373</b>	<b>8,038</b>	<b>8,431</b>

Please see the “*Social dimension*” section 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 organisations or their representatives and candidates, without prejudice to compliance with the relevant prevailing legislation.*” (from article 5 of the *Ethical Code - Community*).

## Shareholders

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



This subsection begins with an overview of the company's shareholding structure and then goes on to focus on the different methods for dialogue and interaction between the company and the Shareholders/Financial Community.

**Ordinary shares** are the most common form of holding in the company's share capital, conferring *voting rights* at ordinary and extraordinary shareholders' meetings. Among other functions, these meetings serve to approve the financial statements, appoint the members of the company bodies and modify the articles of association.

Based on the data in the shareholders' register, the body of ordinary shareholders is made up of a component of "core" shareholders who hold approximately 53% of the ordinary share capital. The remaining 47% of this capital (known as 'free float') is jointly subdivided between Institutional Investors (10% of whom are foreign) and Retail Investors (numbering approx. 107,000). The "core" shareholders adhere to a shareholders' agreement (the "Pirelli & C. S.p.A. Shareholders' Agreement"), aimed at ensuring a stable shareholder base. At the present time this agreement includes around 46.2% of the ordinary shares issued.

**Savings shares** confer to their holders a series of rights listed in article 6 of the articles of association of Pirelli & C, in addition to a privileged position in the distribution of profits. In this regard, article 18 sets the preferential withdrawal on annual earnings (known as the 'preferential dividend') as 7 per cent of the nominal share value of these shares (0.52 euro). The earnings remaining after the assignment of the above 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 has the right to attend the ordinary shareholders' meetings of the company (as an observer), regardless of their nature or agenda, and to contest resolutions adopted by the meeting.

It is the company's policy to take advantage of the shareholders' meetings to **disseminate** information about the company and its prospects to the shareholders. This is carried out in compliance with the regulations governing the confidentiality of information and therefore 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'**



[www.pirelli.com](http://www.pirelli.com) > Investors

[www.pirelli.com](http://www.pirelli.com)  
> Sustainability > Stakeholders >  
Shareholders



**Meetings.** This document regulates ordinary and extraordinary shareholders' meetings, and it guarantees each member the right to speak on the topics under discussion.

A top priority of Pirelli & C. S.p.A. is the establishment and maintenance of **constant dialogue** with its shareholders and with institutional investors. This has also been formally set out in the **Investor Relations Policy**. To this end, in the early 90s the Company set up an **Investor Relations Department**, 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 to present the Company's periodic economic and financial results and the related strategies for development. In 2007, over 200 of these were conducted, with many involving investors operating in **new financial markets** for Pirelli, such as the Emirates (Dubai, Abu Dhabi), China (Shanghai, Hong Kong) and Japan (Tokyo). Relations were also enhanced with the Stock Markets of Shanghai, Hong Kong, Taipei and Tokyo.

As regards the actions taken by the company **Pirelli & C. Real Estate S.p.A.** (also listed on the electronic trading system managed by the Italian stock exchange) in which Pirelli & C. S.p.A. has a 53.7% holding, details of the meetings held with the financial community in 2007 are provided below:

- Active participation in 8 conferences promoted by financial institutions.
- 2 conference calls with investors and analysts to comment on the half yearly performance and year end results.
- 230 one-to-one meetings with institutional investors and around 60 meetings/conference calls with analysts.
- 7 road shows in the main financial markets (Milan, London, Paris, New York, Amsterdam, Brussels, and Zurich).

The Group also pays particular care and attention to relations with rating agencies geared to sustainability. In 2007, Pirelli saw a sharp increase in its ratings in the Dow Jones Sustainability, FT4Good, Kempen, Axia and ASPI indexes.

At the beginning of 2008, Pirelli was also declared the **2008 World sustainability Leader in the "Autoparts and Tyres" Sector** and a **Gold Class Company** by the Sustainability Asset Management Group (SAM), within the prestigious *Sustainability Yearbook 2008*, published by the Sustainable Asset Management Group in collaboration with PricewaterhouseCoopers and presented in January at the World Economic Forum in Davos.

One of the methods for disseminating information that deserves special mention is the internet. The Group has enhanced the homepage of [www.pirelli.com](http://www.pirelli.com), both in terms of graphics and content, which is now more readily accessible. From the website's home page visitors can access the **investor relations section**, which contains all the documents distributed at meetings with

the financial community, the documents containing published economic and financial information about the company, and all the other documents relating to the company's Corporate Governance system.

A further indication of the importance that Pirelli attaches to 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. 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 may be downloaded from the "Investors" area of the Pirelli Group web site.

## Customers

### TYPES OF GROUP CUSTOMERS

The types of customer differ greatly from one business area to the next.

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[www.pirelli.com](http://www.pirelli.com)  
> Sustainability > Stakeholders >  
Customers

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The **Tyre Sector** serves the following categories of customer:

- "Original Equipment", which includes the leading international makers of cars, motorcycles, scooters, commercial vehicles (light, medium and heavy), buses and agricultural machinery.
- "Replacements", which includes a total of around 15 distribution channels (for car, truck and motorcycle tyres), and whose importance differs from country to country.

In the **Real Estate Sector** we have:

- "Investment & Fund Management", whose customers consist of funds and property-owning companies in which Pirelli & C. Real Estate generally has a 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 Pirelli RE Agency's affiliate agencies distributed throughout Italy.

Customers of **Pirelli Broadband Solutions** may be divided into the following categories:

for *Broadband Access (BBA)* products

- Added Value Retailers.
- System Integrators.
- Telecommunications operators.

for *New-generation photonics* products:

- System integrators and/or operators.
- Component and module manufacturers.

The companies under **Pirelli & C. Ambiente** have the following categories of customer:

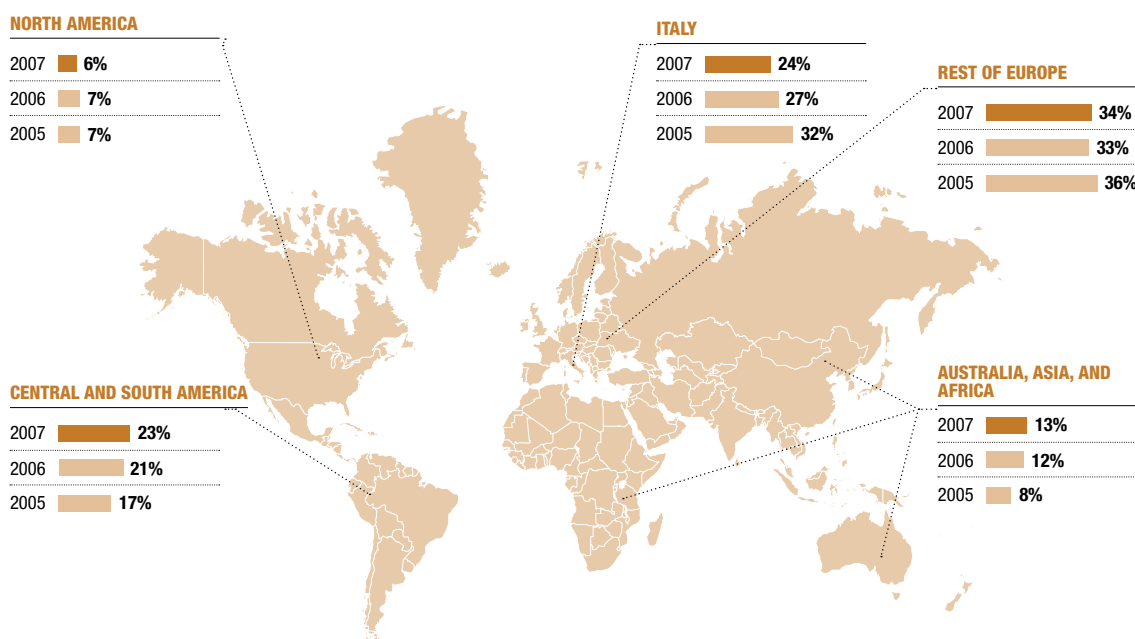
- Customers of the Renewable Energy sector, i.e. companies that convert urban solid waste to energy.
- Customers of the Site Remediation sector, i.e. companies – mainly in the Group and other closely-related companies – that are interested in having assessed, planned and managed the demolition and decontamination of buildings and/or lands.

#### Customers of Pirelli Ambiente Eco Technology:

They are 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

percentage of total sales value



#### GROUP POLICIES

Customer orientation – a central element in the *Values and Ethical Code of the 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 Company:

— "pursues market excellence and competitiveness, offering customers a quality of service that effectively meets their requirements;" (*article 2 of the Ethical Code - Aims and Values*).

— "bases the excellence of the Group's products and services on customer service and the readiness to meet customer needs. The aim is to offer immediate, thoroughgoing and competent responses, tailored to the needs of customers, and in keeping with the spirit of legality, courtesy and 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.

## FOCUS ON PIRELLI TYRE

The wide variety of Group customers entails many different methods for dialogue and interaction between the customers and the various businesses. As in 2006, we have decided to focus again in 2007 on relations between the Tyre Sector and its customers, also to enable a year on year comparison of performance.

### Dialogue and interaction

— In addition to the daily contact with the sales organisation operating at local level, customer relations are handled by the Sales and Marketing departments, via the **Contact Centres**, which monitor the performance of the interactions between the company and the market by means of the following:

— KPI Contact Centre monthly reporting: quantitative measurement of the main Customer Service parameters to aid the analysis of the levels of service offered.

— **WMT (Workflow Management Tool)**: an application that enables the mapping of all the requests originating from the market to obtain both quantitative (number of requests by subject area and requestor, response times, etc.) and qualitative (response method) analysis designed to improve the service and enhance Customer Care.

— **Customer Satisfaction Surveys**, conducted periodically in a variety of ways including interviews with native language operators, anonymous surveys, and web based questionnaires that identify levels of satisfaction on a scale of one to five.



[www.pirellityre.com](http://www.pirellityre.com)

The table below shows the results of the surveys for the last 4 years:

#### LEVEL OF SATISFACTION

	2007	2006	2005	2004
No. countries involved	11	13	11	12
Overall satisfaction level (1-5)	4,00	3,96	3,88	3,84

— Customers can also **contact** the company through the Pirelli Tyre website.

#### 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. In particular:

[www.pirelli.com](http://www.pirelli.com)  
> Sustainability > Certifications

##### — ISO 9001

The Group has had a Quality Management System since 1970 and since then has gradually introduced it in all its plants. From 1993 onwards, Pirelli 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 the 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 that 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 supremacy in a large number of product tests, and also ensured by the company's close links with very prestigious partners (famous car makers, specialist magazines, driving schools etc.) for product development and experimentation. The table shown below gives the results for 2007 of various different product tests on summer tyres, conducted by the leading specialist magazines:

## PRODUCT TESTS ON SUMMER TYRES

Tested pattern	Size	Test Vehicle	Final Result	Comment	Magazine	Issue
Pirelli P3000E	155/70R13 T	VW Lupo	Very recommendable	Very well balanced tyre with optimal notes on wet ground.		Mar-07
Pirelli P7	205/55R16 V	Peugeot 407	<b>TEST WINNER</b>	Very well balanced tyre with best note in test on wet track. Low tread wear.		
Pirelli P Zero Nero	205/45R16 W	VW Polo GTI	Exemplary	Very convincing all-rounder with high steering precision and dynamic driving behaviour on wet and dry ground. Short braking distance on wet track.		Apr-07
Pirelli P7	225/55R16 W	Mercedes E Class	<b>TEST WINNER</b>	Precise and harmonic reactions make it the best in handling in wet conditions. The best in test in braking on wet track. In the dry optimal in handling and slalom and very good in braking: the best in test. Very safe and easy to drive.		Feb-07
Pirelli Scorpion Zero Asimmetrico	235/60R18 V	Volvo XC90	<b>TEST WINNER</b>	The best in test in off-road conditions with optimal braking performance. By far the best in test also by dry track due to its traction and driving safety. Shortest braking distance and best handling on wet ground.		Apr-07
Pirelli P Zero	245/40R18 Y	Audi TT 2.0	<b>TEST WINNER</b>	Very high performance and optimal driving behaviour by wet conditions: best in test. On dry track by far the best: the fastest in slalom and handling, the shortest braking distance; safe and easy to drive.		May-07
Pirelli P Zero Nero	245/30R20 Y	Audi TT 2.0	Exemplary	Very good performance in every exercise on wet ground, especially in braking. Very good driving behaviour also in dry conditions.		Apr-07
Pirelli Camper L6	215/70R15 R CP	Fiat Ducato	Very good	Absolutely the best in test by wet conditions with very safe driving behaviour. Excellent load capacity.		May-07
Pirelli P Zero	235/35R19 Y	BMW 335i	<b>TEST WINNER</b>	Excellent grip level and optimal driving behaviour on dry ground. Very well balanced and short braking distance in wet conditions.		May-07

## Pirelli Tyre's commitment to customer safety

The Group has always pursued product innovation to improve quality and safety for the end consumer. To achieve this, Pirelli Tyre makes use of its close cooperative links with the leading car makers in a market segment that is particularly scrupulous and demanding: the Ultra High Performance segment, an area where Pirelli is leader brand. Customer safety, for example, forms part of the DNA of the following products:

— **The New Pirelli Cinturato**, whose innovation integrates driver safety and the reduction of environmental impacts. The New Cinturato is discussed in detail in the section “Environmental Dimension”, to which the reader is referred for further information;

— **K-PRESSURE™**, an innovative safety device capable of detecting whether the pressure of the tyre is correct or below

[www.pirellityre.com](http://www.pirellityre.com) > Car

[www.pirellityre.com](http://www.pirellityre.com) > Cinturato



the alert threshold and to warn the driver in real time through an onboard alarm;

— **Self-supporting or Run Flat** tyres, which provide greater vehicle control in emergency conditions and allow continued safe driving even during a rapid loss of inflation pressure. Mobility is guaranteed by the “self supporting” construction process, achieved through the introduction of elastomeric reinforcements in the sidewalls, thus making the structure self supporting. Support in other words, in the absence of pressure, for the vertical loads and the horizontal and transversal stresses from the vehicle allowing the driver to reach the nearest service centre in safety;

— 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;

— New concept tyres like the **new P Zero** launched in February 2007 that, thanks to its special tread compound, offers the extreme performance of a warm tyre from a “cold” start. This provides immediate driving enjoyment and raises the safety standards for limit, straight-line and corner braking, in wet and dry conditions, at all speeds achievable on the road and track;

— **SWS™**, the first self-inflating tyre, now also available for SUVs;

— **Cyber™Tyre System**, a tyre “memory”, through which a car’s onboard computer communicates information about the operational condition of the cover in real time;

— **Cyber™Wheel System**, to use the rim as a sensor to detect physical sizes and transmit them to the car. Assessing the deformation caused by the vehicle’s movement, it is able to evaluate (also thanks to special algorithms developed by Pirelli in collaboration with the Polytechnic of Milan) so-called hub forces and provide real-time information to the dynamic control systems that maintain the stability of the vehicle.

— Finally, we would like to mention **Pirelli’s commitment to increasing the attention paid by drivers to tyres** - and therefore to their safety, through specific institutional campaigns. Of particular note is Pirelli’s role within the ETRMA, whose Chairman is the CEO and Managing Director of Pirelli Tyre, who was responsible for the signing of the *European Road Safety Charter*.



#### P ZERO

Launched in February 2007, thanks to its special tread compound, offers the extreme performance of a warm tyre from a “cold” start

## Suppliers

### GROUP POLICIES

The *Health, Safety, Environment and Social Responsibility* Group Policy expressly states the company’s commitment “to establish and actively maintain the procedures to evaluate and select suppliers and subcontractors based on their commitment in the field of social and environmental responsibility.”

[www.pirelli.com](http://www.pirelli.com)

> Sustainability > Stakeholders >  
Suppliers

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

The purchasing processes are described in the **Purchasing Manual**, which sets out guidelines and procedures aimed at ensuring both transparency in internal processes and honesty in business dealings, and also integrity and contractual impartiality in relations between the company and its suppliers. These processes have been strengthened by the development of new technologies (e.g. electronic auctions) that by their nature help to 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.

## 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. Specific clauses - applied to Italian suppliers at the end of 2006 and extended to foreign suppliers in 2007 - provide for the implementation of the policies adopted on sustainability, i.e. the Ethical Code, Code of Conduct, and the “Health, Safety, Environment and Social Responsibility” policy. The contracts concluded give Pirelli the right to carry out audits of the suppliers to assess compliance with the principles and the commitments shared through the signing of the *General Conditions*.

## DISTRIBUTION OF PURCHASES BY GEOGRAPHIC AREA

The table below shows the geographical distribution of purchases, distinguishing between OECD and non-OECD countries, with the “weight” of the various areas on the totals.

### DISTRIBUTION OF GROUP PURCHASES BY GEOGRAPHIC AREA

		% on total number of suppliers		% on total value of purchases	
		2007	2006	2007	2006
<b>OECD countries</b>	Europe	69.9%	73.1%	67%	63%
	North America	2.1%	4.0%	3%	6%
	Others (1)	0.2%	0.2%	1%	2%
<b>Non OECD countries</b>	Latin America	19.0%	19.3%	13%	15%
	Asia	7.3%	1.6%	15%	12%
	Africa	1.5%	1.8%	1%	2%

<sup>1</sup> Australia, New Zealand, Japan, and Korea



**DISTRIBUTION BY TYPE OF GOODS AND SERVICES PURCHASED BY THE GROUP - 2007**

	% of total number of suppliers	% of total value of purchases
Raw materials	6%	48%
Consumables	7%	5%
Services	80%	39%
Plant and equipment	7%	8%

Over 80% of all purchases made by the entire Group consist of goods and services purchased by the Tyre Sector. For this reason, we have decided to focus again in 2007 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 from 2005 to-2007. The table also gives the percentage weight of purchases made in each area over the total number of suppliers and over the total value of all purchases made.

**DISTRIBUTION BY TYPE OF GOODS AND SERVICES PURCHASED BY THE TYRE SECTOR**

	Number of suppliers			Value of purchases		
	2007	2006	2005	2007	2006	2005
Raw materials	7%	7%	8%	53%	56%	37%
Consumables	5%	5%	5%	6%	4%	4%
Services	80%	80%	78%	32%	32%	30%
Plant and equipment	8%	8%	9%	9%	8%	29%

**Interaction between Pirelli Tyre and its suppliers**

Relations with suppliers are defined and enforced by specific company processes. There are two fundamental underlying phases to supplier management:

1. **Approval of new suppliers (or Vendor Approval)**, where the interdepartmental process based on specific "Quality standards" leads to the addition of the approved material/vendor to the Vendor List, namely the Company's list of approved suppliers for each individual product. In 2007, the Pirelli CSR policies were integrated into this phase.
2. **Vendor Rating**, assessed on the basis of the quality of the product supplied or service provided (monitored using the specialist CARMAC software), the quality of the commercial relations, the technical/scientific cooperation, performance in terms of safety in the workplace, environmental responsibility and corporate social responsibility.

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 supports the Regulations (including the Purchasing Manual, Ethical Code, and General Conditions to be applied by the Suppliers), the Vendor List, the surveys, and the Vendor Rating with feedback and the definition of support actions. This portal provides both an assurance of process uniformity and a guarantee of transparency, in addition to being a communications, ongoing training, and knowledge sharing tool.

## Dialogue

The processes of dialogue and interaction with suppliers are the object of continual process improvement, both in qualitative terms and in terms of tools. Specifically, the Vendor Rating results are regularly reviewed and commented on by the Sector Purchasing Department. This process involves **meetings organised with the suppliers**, aimed at identifying any corrective actions or measures to improve results.

In 2007, specific training courses were provided on buyer professionalism and **buyer-supplier relations**.

Each purchase contract includes the name of the Buying contact, to provide the supplier with a **company channel** that is always available for any feedback.

## Measures and processes adopted by Pirelli Tyre in 2007

In 2007, the objectives set out in the 2006 Report, aimed at improving the purchasing process and at providing total support for buyer-supplier relations, were successfully achieved. In particular:

- Training courses on buyer professionalism (EIMP) and buyer-supplier relations;
- Purchasing Portal;
- “MRP project” for raw materials requirements planning;
- “PTE S’pore project” to support the entire process governing requirements and supply of natural rubber, from the individual units to the purchasing centre in Singapore.

In addition, the Vendor Rating coverage was extended in 2007 and it now encompasses all the product and geographical areas.

Lastly, the “RNC Project”, developed in 2007, plays an extremely important role in terms of effectiveness. The order/delivery/invoice flow between Pirelli and its suppliers has been automated by means of WEB or HUB platforms, via EDI documents and document scanning.

The coverage has been enhanced to cover the major raw material suppliers and in 2008 it is due to be extended to MRO suppliers.





## WHEN RESPECTING THE ENVIRONMENT BECOMES AN ART.

There is a tyre sensitive to both the environment and road: the Pirelli Cinturato™. This tyre ensures high mileage, takes care of reducing fuel consumption thanks to its high energy efficiency, does not release polluting additives into the environment and contributes to making the air cleaner. Because looking after the environment is in our nature.



ENERGY™  
EFFICIENT



CLEAN  
AIR



HIGH  
MILEAGE



**Cinturato™**

**PIRELLI**

POWER IS NOTHING WITHOUT CONTROL



# Environmental dimension

## 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)*

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[www.pirelli.com](http://www.pirelli.com) > Sustainability >  
Stakeholders > Environment

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The above principles are discussed in detail in the Group policy on “*Health, Safety, Environment and Social Responsibility*”.

The Group includes a wide variety of businesses, namely:

- The manufacture of tyres for cars, industrial vehicles, goods transport vehicles, buses, motorcycles and steel cord, all produced by *Pirelli Tyre*.
- The real estate sector: *Pirelli & C. Real Estate*.
- Operations in the telephony sector, with products for photonics and for broadband internet access (non-photonics), used to develop leading-edge innovative solutions for the latest generation of telecommunications infrastructures: *Pirelli Broadband Solutions*.
- Environmental decontamination and waste-to-energy generation: *Pirelli & C. Ambiente*.
- The development of alternative eco-compatible technologies

(i.e. new fuels, innovative systems for exhaust gas reduction etc.): *Pirelli EcoTechnology*.

— Research and development in the fields of new materials and optoelectronic components: *Pirelli Labs*.

Each business, encompassing an equally wide variety of projects, is committed to the responsible management of the impacts generated by their activities, products and services, also through the development and implementation of Environmental Management Systems aimed at achieving certification under the international reference standards and designed to continually improve their environmental performance. The certification of the **Environmental Management System** involves the Production Units of Pirelli Tyre S.p.A. in particular, which are the most significant in terms of potential impacts on the environment. Nevertheless, all the other Group Companies operating in the areas of design, research, logistics, and services (including the Tyre Test Track at Vizzola Ticino, Pirelli & C. Real Estate Facility Management, Pirelli Broadband Solutions, Pirelli Ambiente Eco-Technology) have taken this route or have already obtained the same accreditation, which is a common goal for all the Group's affiliates.

In parallel with the definition of specific common guidelines and procedures for drawing up and implementing management systems, the Pirelli company intranet contains a web-based management system for “**Health, Safety and Environment Data Management**” (HSE DM), implemented and managed at Corporate level by the Health, Safety and Environment Department. This system enables the monitoring of performance and the achievement of objectives for each method of environmental management, and the production of a wide variety of reports required for management and operational purposes. This system – as mentioned in the introduction – has also been used in combination with the CSR-DM in drawing up this report.

Thanks to the Group's commitment to sustainable environmental management, in 2007 it continued to achieve very positive results in the following areas:

- Mitigation of the environmental impacts 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.

The pages below provide a description of the environmental initiatives and performance with specific reference to the Group's various business (and the related Companies).

## Pirelli Tyre S.p.A.

This company, which represents Pirelli Group's main industrial division, focuses on the manufacture of tyres for cars, industrial vehicles, goods transport vehicles, buses, and motorcycles.

Pirelli Tyre has 24 Production Units operating in Europe, the United States, Latin America, Asia and Africa. Of these, 80% are managed by the "Tyres" business unit (related to tyre manufacturing) and 20% by the "Steel Cord" unit, for the steel cord used mainly in the manufacture of tyres. The two units, which focus on different products, especially in terms of manufacturing processes, are analyzed separately both from the standpoint of production cycles and environmental aspects, impacts and performance indicators.

Pirelli Tyre's most significant corporate commitments in terms of environmental sustainability are:

— Active participation in the **World Business Council for Sustainable Development (WBCSD)**, an association of around 200 international companies distributed throughout 30 countries that have made a voluntary commitment to unite economic growth with sustainable development. The WBCSD has identified a list of global issues (including the protection of ecosystems and biodiversity, the promotion of sustainable production and consumption) destined to transform the current economic system.

— **Signature of the Bali Communiqué**, endorsed by 150 international businesses during the Bali United Nations Climate Change Conference in December 2007. This document underlines the need for an ambitious and comprehensive world level agreement, to develop concrete strategies through a joint engagement from governments. The objective is to set out a roadmap for the negotiations on climate change after the expiry of the Kyoto protocol in 2012.

— Its commitment in terms of the **promotion and strengthening of a culture of safety and energy efficiency**. Conscious of the role of the tyre industry in everyday life, this has always been one of the company's goals. In 2007, it promoted significant awareness raising initiatives in partnership with institutions, trade associations and other industrial groups at Italian and international level.

— Pirelli Tyre participated in the **ENI "30PERCENTO – consumare meglio, guadagnarci tutti" energy efficiency campaign** with its "*Viaggia in Sicurezza*" (Travel Safely) initiative. The aim is to explain the importance of energy saving for environmental protection as well as the household budget, with the primary focus on consumers. Through "*Viaggia in Sicurezza*", which provided free tyre pressure checks at 400 outlets of the Driver network, Pirelli Tyre contributed to educating motorists in the proper maintenance of their tyres, the first step towards ensuring energy efficiency, reducing harmful emissions and driving more safely.

## ISO 14001 CERTIFICATION AND THE ENVIRONMENTAL MANAGEMENT SYSTEMS

The reference standard for the environmental certification of management systems has been identified as ISO 14001 standard. Thanks to the Sector project for the implementation of an Environmental Management System in the Production Unites, based on shared Group procedures and guidelines, the first ISO 14001 certifications were obtained in 1998 in Brazil and Turkey.

This is now a well established process and as at 31/12/2007 all the Production Units in operation have a certified Environmental Management System. The latest involves the Slatina steel cord manufacturing plant in Romania, recently certified for both ISO 14001 and OHSAS 18001. Forthcoming certifications will involve plants in the development phase, including the Tyre plant at Slatina.

The company also has scientific test centres for tyre/vehicle performance, which conduct experiments and trials of tyres under various different conditions of use, using subjective and instrument controlled techniques.

Worthy of particular mention is the test track located in the town of **Vizzola Ticino (Varese, Italy)**, designed and built at the end of the Sixties near the river of the same name. **The ISO 14001 environmental certification for this Centre**, obtained in 2005, assumes particular importance considering that its 26 hectares lie within the Parco Naturale Lombardo della Valle del Ticino (Lombardy Ticino Valley Natural Park), an Italian nature reserve listed as a UNESCO MAB (Man and Biosphere) area – one of 425 biosphere reserves in 95 countries worldwide.

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Night time view of the Pirelli tyre test track at Vizzola Ticino (VA) - Photograph by Luca Gatino for the exhibition "Un viaggio, ma..."

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The Vizzola site is used by 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 also home to sports events, driving schools, and motoring clubs, and is used by car manufacturers and trade magazines for joint tests and shows. Implementing the environmental management system has enabled the setting out and achievement of waste management optimisation targets. Similarly, programmes spanning over several years have been set up and are currently underway to rehabilitate and redevelop the internal green areas with the planting of indigenous plant species, elimination of ozone depleting substances, and support for university programmes to develop low environmental impact vehicles.

Given its location within a protected area, the Track is in constant contact with the offices of the Municipality of Vizzola Ticino and the Parco Naturale Lombardo della Valle del Ticino. Through an agreement with the Park Administration, it contributes in economic terms to the environmental improvement of the external area.

In 2007 no environment-related incidents occurred with negative consequences for health or the environment.

However, emergency situations, resolved adopting the established procedures, included:

- The start of a fire in a mixed packaging bin, contained by the plant's fire fighting team.
- Five cases of accidental spillage of liquid and solid raw materials. The accidents all occurred in areas equipped with retention systems, thus preventing any ground and surface or deep water contamination.
- An accidental spillage of process oil, which was immediately contained.

## THE NEW CENTRE OF INDUSTRIAL EXCELLENCE IN SETTIMO TORINESE

On 13 July 2007, Pirelli Tyre signed a framework agreement in Turin with the Piedmont Regional Authority, the Turin Provincial Authority, and the Municipality of Settimo Torinese, for the creation of a state-of-the-art technology and industrial centre for the manufacture of car and truck tyres in Settimo Torinese area, where the Group Company currently has two facilities.

The industrial regeneration plan will pave the way for the inauguration of a new and modern centre that will harness leading-edge production technology developed through Pirelli research, thus making it the Group's most advanced manufacturing plant in the world. In line with Pirelli sustainable development strategies, it will adopt measures to **reduce environmental impacts and energy consumption to the absolute minimum** and will feature high quality architecture and design. As part of the industrial regeneration, Pirelli Tyre and Turin Polytechnic have



agreed to conduct joint projects for research and technological innovation. In June 2007, the company and the university set up a joint working group tasked with minimising the environmental impact of the new industrial site and, in particular, with the further innovation of the more advanced processes and products of Pirelli Tyre's research (i.e. Next MIRS, CCM, and the "smart" Cyber Tyre).

## TYRE PRODUCTION

### 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 requires great precision.

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

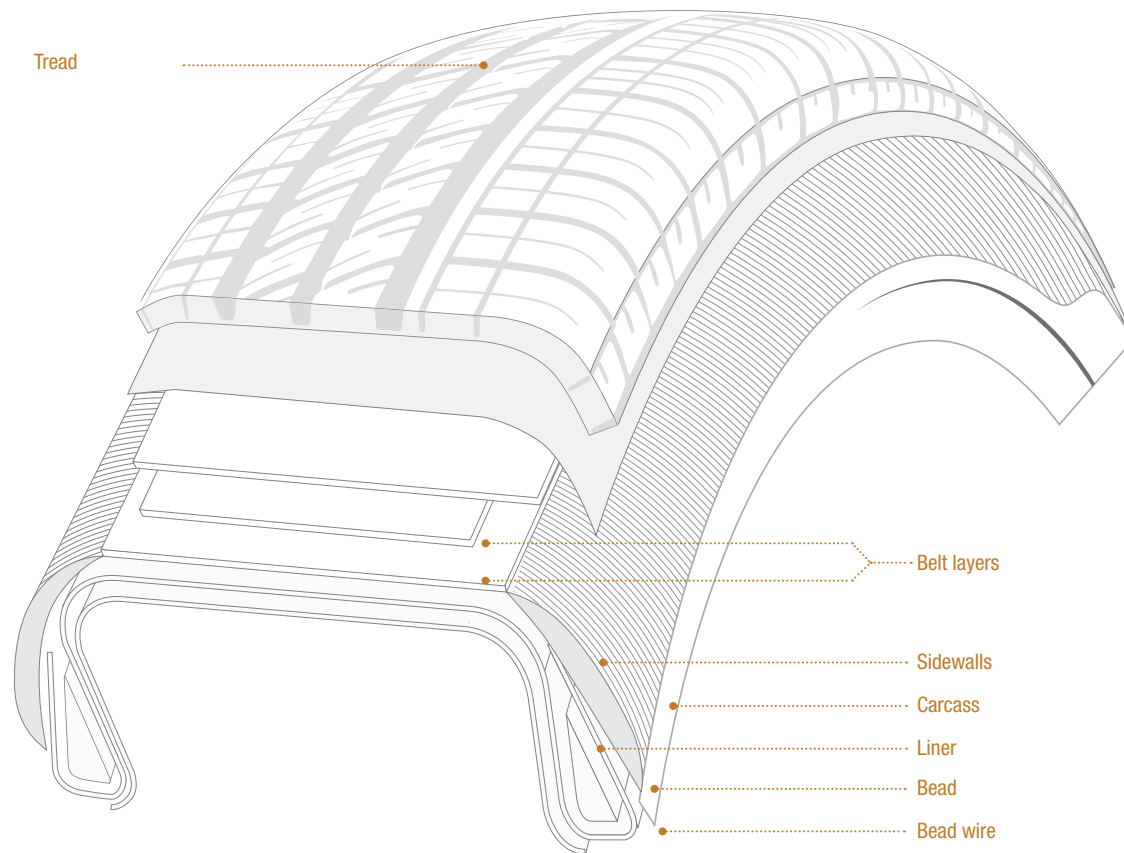
- Raw materials that make up the compounds (including natural and synthetic rubbers, reinforcing fillers, plasticisers, ingredients for vulcanisation, and protectors, such as anti-ageing and anti-ozonant agents).
- Raw materials that make up the structure of the tyre (including brassed steel wire for the bead wires, steel cord for the metal ply, and treated raw fabrics for the rubberised bonded fibre ply fabrics).
- Auxiliary raw materials that, although they are used in the production process, do not form part of the finished tyre and are considered as "auxiliary" (anti-adhesive agents, releasing agents, bonding agents etc.), plus 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.

In particular:

- **Innerliner:** 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 as 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:** two metal rings made of one or more parallel rubberised wires. The carcass plies are wrapped around the bead wires.

## COMPOSITION OF A STANDARD TYRE



**SOURCE:** Life cycle assessment of an average european car tyre

— **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, they protect and reinforce the carcass.

— **Belt layers:** made up of plies, reinforced with very thin but 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.

### The tyre production process

In general, tyre production follows the phases described below:

1. **Compound preparation:** the process begins with the production of compounds in large, fully-enclosed Banbury mixers, which process the raw materials to correctly distribute the various different ingredients. Each raw material has

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

2. **Fabric rubberisation:** achieved through a process of calendering, which consists of applying two sheets of rubber on both sides of the fabric. The bonded fibre ply fabrics are generally purchased from third parties in pieces and then fed into the fabric calenders, which perform the rubberisation. The metal fabrics, made of hundreds of steel cords perfectly aligned and then bonded, undergo the same process.
3. **Semi-finished products:** these are individual elements that are bonded together in the tyre-building phases, and constitute the actual tyre. They may be classified into groups, based on the type of processing they undergo (e.g. bead wires, drawn wires, fabrics etc.).
4. **Tyre-building:** this is the phase where all the semi-finished materials are brought together to be bonded and made into a tyre. It is normally separated into two successive phases: the first produces a carcass which is made up of body-plyes, bead wires and sidewalls, whereas the second phase leads to a tyre composed of all the semi-finished products (known as a “green tyre”) ready to be sent to the final phases of painting and vulcanisation.
5. **Painting and vulcanisation:** the inside of the “green tyre” is treated with an aqueous solution to form a protective layer so that the tyre is easily detachable from the vulcanising chamber. The green tyre is now ready for vulcanisation, an irreversible process generated by an increase in temperature and pressure to obtain the required shape and elasticity characteristics of the tyre. During this phase the raw compound, with mainly plastic properties, is transformed into a vulcanised compound, with mainly elastic properties. The tyres are vulcanised on special machines that use moulds to determine the final shape of the tyre.
6. **Finishing:** the vulcanized tyres undergo a series of visual and instrumental checks to ensure their safety and reliability. The tyre is now ready to be sold on the market.

### The environmental impacts associated with a tyre

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 adopted to analyse the life cycle of an average European car tyre. The analysis was carried out together with the major European tyre makers (*“Life Cycle Assessment of an average European car tyre”* - Prè Consultants B.V. on behalf of BLIC, 2001), 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 .....), as shown in the figure further below.

### The environmental impact of the production phases

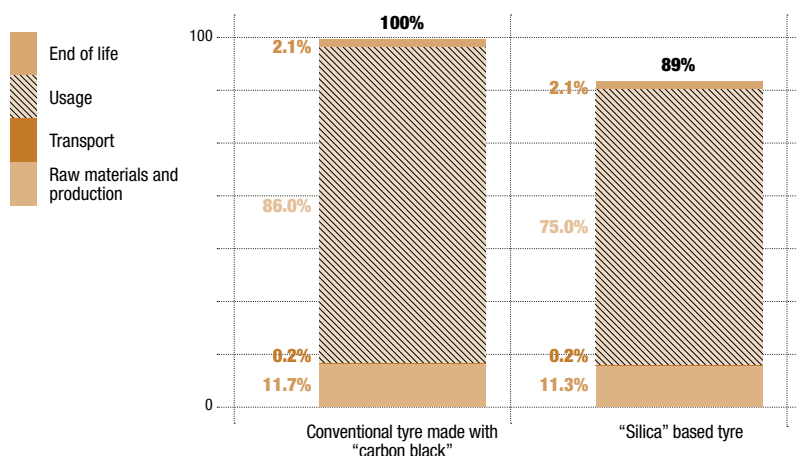
The results of the application of the above mentioned methodology highlight the contribution of the raw materials supply and production stages, which together determine approximately 12% of the total impact (approx. 10% and 2% respectively). The chart also shows a significant reduction in consumption (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 during the usage phase

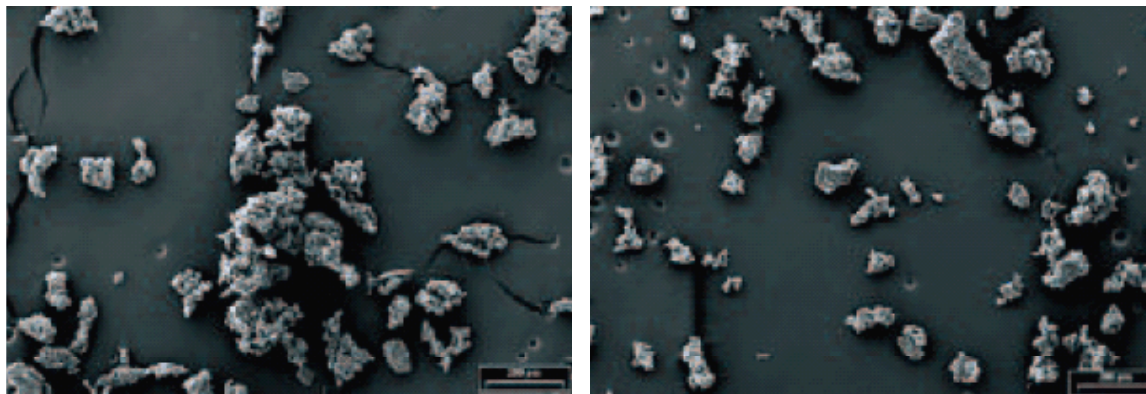
The most evident result of the study is the significant environmental impact associated with the usage phase of the tyre that, for a 'traditional' tyre, accounts for 86% of the total impact. On average tyres account for around 20% of a car overall consumption, and this partly explains the high environmental impact generated during their use.

#### THE ENVIRONMENTAL IMPACT DURING THE USAGE PHASE

Comparison of the distribution of the potential environmental impact of two types of tyres



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 this friction (the so called tyre debris). 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.



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 in the specific work group set up under the aegis of the *World Business Council for Sustainable Development* (mentioned above).

Granulometric fraction under 100  $\mu\text{m}$  from the debris generated by a truck tyre (left) and a car tyre (right)

To minimise 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 that, through the use of new materials, innovative internal structures and new tread designs, are 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, at the same time however it has to guarantee reduced fuel consumption and the consequent environmental impact, due to the inevitable friction.

**This is where the New Pirelli Cinturato fits in.**

### The New Pirelli Cinturato, the GREEN tyre

The new Pirelli Cinturato product range has been designed and developed by the Group's in-house laboratories in order to meet the latest market demands and facilitate sustainable mobility. Environmental friendliness, safety and performance are the essential features of the new Cinturato, whose innovative compounds, structure and tread patterns, ensure lower consumption and carbon dioxide emissions, higher mileage and improved safety characteristics in both wet and dry conditions.

In particular, the new Cinturato, available in tread models P4 and P6 and featuring ECOIMPACT symbols on the sidewall, allows a 20% reduction in rolling resistance and up to 4% in energy consumption, increasing overall mileage by 30%.



[www.pirellityre.com](http://www.pirellityre.com) > Cinturato





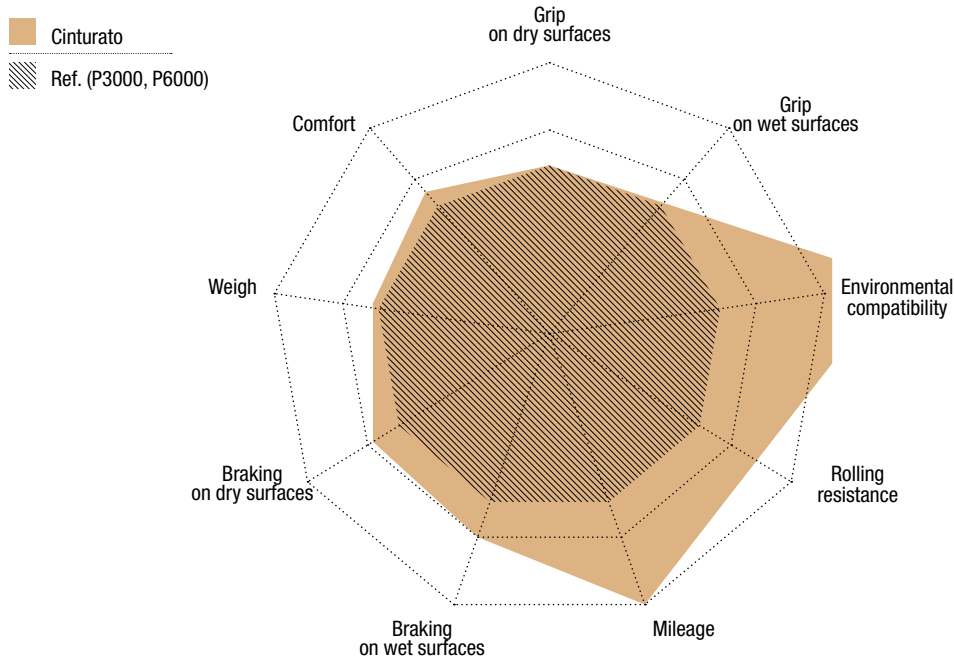
The new Pirelli Cinturato, the green tyre

Pirelli research has produced innovative structures, materials and tread patterns that enable the new Cinturato tyres to reduce rolling resistance, i.e. the wasted energy generated by the friction between road and tyre, thus guaranteeing lower fuel consumption without compromising performance.

Furthermore, the Cinturato product range provides high mileage and contains no aromatic oils in the tread responsible for particulate, one of the main causes of urban pollution: as the tread wears down it normally releases particles into the atmosphere containing potential pollutants.

The removal of aromatic oils from the tread compound anticipates the relevant European regulations due to come into force from January 2010. The tread pattern also provides improved acoustic comfort with a reduction in tyre noise levels both inside and outside the vehicle.

## THE ECO-SUSTAINABLE PERFORMANCE OF THE NEW PIRELLI CINTURATO



Further details of the eco-sustainable performance of the New Pirelli Cinturato are provided below:

— **Lower rolling resistance:** reduced consumption and CO<sub>2</sub> emissions. The new Cinturato cuts rolling resistance by 20% thus providing savings of up to 4% in terms of fuel consumption and harmful emissions. Rolling resistance is the opposing force of the tyre to vehicle movement, i.e. energy dissipated while driving. Along with mechanical strength and air resistance, rolling resistance impacts on fuel consumption and carbon dioxide emissions. Rolling resistance depends on factors both outside (vehicle speed and weight, type of road surface, atmospheric temperature and tyre pressure) and inside the tyre, such as structure, compounds and tread pattern. In designing the new Cinturato, Pirelli has made changes to these factors, introducing innovative solutions covered by Pirelli patents.

— **Better mileage:** thousands more miles. The new Cinturato's tread compound has been reinforced with specific ingredients in order to extend tyre mileage life without sacrificing grip characteristics. Furthermore, the tyre geometry has been completely redesigned, from sidewall to tread, in order to strike the right balance between rolling resistance, mileage and safety. The average life of the new Cinturato in terms of distance covered has increased by 30%. This means that the average motorist will now replace his or her tyres every four years instead of every three.

— **Removal of harmful substances.** Pirelli has eliminated aromatic oils from the new Cinturato's compounds, two years ahead of the forthcoming EU Directive. Aromatic oils are polycyclic aromatic hydrocarbons present in tyres in the form of free

oils and oil-extended polymers. As the tread wears they contribute to the composition of particulate, and are potentially harmful to human health. For the new Cinturato, Pirelli researchers have studied new polymers and new procedures for making the compound that do not affect the tyre performance and safety specifications.



The "ecoimpact" symbols on the sidewalls of the Pirelli Cinturato

— **Greater safety:** improved braking on both wet and dry surfaces. Safety, which along with high performance has always been the hallmark of Pirelli research and was already brought to maximum levels by the Cinturato back in the Fifties, is the other essential cornerstone underpinning the new Cinturato's design. Pirelli P4 and P6 guarantee greater safety under all weather conditions. In particular, there is improved grip when cornering in the wet and, above all, a reduction in braking distances. On wet surfaces, the stopping distance is reduced by 11%, while on dry surfaces the braking distance is also significantly reduced.

The new Cinturato will be manufactured at the plants in Bollate (Italy), Izmit (Turkey), Manresa (Spain) and Carlisle (UK), and several leading car manufacturers have already chosen it as original equipment on their most popular models.

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 life cycle – phases that are only indirectly or partially related to the Group's activities. These include *the selection of raw materials* and *the rational use of natural resources and energy*.

The following initiatives have been implemented in the selection of raw materials, to reduce the use of substances harmful to humans and the environment as far as possible:

— Systematic assessment of the eco-toxicological characteristics of any new *chemical* before its introduction into the produc-

tion 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 2007 approximately one hundred new raw materials were 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 main 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™ (*Modular Integrated Robotized System*).

### Sustainable management of Processes: 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 large number of ingredients required 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% in energy consumption per unit of product.



The "gravimetric feeders" feed in the ingredients.



## Sustainable management of Processes: 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.

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.



Pirelli MIRS™ automated production system

The drum rotation and compound feeding movements are coordinated to provide 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.

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, in terms of both technology and logistics, as it can be easily located near the manufacturing process that it serves.

## End-of-life management of tyres

A tyre 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 fragmented ELTs from July 2006).

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.

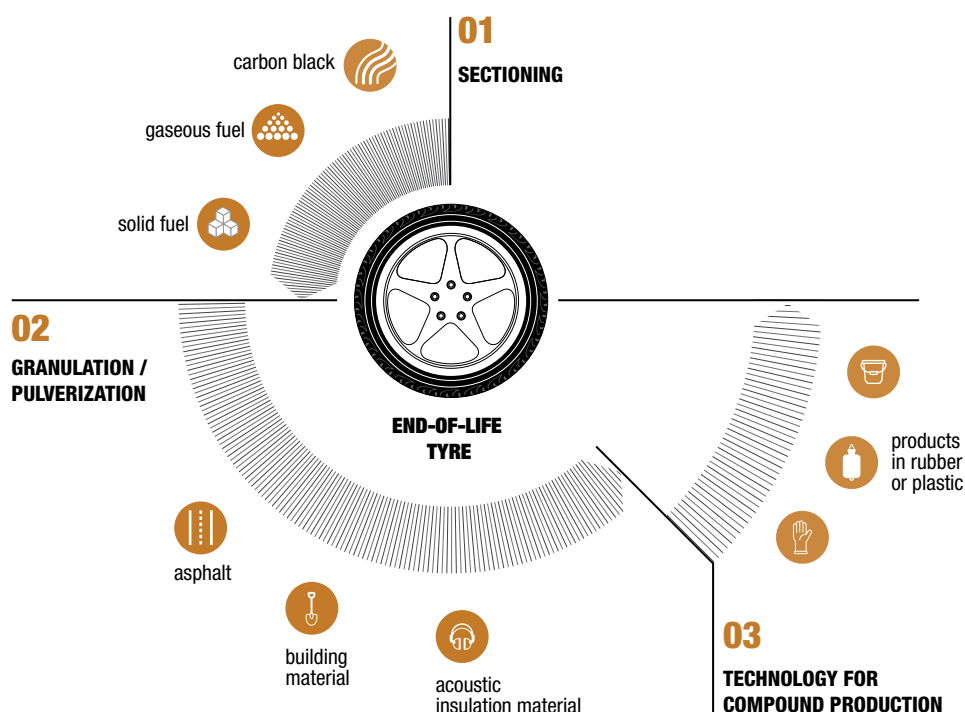
Thanks also to the commitment of Pirelli Labs a number of projects have been developed in the fields of **tyre recycling** and **energy recovery**.

The activities in question focus on the recovery of materials, for example through "granulation" that, once the 'fabric' and 'metal' fractions are separated, provides a rubber granulate that may in turn be ground further to produce a finer powder.

[www.pirellilabs.it](http://www.pirellilabs.it)

> Material Innovation > Sustainable Development > Tyre Recycling

## TYRE RECYCLING DIAGRAM



## Summary of environmental performance of tyre production


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

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

- Water consumption (expressed in m<sup>3</sup>/tonne finished product).
- Energy consumption (expressed in GJ/tonne finished product).
- Solvent consumption (expressed in kg/tonne finished product).
- Waste production (expressed in kg/tonne finished product).
- Equivalent emissions of CO<sub>2</sub> and NO<sub>x</sub> (expressed in tonnes/tonne finished product and kg/tonne finished product respectively).
- Presence of dielectric oils containing PCBs and/or PCTs (with concentrations higher than 50 ppm).
- Presence of ozone depleting substances (in kg).

#### SUMMARY OF ENVIRONMENTAL PERFORMANCE OF TYRE PRODUCTION

	2007*	2006*	2005	2004	2003
Water specific consumption [m <sup>3</sup> /tonne FP]	16.44	17.08	16.72	18.60	19.55
Energy specific consumption [GJ/tonne FP]	8.27	8.11	8.24	9.19	10.96
Solvent specific consumption [kg/tonne FP]	4.12	4.27	4.05	3.40	3.11
Dielectric oils containing PCB / PCTs >50 ppm [Kg]	7990	7990	11675	15613	21491
Ozone depleting substances [kg]	7694.0	8856.9	8587.7	9730.9	10445.3
Specific hazardous waste [kg/tonne FP]	8.19	8.34	7.51	8.20	7.12
Specific non-hazardous waste [kg/tonne FP]	94.42	96.30	93.39	94.80	90.29
Waste recycled [% of total waste]	73.3	73.6	68.8	71.9	60.6
Specific CO <sub>2</sub> emissions [tonne/tonne PF]	0.72	0.73	0.73	0.84	0.95
Specific NO <sub>x</sub> emissions [Kg/tonne PF]	1.372	1.373	1.38	1.68	1.83

 For the Yanzhou factory (People's Republic of China), which is currently still in the expansion phase, only the parameters relating to energy and water consumption have been taken into consideration, with the data for 2006 recalculated taking this into account.

As can be seen in the table above all the parameters have improved except for energy consumption. The setting up of new facilities contributed significantly to the increase in production figures, which rose from over 890,000 tonnes of tyres produced in 2006 to over 920,000 in 2007.

#### PRODUCTION OF STEEL CORD, HOSE WIRE AND BEAD WIRE

As mentioned in the introduction to the subsection on Pirelli Tyre S.p.A., 20% of the operational units in the Tyre Sector are managed by the **“Steel Cord” business unit**, for the manufacturing of steel cord, mainly used in the tyre manufacturing process.

The five Operating Units managed by the Pirelli Tyre S.p.A.’s Steel Cord Business Unit are located in Brazil, Germany, Italy, Turkey and Romania.

There are three types of final product from the steel cord technological cycle:

- The actual steel cord, composed of several wires (drawn and brassed), used to strengthen the tyre structures.
- A single brassed/drawn wire, used to strengthen the rubber tubes intended for high pressure use.
- A drawn shaped zinc wire, used for strengthening the beads of truck tyres.

The steel cord is used in the production of tyres and also for the making of semi-finished products known as metal fabrics. It constitutes the metal reinforcement for the “belt” (in all radial tyres) and for the carcass solely for the all steel truck tyres.

The bead wire produced by the Steel Cord Business Unit (B.U.S.) is a product patented by Pirelli Tyre S.p.A. and makes up the metallic reinforcement of the truck tyre beads.

The hose wire is a product used in the automotive sector and usually constitutes the metal reinforcement of the high pressure water hoses.

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

### The production process

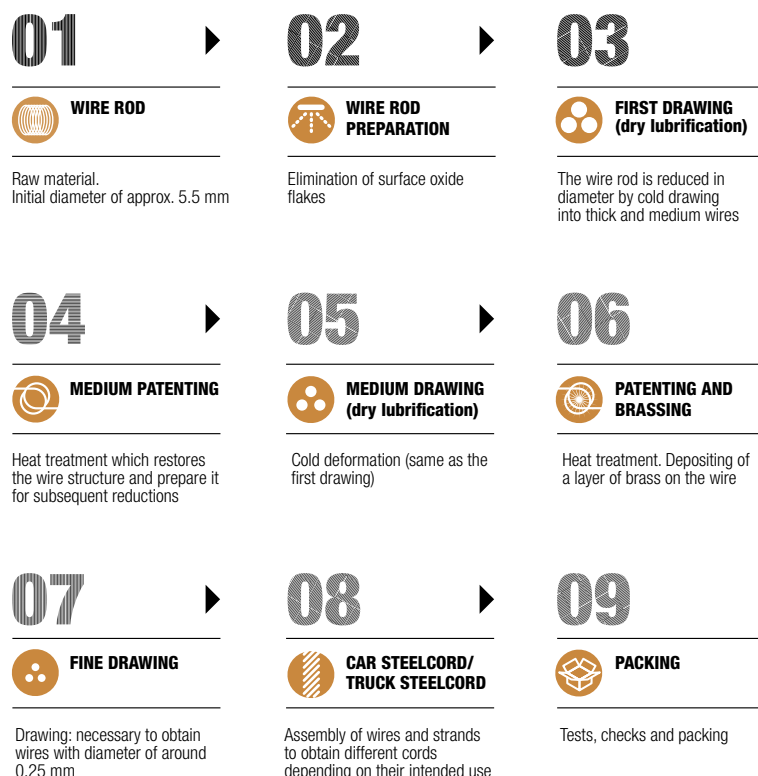
The processing of **steel wire rod** may be broken down into the following phases:

1. **Stripping and preparation of the wire rod:** removal of the flakes (surface iron oxide) formed during the hot-rolling process in the steelworks and of a deposition of a surface preparation salt.
2. **First drawing:** the prepared wire rod is reduced in diameter via a cold deformation process known as drawing. The end products of this phase are divided into thick wires (diameter of 2.5 – 3 mm) and medium wires (diameter of 1 - 2 mm).
3. **Patenting for thick wires:** the heat treatment required to restore the wire's structure and prepare it for subsequent reduction by cold drawing. The heat treatment usually takes place in a furnace at a temperature of approximately 1,000°C, followed by cooling in molten lead at approximately 550°C.
4. **Second drawing for medium wires:** a cold deformation process similar to that described in phase 2 above.
5. **Patenting and brassing** (for medium wires and for wires produced by phase 4 above): In this phase, the patenting is similar to that described in phase 3, and the brassing process consists of depositing a very thin layer (2 ÷ 4 microns) of brass (with a zinc content of approximately 30%. This is necessary for the rubber compounds to adhere to the bead wires.
6. **Third drawing:** required to obtain wires with diameters used in production (in general these diameters are around 0.25 mm). In this phase, both the wire and the die are immersed in lubricating baths made up of synthetic oils in water emulsion.
7. **Stranding:** the wires are assembled into strands, numbering from 2 to 10, which may in turn be further assembled to make larger strands.

8. **Cording:** assembly of single wires and strands to make cords of varying complexity, geometry and number of components, depending on their intended use (for car tyres, truck tyres etc).
9. **Testing and packaging:** the product undergoes tests and checks, usually on statistical basis.

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#### DIAGRAM OF THE STEEL CORD PRODUCTION PROCESS



The **hose wire** production cycle is essentially the same as the steel cord cycle, stopping at the third drawing, with a range of diameters from 0.30 to 0.80 mm.

The production cycle for **bead wire** is also the same as the steel cord cycle, stopping at the first drawing performed using special shaped dies. The drawing is followed by a process of zinc deposition.

#### Summary of the environmental performance of steel cord production

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

In line with the Group's previous environmental reports, the following factors and their environmental indicators for the last 5

years have also been considered for this business unit:

- Water consumption (expressed in m<sup>3</sup>/tonne finished product).
- Energy consumption (expressed in GJ/tonne finished product)
- Waste production (expressed in kg/tonne finished product).
- Equivalent emissions of CO<sub>2</sub> and NO<sub>x</sub> (expressed in tonnes/tonne finished product and kg/tonne finished product respectively)
- Presence of ozone depleting substances (in kg).

#### SUMMARY OF THE ENVIRONMENTAL PERFORMANCE OF STEEL CORD PRODUCTION

	2007	2006	2005	2004	2003
Water specific consumption [m <sup>3</sup> /tonne FP]	9.5	9.5	9.1	11.10	11.60
Energy specific consumption [GJ/tonne FP]	11.19	11.26	11.43	10.94	11.62
Ozone depleting substances [kg]	159.5	100.0	130.0	120	70
Specific hazardous waste [kg/tonne FP]	65.67	50.26	48.02	59.15	46.02
Specific non-hazardous waste [kg/tonne FP]	110.6	129.9	133.0	114.2	125.9
Waste recycled [% of total waste]	53.3	49.7	60.3	60	60.6
Specific CO <sub>2</sub> emissions [tonne/tonne PF]	1.147	1.15	1.16	1.12	1.14
Specific NO <sub>x</sub> emissions [Kg/tonne PF]	2.32	2.32	2.30	2.35	2.41

The following may be said about the environmental indicators:

- Water - the good indices of consumption recorded since 2005 have been maintained, albeit with a worsening steel cord mix due to the larger amounts of truck products that “consume” more water because they are all cords made in 2 phases (thick wire patenting and patenting and brassing).
- Energy – as above (negative mix).
- Hazardous waste – the significant increase was due to a recent amendment to the legislation in Brazil in 2007, which led to a change in the classification of industrial wastewater treatment sludge, now considered as hazardous waste.
- Non-hazardous waste – the fall in this indicator is due to the above mentioned change in the classification of hazardous waste.
- Waste recycling – an improving trend due to the maximisation of separate waste collection.
- CO<sub>2</sub> and NO<sub>x</sub> emissions – there were no significant trends.
- Ozone depleting substances – a worsening trend due to the maintenance of air conditioning systems.

#### ENVIRONMENTAL TARGETS OF PIRELLI TYRE

The targets set for 2007 (a 3% reduction in water and energy consumption for the entire Tyre Sector) were only achieved for water consumption (-3.7%). For 2008, the same target of 3% has been set for energy consumption.



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

Pirelli RE is one of the foremost Italian companies operating in the area of large-scale urban development projects and 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 has paid particular attention from the outset to the management of the economic, environmental and social factors that come into play in its local development projects. The continuous engineering of processes ensures the efficient management and implementation of all the various phases of development.

Based on the idea of the town as a public good, Pirelli RE believes that urban development must be underpinned by respect for the local heritage (environmental, historical and cultural) combined with openness to sustainable innovation, capable of meeting the needs of current and future citizens, increasing their wellbeing and quality of life and creating new attractions and opportunities for development for the local area.

This approach spans from urban development as a whole to the individual building, integrating multi-disciplinary knowledge and skills with a range of specialisations. This involves working at many different levels and taking care of both aesthetic-functional and eco sustainability aspects, as well as of the “soft-qualities” and living comfort of the buildings.

Pirelli RE addresses its environmental impacts in three main ways:

1. The monitoring and reduction of the environmental impacts of activities in the company's sites.
2. Offering customers who are property owners solutions designed to reduce the potential environmental impacts deriving from the running of the properties.
3. 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.

Pirelli Real Estate uses specific Management Systems to improve the quality, effectiveness and efficiency of its processes. In 2002, the company Pirelli & C. Real Estate Facility Management started up its **Environmental Management System**, which was certified as meeting the requirements of the ISO 14001 standard. The company Ingest Facility, acquired in 2007, has also been certified to the ISO 14001 standard. This certification extends to all the sites coordinated by the Milan office.

The certified process covers 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 operation sites coordinated by the Milan office.

The central coordination by the Quality and Processes Department ensures that all operations of the Group companies, involved in the provision of various different services, are conducted in compliance with consistent quality criteria and meet internationally recognised standards. The system is supported by internal controlling and reporting on process quality (also linked to the company's IT systems) and by customer satisfaction surveys.

Further information on the Environmental Dimension of the Real Estate Sector is available in the Sustainability Report of the subsidiary Pirelli & C. Real Estate S.p.A..

## ECO-SUSTAINABLE DEVELOPMENT

In 2007, Pirelli RE launched **"Ecobuilding"**, the first integrated eco-sustainable program by a real estate operator, for environmentally friendly construction.



[www.ecobuilding.pirellire.com](http://www.ecobuilding.pirellire.com)

The program involves new development projects in every market sector, from residential to commercial, and will now form the basis for all future projects initiated by Pirelli RE.

Ecobuilding is based around four core principles: **energy efficiency, use of eco-compatible materials, use of renewable resources, and living comfort.**

The combination of solutions adopted by the program ensures the achievement of high standards of quality, eco-sustainability and energy saving, ahead of any regulatory changes. Significant environmental benefits include the reduction of CO<sub>2</sub> emissions, the lower amount of electricity required to meet building needs and an increasing use of renewable sources.

Some examples of the Ecobuilding development projects are provided below, particularly in the residential and office sectors.

**Project "Eastgate Park"** - The first example is Eastgate Park, an innovative integrated industrial park, which won the *"Premio Urbanistica"* (Urban Planning Prize) at the Urbanpromo 2006 for the high quality environmental standards achieved by the project, which blends in with the surrounding area and meets the criteria of environmental and socio-economic sustainability.

**Golfo Aranci Project** - The holiday homes of this project have also adopted innovative construction systems that promote energy saving and improve living comfort.

**Re-conversion into offices of Breda area in Bicocca** - This project won the tender in 2007 for the re-conversion into offices of the former canteen and reception building of the Breda industrial complex in Bicocca. The project stood out for its adoption of innovative construction solutions meeting the criteria of environmental sustainability.

**Project “Malaspina”** - 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, was devised with particular attention to wellbeing and quality of life, allowing people to live and work in an attractive 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>.

**Phase 2** of the Malaspina project is complete. Thanks to the design choices the project achieved a Class B energy certification. An achievement that is all the more significant considering that, even though building permission was received prior to the entry into force of the Italian Legislative Decree 311/2006 and therefore without any requirement for energy efficiency certification, the design already reflected the awareness of energy saving as the first step towards eco-sustainability.

The target set for the completion of **Phase 3** (at Pioltello) of the Malaspina Project is the achievement of *class A energy efficiency*. This improvement from class B to A energy efficiency saves around 20 KWh/m<sup>2</sup> per year that, for a 100 m<sup>2</sup> apartment, corresponds to a saving of around 180-200 euro/year, and a considerable reduction in CO<sub>2</sub> emissions .

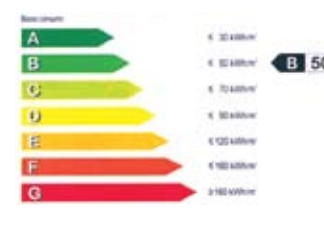
The following choices were designed to achieve consistent energy saving:

- **District heating and air-conditioning system.**
- **Thermal cladding** - an external panel based insulation system for the building shell that, in terms of energy efficiency, results in an *improvement of around 10%, all other factors being equal*.
- **Controlled ventilation system** with recovery of heat from the extracted air and re-emission into rooms, thus reducing energy consumption for the heating of air from the outside. In addition to ensuring constant clean air, this system also achieves significant energy saving (20%) compared to buildings with building shell insulation alone.
- **Quality of the door and window frames**, in aluminium with thermal break, with argon gas double glazing and low emittance coating.

The measures aimed at energy saving have also been accompanied by the objectives of living, thermal, acoustic and environmental comfort, pursued through the following:

- **Thermal comfort:** all the premises are heated and cooled through a system of ceiling radiating panels that, using radiation to transmit thermal energy (hot and cold), provides uniform distribution.
- **Acoustic comfort**, obtained through the use of: a shell consisting of cavity walls and door and windows stratified double glazing; noise absorbent panels in the dividing walls between the apartments; recycled rubber pads for impact sound insulation inside the inter-storey flooring; insulation of the piping for installations; and radiant ceiling, which are quieter than fan coils.

#### BUILDING ENERGY EFFICIENCY CLASSIFICATION



- **Environmental comfort:** The homes are located within an environment with high standards of air quality because: the district heating replaces the use of fuel to be burnt; ecoactive photocatalytic paint has been used on façades of the new buildings, a coating that reacts to light activating a process that converts harmful substances into harmless ones, thus cleaning the air.

**“Headquarters 2” (HQ2) project** - This new project known as Headquarters 2 is the extension of the existing headquarters HQ1 that will house the Pirelli RE offices. It involves a new building located right in front of HQ1, with a gross surface area of 12,070 m<sup>2</sup> distributed over five floors above ground and two underground floors for the garage. Below is a picture of the HQ2 building taken from the project.

The process is underway for the obtainment of an Environmental Certification from the iiSBE ITALIA organisation that, using the GBC system developed as part of the international Green Building Challenge process, classifies a building assigning it a level of sustainability on the basis of its compliance with various requirements that make up its protocol.

Particular attention was paid to the design of the shell, making structural choices that, based on the building’s “exposure” and through district heating, allow much lower energy consumption than the required minimum that will come into force from 1<sup>st</sup> January 2010. This translates into a 20-30% economic saving compared to the costs of a standard building.

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Pirelli Headquarter 2 project

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A reduction in the consumption of drinking water is also provided for, through a system for the use of rainwater.

**“Giardini Viscontei” project** - The “Giardini Viscontei” project, a real estate development underway in Cusago (MI), is another example of Ecobuilding. Indeed, the design choices adopted are aimed at obtaining an innovative product built around the concept of sustainability “inside and out”.

The project, which at the time of writing this report has started its town-planning work, covers an area of over 16,000 m<sup>2</sup> and involves the construction of thirteen buildings of two to three floors on two plots, with a total of 200 apartments within a rural setting with low construction density, embedded in the nature and tranquillity of the countryside around Milan.

Thanks to the use of innovative technology, Giardini Viscontei has achieved a Class A energy efficiency rating, with the consequent reduction in terms of harmful emissions generated. To meet the requirements of the Ecobuilding project, attention was also focused on solutions designed to exploit renewable sources, such as the use of groundwater, the reuse of rainwater to irrigate green areas, and the use of a photovoltaic plant.

The use of coating in photocatalytic paint, the extensive green areas that characterise the site, the absence of CO<sub>2</sub> emissions, together with all the other choices mentioned, contribute to the achievement of a high level in internal and external living comfort.

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Pirelli RE “Giardini Viscontei” project

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## SUMMARY OF THE ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE PREMISES

A focus on the management of environmental impacts has above all led to Pirelli RE paying particular attention to the aspects of energy savings in its premises. A system of district heating (central heating supplied by AEM, via a remote central heating system that produces hot and cold water and then distributes it via underground pipes) has been used for the Milan headquarters. The same solution will be adopted by the HQ2, 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 Pirelli RE 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.

The tables below show the performance of Pirelli RE's key premises in 2007 in terms of the main monitored consumption. The 2007 figures shown below have not been compared with the 2006 performance because an homogeneous comparison could not be made due to the large number of internal movements of staff between the various offices. As a result, from 2008 consumption will no longer be monitored against the area of the buildings in square metres alone, but will also take into account the average size of the workforce in the offices during the year in question.

### ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE PREMISES – TOTAL CONSUMPTION

Total Consumption	Milan HQ	U7 Tower Milan	Rome Office	Naples Office	Total
Water (m <sup>3</sup> )	17,539	6,083	6,169	1,323	<b>31,114</b>
Electricity (MWh)	3,320	1,218	847	196	<b>5,581</b>
Fuel oil (Kg)	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	<b>n.d.</b>
Heat (MWh)	1961	350	Not present	Not present	<b>2,311</b>

<sup>1</sup> Heat supplied by the 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.

### ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE PREMISES – SPECIFIC CONSUMPTION

Specific consumption per m <sup>2</sup> ( <sup>1</sup> )	Milan HQ	U7 Tower Milan	Rome Office	Naples Office
	<b>27,078 m<sup>2</sup></b>	<b>5,121 m<sup>2</sup></b>	<b>7,339 m<sup>2</sup></b>	<b>1,619 m<sup>2</sup></b>
Water (m <sup>3</sup> /m <sup>2</sup> )	0.65	1.18	0.84	0.82
Electricity (MWh/m <sup>2</sup> )	0.12	0.24	0.11	0.12

<sup>1</sup> The figures refer to consumption per m<sup>2</sup> because part of the areas are occupied by other companies for which the headcount is not known.

The above is also accompanied by the monitoring of the quantity/type of special waste produced by the main offices of Pirelli RE and managed districts in 2007. The results are shown in the table below.

## ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE'S PREMISES – TOTAL WASTE

Total Waste	Milan HQ	U7 Tower Milan	Rome Office	Naples Office	Total
Non-Hazardous (Kg)	2,136	7,828	517	1,716	12,197
Hazardous (Kg)	226	73	0	1	300
<b>TOTAL</b>	<b>2,362</b>	<b>7,901</b>	<b>517</b>	<b>1,717</b>	<b>12,497</b>

## Pirelli & C. Ambiente S.p.A.

Pirelli & C. Ambiente S.p.A., a Pirelli Group company founded in early 2005, specialises in sustainable development technology and solutions, renewable energy sources, and photovoltaics. Thanks to the synergies with Pirelli Labs – the Group's advanced research centre – Pirelli Ambiente is able to offer the market a vast range of low environmental impact and high technology products.

Pirelli Ambiente owns the entire share capital of:

- Pirelli & C. Ambiente Renewable Energy – Renewable energy sources
- Pirelli & C. Ambiente Site Remediation – Environmental remediation

and 50%, in a joint venture with Global Cleantech Capital, of the share capital of - Solar Utility – Photovoltaic energy.



[www.pirelliambiente.com](http://www.pirelliambiente.com)

## PIRELLI & C AMBIENTE RENEWABLE ENERGY S.p.A.

Pirelli & C. Ambiente Renewable Energy has been operating for over four years in the field of renewable energy sources, particularly in the conversion of urban solid waste (USW) to energy. The company is also committed to the technical standardisation of waste-derived fuels, and contributes to the development and validation of technical specifications and analysis methods for the so called "Solid Recovered Fuels", which were made official by the European Union in 2007 through a special series of Technical Standards.

Pirelli & C. Ambiente Renewable Energy – in association with Pirelli Labs – has developed and patented a high quality **WDF** (Waste-Derived Fuel), whose unique features consist of its composition and methods of production and use.

Of particular significance is the recognition received by the company in 2006 from the **Clinton Global Initiative (CGI)**, (a foundation set up by former US President William J. Clinton to collect resources to tackle the macro-problems faced by the planet), for its "Commitment" to reducing CO<sub>2</sub> emissions by 5 million tonnes over 3-5 years in North America, Europe and Asia, through the spread of waste-to-energy technology.

Pirelli is also promoting industrial projects for the eco-sustainable management of urban waste at **international** level.

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> Renewable Energy

## Pirelli WDF-Q

Pirelli WDF-Q is obtained by adding a number of components with a high calorific power to the dry portion of USW. It may be used as a partial replacement for conventional fossil fuels in existing non specialist plants, such as cement works and thermo-electric power stations, with significant environmental benefits for the population in the form of lower emissions, particularly CO<sub>2</sub>, NO<sub>x</sub> and SO<sub>2</sub>, from fossil fuels, and economic benefits (in terms of lower waste disposal costs). The WDF-Q – High Quality Waste-Derived Fuel – is not composed of waste, but is instead a fuel obtained from the separation, processing and recomposition of a minimum of 50% of urban solid waste.

WDF-Q differs from normal quality WDF and other “waste-derived fuels” because it guarantees greater stability over time and better standards of quality in terms of calorific power, lower concentrations of pollutants and certainty of the biodegradable biomass content.

### **WDF-Q has many eco-sustainable benefits.**

First of all its biomass content, recognised in industrialised countries as a renewable energy source, of around 50%. This biomass is moreover “non-virgin”, i.e. originating from other production processes, thus avoiding the use of “virgin” biomass, obtained for example from wood from existing forests. Also, since the WDF-Q is employed in co-combustion in electric power plants and cement works, its use does not entail the building of new combustion plants, at the same reducing the use of fossil fuels.



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Pirelli Ambiente S.p.A. specialises in sustainable development technology and solutions

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The environmental and economic sustainability of energy recovery from “non-virgin” biomasses contained in urban waste was reiterated in 2007 by the UK Environment Agency in its “**Waste Strategy for England 2007**”, aimed at promoting the use of waste derived fuel through systems of incentives for the use of renewable energy sources.

A recent **study by Nomisma Energia** (an economic research company founded in Bologna, with twenty years of research experience in the sector) analysed the **benefits that could be obtained in Italy**, based on the assumption of a potential consumption of 3.7 million tonnes, which would allow the use of around 8 million tonnes of urban waste:

- Promotion of separate waste collection and reduction of urban solid waste disposal by around 6.5 million tonnes per year.
- Reduction of CO<sub>2</sub> emissions, the main greenhouse gas, of 7 million tonnes per year. This would represent one of the most effective measures to achieve the Kyoto targets.
- Increase in electricity generation from renewable sources of 2.7 terawatt hours (TWh) per year, equal to the consumption by a million families.
- Energy saving of 0.33 million tonnes oil equivalent (Mtoe) per year in cement works, against a national target of 2.9 Mtoe in 2009.

In addition, according to a study by the Bicocca University of Milan, conducted using the Life Cycle Assessment (LCA) method, the use of WDF-Q is respectively **90 and 72 times more environmentally friendly** than alternative solutions like landfills and waste-to-energy incinerators.

In Italy, the integrated system promoted by Pirelli Ambiente Renewable Energy has been operating successfully since 2003 in the Cuneo Province, through the mixed public-private company **Idea Granda**, 49% owned by Pirelli and 51% by the municipal body ACSR - Azienda Cuneese Smaltimento Rifiuti.

Since the start-up of this system the percentage of recovery of energy from waste in the area has risen to 32%, which is higher than both the Italian average (7%) and, more importantly, the European average (27%). In the cement works in question, the use of WDF-Q in 2007 resulted in a reduction of CO<sub>2</sub> emissions into the atmosphere of over 36,000 tonnes (+ 20% compared to 2006).

Each tonne of WDF-Q used in co-combustion saves 1.75 tonnes of CO<sub>2</sub> and reduces NO<sub>x</sub> emissions by 20% (approximately 360 tonnes), thus making a significant contribution to the achievement of the targets accepted by Italy for the Kyoto Protocol.

## PIRELLI & C. AMBIENTE SITE REMEDIATION S.p.A. – ENVIRONMENTAL REMEDIATION

Pirelli & C. Ambiente Site Remediation S.p.a. has been operating successfully since the nineties in the remediation, redevelopment, and enhancement of brownfield industrial sites.

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, and also to Pirelli & C. RE in the acquisition and environmental remediation of new brownfield areas and/or property assets.

Pirelli & C. Ambiente Site Remediation's scope of operations ranges from the preliminary assessment of environmental liabilities (Environmental Due Diligence) of property assets and/or sites possible targets of property broking services, to the development of the necessary engineering activities and management of relations with the relevant authorities, through to complete remediation and redevelopment of the areas, while safeguarding the environment and meeting any time constraints or specific requirements of the customer.

The company offers a vast range of solutions for the **Environmental Reclamation of contaminated sites**, using its specialist technical expertise in soil remediation to satisfy the wide-reaching requirements of the overall process of urban and land redevelopment. It also assists building and building services designers, by providing ideas for high-quality, highly energy efficient and environmentally friendly solutions.

This is based around four core principles:

- **Energy efficiency**, not only for winter heating, but also for summer cooling.
- Use of **eco-compatible materials**.
- Use of **renewable resources**.
- Living **comfort**.

At the end of April 2007, Pirelli & C. Ambiente Site Remediation S.p.A. obtained the SACERT certification (system of accreditation for building certification organisations), which allows the company to conduct building energy assessments, classify the buildings, prepare the Energy Qualification/Certification certificates, and to research solutions designed to improve the building's energy performance.

The requirement for this type of certification follows the adoption by the Member States of the European Community of the Directive 2002/91/EC on the energy performance of buildings, whose principal goal is to promote energy saving by reducing the energy consumption associated with buildings, which represents almost a third of the European Union's energy needs.

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

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> Site Remediation



Total surface area redeveloped or undergoing redevelopment	approximately 3,400,000 m <sup>2</sup>
Buildings demolished	approximately 3,900,000 m <sup>2</sup>
Environmental due diligence of areas	approximately 6,500,000 m <sup>2</sup>
Environmental due diligence of buildings	approximately 6,000,000 m <sup>2</sup>
Large-scale remediation projects via on-site remediation	4
Large-scale remediation projects involving site safety measures	4
Energy efficiency certification	approximately 700,000 m <sup>2</sup>

## SOLAR UTILITY S.p.A.

Solar Utility S.p.A. is a 50/50 joint venture between Pirelli Ambiente, supplier of environmental solutions, and Global Cleantech Capital, a leading investor in the renewable energy sector in Europe and North America, specialising in solar energy, green building, wind energy, bio-energy and advanced materials, with the aim of increasing renewable energy production and energy efficiency, thus driving the decrease in carbon use.

[www.pirelliambiente.com](http://www.pirelliambiente.com)

> Solar Utility

Created in 2007 through the union of these two major players, Solar Utility is a photovoltaic electricity producer. It provides **100% green energy** to end-users at competitive prices and has an ambitious investment program in Italy aimed at the development, construction and management of its own photovoltaic plants, with an installed capacity of 50 MW over the next 5 years.

In implementing its investment program, Solar Utility works closely with Pirelli & C. Real Estate Facility Management, a leading operator in Italy. Its operations are mainly focused on “integrated” installations on buildings, optimising Pirelli Group’s expertise and work in the real estate sector, with projects also aimed at the removal and replacement of large-scale asbestos roofing.

One of the first Solar Utility’s Projects in 2007 was the convention with the Municipality of Alessano (Lecce) for the construction and management of photovoltaic plants on buildings and lands owned by the Municipality.

The Municipality will achieve significant economic savings through this project, thanks to the significant size of the photovoltaic plants (from 1.1 MW), which will provide an annual production of “clean” electricity of over 1,600,000 kWh, equivalent to the energy consumption of more than 600 families.

Solar Utility also meets the requirements of the Italian Decree “*Conto Energia 2007*”, governing the national feed-in tariff for the solar electricity production.

Like the other Pirelli Environment companies, at Solar Utility business is effectively and efficiently combined with significant environmental and public health benefits.

## Pirelli Eco Technology S.p.A.- Technologies for Sustainable Development

Pirelli Eco Technology operates with considerable success in the sustainable development technology sector, with the objective of drastically reducing the particulate emitted by diesel engines and power stations. The company is a member of the European Emulsion Fuel Manufacturers' Association (EEFMA) and the Italian Particulate Filter Manufacturers' Association (AIFP).

Eco-sustainability forms the DNA of Eco-technology's products like the **GECAM**, the **white diesel™** and **Feelpure™** antiparticulate filtering systems, described below.

### GECAM, THE WHITE DIESEL™

GECAM™ - patented by the Group - is an emulsion of water (10%) in diesel oil for use in vehicles and heating systems that reduces particulate emissions by 50%.

The tests performed on GECAM™ by the European Commission Joint Research Centre in Ispra and Eni Tecnologie Laboratories showed reductions of over 50% in particulate emissions, 5-6% in nitrogen oxides, and over 30% in carbon monoxide.

Pirelli Eco Technology received a **Special Award** for the GECAM™ emulsified diesel and its innovative solutions in sus-



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> Eco Technology



GECAM™, the White Diesel™, received a special award in 2005

tainable 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).

The sales of **Gecam** for 2007 has consolidated in the passenger transport, waste collection and mining sectors.

## FEELPURE™

Feelpure™ è is an exhaust gas treatment system capable of **reducing particulate emissions by over 90%**, 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, which detects counterpressure at the exhaust and the exceeding of alarm thresholds. It doses the additive to be added to the fuel on vehicles with this kind of feature. Recent tests, conducted by Eni Tecnologie Laboratories, the European Commission Joint Research Centre in Ispira 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**.

The sales of antiparticulate filtering systems rose sharply in 2007, with over 1000 systems sold to more than 40 customers operating in the public transport, and in the mining and construction sectors. Nine of these customers are industrial vehicle/bus dealers or major industrial vehicle repair shops that have installed and sold the systems on their customers' vehicles.

## Pirelli Broadband Solutions S.p.A.

Pirelli Broadband Solutions (PBS), a Pirelli Group company established at the end of 2004, operates in the fields of broadband access solutions and second-generation photonics based on nanotechnology.

The objective of Pirelli Broadband Solutions is to allow the Group to focus its resources in these high technology and state of the art sectors.

In developing its solutions, aimed at the major telecommunications systems producers throughout the world, Pirelli Broadband Solutions takes advantage of the expertise and research of Pirelli Labs, the Group's centre of technological excellence set up in 2001 in the Milano-Bicocca area with an investment of over 135 million euro. Through its second-generation photonics products, based on nanotechnology, Pirelli Broadband Solutions provides telecommunications operators the opportunity to offer voice, data and multimedia services with customised products and end-to-end platforms, reducing operating costs and at the same time increasing performance and flexibility.

Pirelli Broadband Solutions won recognition for its technological excellence in 2007 with the prestigious **InfoVision Award**, for its Wi-Fi/GSM Phone product, acknowledged by the industry as the Top product in the "Broadband Appliances, Devices and Home Networking" category.

Innovation that is not only managed sustainably, but, albeit indirectly, also has a significant sustainable environmental impact. Indeed, the PBS systems make a major contribution to the increasing use of videoconferencing and video calls, which are progressively replacing the movement of staff between workplaces via land, sea or air.

In 2007, Pirelli Broadband Solutions, in addition to consolidating the management of end-of-life products in Italy and certain European export countries (directive 2002/96/EC – WEEE), also worked on the introduction of the requirements of the Directive 2005/32/EC - EuP (Energy using Products) into its projects involving energy using products.

PBS also started to implement the actions required by the European Regulation 1907/2006 – REACH (Registration, Evaluation, Authorization of Chemicals) aimed at achieving total control of chemicals used in the products.

In line with the Group's sustainability 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 a Health, Safety and Environmental Management System in accordance with the UNI EN ISO 14001 and OHSAS 18001 standards, and has set the achievement of both certifications as a target for 2008.



[www.pirellibroadband.com](http://www.pirellibroadband.com)

As announced in last year's report, this Project was initiated in 2007 and led to the setting out and dissemination of a **PBS Health, Safety and Environmental Policy**, which is fully in line with the related Group Policy. The identification of significant environmental impacts was also initiated, accompanied by the setting out of a series of objectives including, among others, greater control over energy consumption to achieve its optimisation (an objective already partly achieved at the end of 2007) and the enhancement of separate waste collection.

In 2008, resources will be allocated to increasing the focus on environmental issues by employees, suppliers, customers, and outside companies through appropriate communication and awareness raising campaigns.

## Pirelli Labs S.p.A.

The Group's "innovation engine" is Pirelli Labs, the advanced research centre serving all the Pirelli businesses. Set up in 2001 with an investment of 135 million euro, the Labs extend over 13 thousand square metres in the Milano Bicocca area.

Pirelli Labs is the hub of Pirelli Group advance research and innovation expertise and is involved in a large number of research projects, working with various international universities and research centres, including the Massachusetts Institute of Technology, Georgia Technical University, CNR, ENEA and the Milan Polytechnic, as well as other centres of excellence such as CORECOM and CORIMAV. Pirelli Labs also work closely with the research units of the Telecom Italia Group.

Pirelli Labs focuses on the following fields:

- New-generation optical components based on nanotechnology.
- New materials and processes for tyres.
- Sensors and remote monitoring.
- Fuel cell materials.

In 2007 two major lines of research came to fruition for the development of **eco-compatible materials**, processes and components. Specifically:

- The **research of concrete industrial applications for the derivatives of end-of-life tyres (ELTs)** found a significant application in the development of noise absorbent and impact sound insulation layers to be integrated into the walls and floors of residential buildings. The material and the process developed by Pirelli Labs have demonstrated that they can achieve levels of noise reduction meeting the most stringent regulations (standard **ISO 140/7**) and are in line with best market benchmarks. At the same time, the field test, conducted jointly with Pirelli Real Estate, involving over 2000 m<sup>2</sup> of premium residential buildings, demonstrated their application in real situations with good installed performance.



[www.pirellilabs.com](http://www.pirellilabs.com)



— The cycle of experimental approval was also completed for poles for telecommunications networks, made of a **composite material of recycled polypropylene and fibreglass**, as part of the collaboration with Telecom Italia. These poles will replace current wooden poles impregnated with Chrome Copper Arsenic compounds, now banned by the European Union. The poles produced passed all the laboratory approval tests and were successfully installed at a Telecom Italia test site, in order to complete the field tests.

Work continued on the development, now firmly underway, of the powders for the production of ceramic materials for solid oxide fuel cells. Joint experimentation continued with the prestigious Canadian Alberta Research Council (ARC), where ceramic materials developed by Pirelli Labs have been employed effectively in the manufacture of **electrodes for micro fuel cells** for use in cathodic protection devices for gas and oil pipelines. Again in 2007, the know-how built up during the fuel cell project, in the synthesis, processing, and characterisation of high temperature resistant ceramic materials, was applied in the development of the **ceramic antiparticulate filters** for diesel vehicles by Pirelli Eco Technology.

The joint work with Dupont also continued on the characterisation and optimisation of membranes for use in polymeric membrane fuel cells. The membrane developed by Pirelli Labs demonstrated that it was able to compete with the current market benchmarks, operate under high concentrations of methanol and use a process that was **more environmentally friendly** than the one used by the current fluorinated membranes. The combination of these factors makes it a candidate to become a next generation industrial standard for the production of fuel cells to power portable electronic devices.

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The building that hosts Pirelli Labs in the Milano Bicocca area

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Worthy of particular mention is the large-scale testing of a network of low cost **environmental monitoring stations**. Indeed, the Pirelli Labs stations, control centre and management software were an essential part of the tests conducted by Pirelli with CNR, Telecom Italia, and the Municipality of Parma in the Parma region. The large number of sites monitored, the accuracy of the measurements, and ease of use, generated widespread approval for the Pirelli Labs monitoring system..

In the field of renewable energy, tests were conducted on a series of innovative prototype devices for **photovoltaic current generation**. In association with Telecom Italia and ENEA, studies were conducted on the most advanced systems based on solar tracking and photovoltaic concentration technology. The test results have given rise to a promising program of research, which will be developed by Pirelli Labs in 2008.

The development of polymeric compounds with high dielectric constant for the production of innovative antenna devices, conducted jointly with Telecom Italia, found a practical application in the development of Wi-Fi modules for broadband video and data transmission. The use of these new materials enabled the development of fully built-in antennae that, through their combination of high performance and reduced aesthetical impact, have made this Pirelli Broadband Solutions product innovative and unique.

In 2007, Pirelli Labs received an official visit from a delegation led by the Ministry of the Economy of the Canton of Zurich, interested in finding out about the photonic research and the innovative materials developed by this “centre of excellence”, as it is commonly referred to.





# Social dimension

## Internal Community

*“Group companies recognise 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).

For detailed information on the Real Estate Sector, whose sustainable performance is consolidated within this report, please consult the Sustainability Report for Pirelli Real Estate SpA, available on the web site [www.pirellire.com](http://www.pirellire.com)

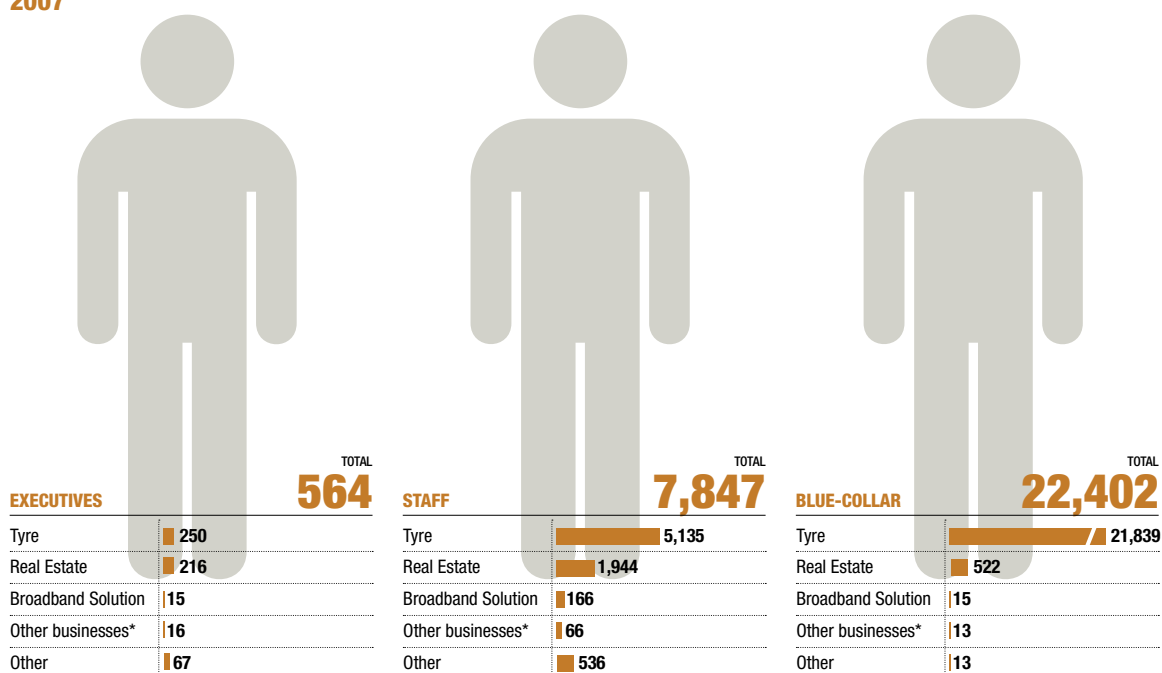
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[www.pirelli.com](http://www.pirelli.com) > Sustainability >  
Stakeholders > Human Resources

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## WORKFORCE BREAKDOWN

### 2007



	Tyre	Pre	Pbs	Other * Businesses	Other	TOTAL
<b>2007</b>						
Executives	250	216	15	16	67	<b>564</b>
Staff	5,135	1,944	166	66	536	<b>7,847</b>
Blue-collar	21,839	522	15	13	13	<b>22,402</b>
<b>TOTAL</b>	<b>27,224</b>	<b>2,682</b>	<b>196</b>	<b>95</b>	<b>616</b>	<b>30,813</b>

<b>2006</b>						
Executives	210	194	15	9	89	<b>517</b>
Staff	4,946	1,401	145	41	1,262	<b>7,795</b>
Blue-collar	20,013	269	6	2	15	<b>20,305</b>
<b>TOTAL</b>	<b>25,169</b>	<b>1,864</b>	<b>166</b>	<b>52</b>	<b>1,366</b>	<b>28,617</b>

<b>2005</b>						
Executives	188	166	11	8	105	<b>478</b>
Staff	4,700	1,145	104	34	1,247	<b>7,230</b>
Blue-collar	18,785	303	4	1	26	<b>19,119</b>
<b>TOTAL</b>	<b>23,673</b>	<b>1,614</b>	<b>119</b>	<b>43</b>	<b>1,378</b>	<b>26,827</b>

<b>CHANGE 2007 VS 2006</b>						
Executives	40	22	0	7	-22	<b>47</b>
Staff	189	543	21	25	-726	<b>52</b>
Blue-collar	1,826	253	9	11	-2	<b>2,097</b>
<b>TOTAL</b>	<b>2,055</b>	<b>818</b>	<b>30</b>	<b>43</b>	<b>-750</b>	<b>2,196</b>

<b>CHANGE 2007 VS 2005</b>						
Executives	62	50	4	8	-38	<b>86</b>
Staff	435	799	62	32	-711	<b>617</b>
Blue-collar	3,054	219	11	12	-13	<b>3,283</b>
<b>TOTAL</b>	<b>3,551</b>	<b>1,068</b>	<b>77</b>	<b>52</b>	<b>-762</b>	<b>3,986</b>

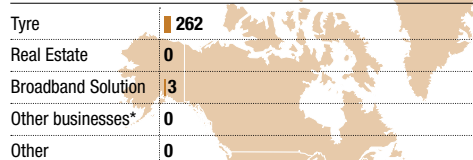
\* OTHER BUSINESSES include the workforce of the companies: Pirelli & C Ambiente SpA, Pirelli Eco Technology and PZero Moda



## WORKFORCE GEOGRAPHICAL BREAKDOWN

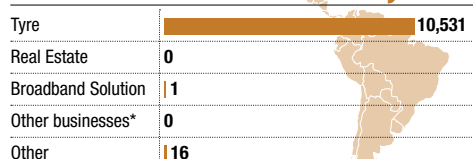
### 2007

#### NORTH AMERICA



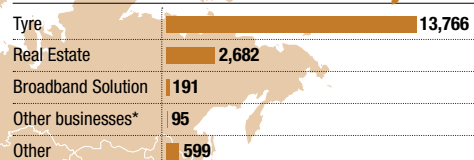
Tyre	262
Real Estate	0
Broadband Solution	3
Other businesses*	0
Other	0

#### CENTRAL AND SOUTH AMERICA



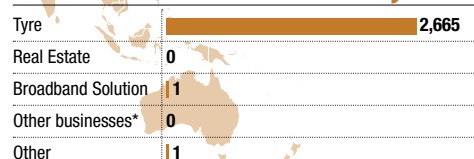
Tyre	10,531
Real Estate	0
Broadband Solution	1
Other businesses*	0
Other	16

#### EUROPE



Tyre	13,766
Real Estate	2,682
Broadband Solution	191
Other businesses*	95
Other	599

#### ASIA, AFRICA, OTHER



Tyre	2,665
Real Estate	0
Broadband Solution	1
Other businesses*	0
Other	1

	Tyre	Pre	Pbs	Other *	Other	TOTAL
<b>2007</b>						
Europe <sup>1</sup>	13,766	2,682	191	95	599	17,333
North America	262	0	3	0	0	265
Central and South America	10,531	0	1	0	16	10,548
Asia, Africa, other	2,665	0	1	0	1	2,667
<b>TOTAL</b>	<b>27,224</b>	<b>2,682</b>	<b>196</b>	<b>95</b>	<b>616</b>	<b>30,813</b>

<b>2006</b>						
Europe <sup>1</sup>	12,993	1,864	166	52	1,349	16,424
North America	265	0	0	0	0	265
Central and South America	9,786	0	0	0	16	9,802
Asia, Africa, other	2,125	0	0	0	1	2,126
<b>TOTAL</b>	<b>25,169</b>	<b>1,864</b>	<b>166</b>	<b>52</b>	<b>1,366</b>	<b>28,617</b>

<b>2005</b>						
Europe <sup>1</sup>	12,661	1,614	122	43	1,347	15,787
North America	226	0	0	0	14	240
Central and South America	9,123	0	0	0	13	9,136
Asia, Africa, other	1,663	0	0	0	1	1,664
<b>TOTAL</b>	<b>23,673</b>	<b>1,614</b>	<b>122</b>	<b>43</b>	<b>1,375</b>	<b>26,827</b>

<b>CHANGE 2007 VS 2006</b>						
Europe <sup>1</sup>	773	818	25	43	-750	909
North America	-3	0	3	0	0	0
Central and South America	745	0	1	0	0	746
Asia, Africa, other	540	0	1	0	0	541
<b>TOTAL</b>	<b>2,055</b>	<b>818</b>	<b>30</b>	<b>43</b>	<b>-750</b>	<b>2,196</b>

<b>CHANGE 2007 VS 2005</b>						
Europe <sup>1</sup>	1,105	1,068	69	52	-748	1,546
North America	36	0	3	0	-14	25
Central and South America	1,408	0	1	0	3	1,412
Asia, Africa, other	1,002	0	1	0	0	1,003
<b>TOTAL</b>	<b>3,551</b>	<b>1,068</b>	<b>74</b>	<b>52</b>	<b>-759</b>	<b>3,986</b>

\* OTHER BUSINESSES include the workforce of the companies: Pirelli & C Ambiente SpA, Pirelli Eco Technology and PZero Moda

<sup>1</sup> also includes Turkey

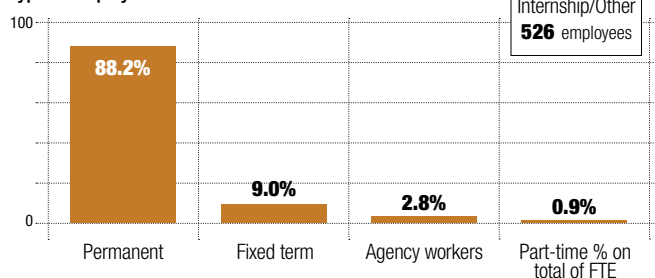
## GROUP'S WORKFORCE TREND

Over the last two years it has been characterised by consistent growth, **+ 3,986 employees**

(+2,196 in 2007 and + 1,790 in 2006)

### 2007

Type of employment contract



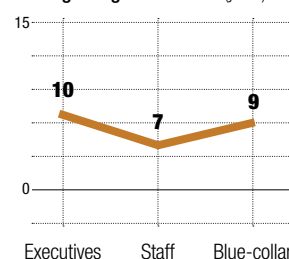
New hirings

**5,630** employees

Employees leavings

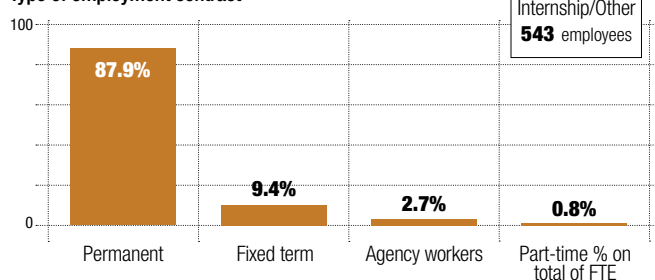
**3,504** lavoratori

Average length of service (years)



### 2006

Type of employment contract



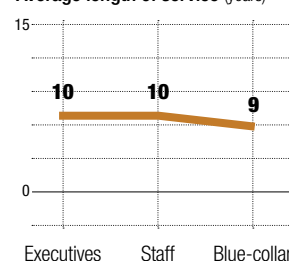
New hirings

**5,016** employees

Employees leavings

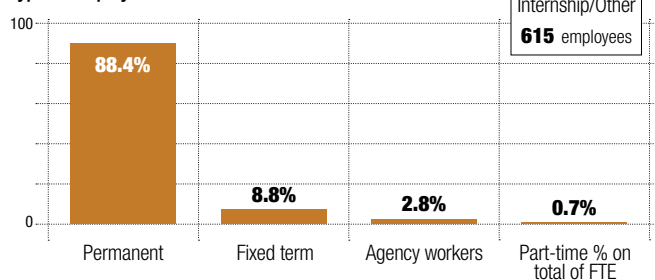
**3,156**

Average length of service (years)



### 2005

Type of employment contract



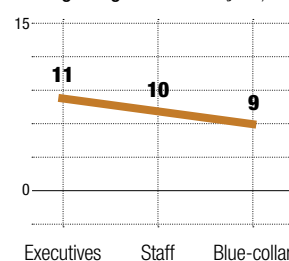
New hirings

**3,588** employees

Employees leavings

**2,511**

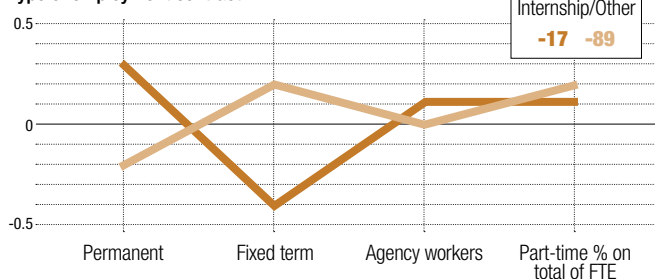
Average length of service (years)



### DELTA

2007 vs 2006    2007 vs 2005

Type of employment contract



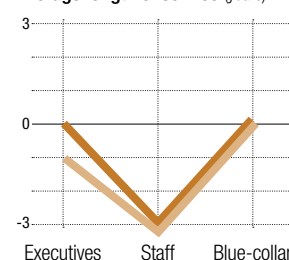
New hirings

**614 2,042**

Employees leavings

**348 993**

Average length of service (years)



The trend in the Group's workforce over the last two years has been characterised by consistent growth (+ 3,986 employees in total, +2,196 in 2007 and +1,790 in 2006), due to the hiring, by Pirelli Tyre, of personnel to strengthen the new industrial plants in China and Romania, the increased labour workforce in Brazil as a result of the changes in the work pattern (in the Campinas and Gravatai factories) and the increased production volumes in Feira de Santana, Gravatai and Santo André. As for Pirelli RE, compared to 2005, an increase of 1,068 employees was recorded mainly due to the takeover of the company Credit Servicing in the NPL sector, the strengthening of the presence in Facility Management through the purchase of Ingest from the Fiat Group and the expansion in Germany with the acquisition of DGAG. Also in Germany, the acquisition is about to be completed of the whole of the service division of the affiliate Baubecon, a company with 298 employees.

As regards the annual movements of incoming and outgoing personnel, seasonal work should be taken into account, a typical phenomenon in the tyre sector that requires temporary blue collars to stand in for permanent workers (a total of approx. 700 people in Germany and Turkey) to maintain production volumes constant during the summer months.

The Group does not employ anyone under the age of 14. The tyre sector employs 51 young workers between 16 and 18 years of age (35 in Brazil, 1 in the UK and 15 in Germany) and as an exception 9 young workers between 14 and 16 years of age (8 in Brazil and 1 in Germany), as part of training and induction schemes in compliance with local laws.

## HR POLICIES

To steer the crucial phases of integration and development of human resources, Pirelli applies an extensive policy system both at Group and Sector/foreign affiliate company level.

**Salary Review** policies are applied locally by individual countries except for procedures involving Group Executives and key resources involved in international mobility schemes, as these categories are centrally coordinated by the Group Parent Company according to a common rationale and respecting the requirements of an international Management team. In 2007, the use of the Development Centre coordinated by the Group Parent Company and focused on objectively assessing the potential of individual candidates for the assignment process of new executives became firmly established.

This is also closely linked to the policies relating to **performance assessment and improvement**. In 2007, a new tool was launched at Group level, aimed at increasing the transparency of supervisor - worker relations and to further clarify the targets and roles of the company staff. The new system, available on-line in many countries, involves all the Group's staff, cadres and executives.

All executives and 60% of cadres take part in the **Group annual incentive scheme (MBO – Management by Objectives)**, which sets clear Group/Business/Country and individual economic-financial targets, and pays out bonuses varying according to assessment and the extent to which these targets are achieved. This process, which is managed centrally according to a common set of rules for the whole Group, is accompanied by other schemes implemented by the individual Affiliates.

The **“International Mobility Policy”**, of considerable strategic value in the development of leadership within the Business, deserves special attention. Over the past ten years, an average of around 250 people, including executives, cadres and staff of various nationalities and cultures, have yearly compared notes, developed professional skills and exploited new managerial opportunities, thus contributing to building a truly international Group.

Many aspects of the global labour market have demanded a more flexible approach to the international framework that can readily meet both the requirements of the organisation and its individuals. The current Policy provides flexible responses 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.

Also worth noting is the emergence of the phenomenon of short-term assignments (involving a short term stay abroad of less than six months) as a tool to provide qualified technical support and know-how to affiliates in the start-up phase (6% of the total number of personnel transferred abroad in 2007, set to increase to 10% in 2008).

Lastly, international mobility, perceived as a real development opportunity, is also an instrument of support for the Group's Equal Opportunities project. At the close of 2007, the percentage of women out of the total number of personnel transferred abroad was around 15% (in line with 2006). A figure that, also thanks to the greater flexibility being adopted, should increase in the coming years.

## THE GROUP'S EQUAL OPPORTUNITIES PROJECT

In 2007, the focus of this Project became increasingly international. In July 2007, the company held an **international training day** in Milan for the CSR Referents of the Group Affiliates, the Country Equal Opportunity Managers and the HR Managers. The training covered the fundamental aspects of sustainable management, group targets, the international expansion of the equal opportunities project and the associated methods for promoting diversity. Inaugurated by the Chairman, the training day included addresses by representatives from the academic and consultancy worlds and a presentation by the Head of European Diversity of the investment bank Lehman Brothers. The Equal Opportunity Managers were assigned the task of setting out local development plans for the project to be implemented from the last quarter of 2007.

In terms of **communication**, in 2007 an area dedicated to equal opportunities was set up in the company **Intranet** to facilitate the sharing of experiences and activities from different countries. All the employees were also distributed **leaflets** describing the main contents of the project, translated into their respective languages.




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The Equal Opportunities Project leaflet distributed to all Group employees

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With regard to **training**, which has long been recognised as a fundamental tool in promoting the cultural change associated with the promotion of diversity, an initiative was launched in March 2007 aimed at the family of HR managers. During the year, a module dedicated to sustainability and the Group's Equal Opportunity principles was also introduced into the "*Pirelli's way Joining the Group*", a special course for new recruits, involving over 200 people in 2007.

In Italy, the **Internal Equal Opportunities Complaint Procedures** were set up and communicated to all the employees in both paper form and through the Intranet. The aim of these Procedures, in compliance with the regulations in force, is to uncover any cases of sexual harassment and/or discrimination in the workplace, allowing employees to directly report these events solely to their Equal Opportunities Manager (thus overcoming the usual hierarchical and departmental barriers). These procedures were put into action once in 2007. The introduction of similar procedures has been completed in the majority of countries where the Group operates.

To **monitor compliance** right from the recruitment phases with the Equal Opportunities principles set out by the Group, at the beginning of 2008 a control mechanism will be introduced, involving the completion of an anonymous questionnaire by each of the candidates interviewed by the company. Compliance with the Group's equal opportunities principles is also monitored through the **Group Opinion Survey**, already implemented in Settimo Torinese facilities and due to be extended to all group employees during 2008.



As regards **work-life balance** initiatives, the agreement concluded with the Bicocca crèche in 2006 came into force with 15 places assigned to the children of Pirelli staff. A decision was also made to open a company crèche, to be located in the new building under construction in the Bicocca (due to be completed by the end of 2009). These initiatives accompany those already implemented or underway in the various Group Affiliates.

Concerning the **breakdown of the workforce by gender**, figures as at 31 December 2007 show around 20% of females (unchanged from 2006) in managerial positions, 38% of females (compared to 36% in both 2006 and 2005) in staff positions and 4% (against 3% recorded in 2006 and 2% in 2005) in the labour group. The dynamics have improved compared to last year, due to specific positive actions implemented to increase female presence from recruitment onwards.

**Corporate activities** on the subject of diversity and its recognition have included the following:

1. The Equal Opportunities Project took part in the **Sodalitas Social Award 2007**, an official award for businesses that have distinguished themselves over the year for the activities in the field of Corporate Social Responsibility. Pirelli received the **"Special Mention"** Prize within the "Valuing of Human Capital" category "... *for having achieved the objective at Group level of promoting diversity in all its business processes and having guaranteed genuine equality of treatment for all its employees in every sector, role and grade, with a positive impact on employment...*". The Project has been also included in the ***Libro d'oro della Responsabilità Sociale*** (the gold book of corporate social responsibility), edited by Sodalitas.
2. Within the **European Alliance for CSR**, Pirelli made its contribution to the **"Workshop on Equal Opportunities"** in the area of careers. This generated a toolkit containing best practices for the management of gender diversity, including Pirelli's Equal Opportunities Project. These practices are set out in key operating procedures aimed at the businesses that have understood the competitive importance of promoting diversity, have decided to put it into action and intend to draw on existing best practices. The toolkit was presented by Sodalitas on 29 November 2007 in Brussels, during the third Marketplace on CSR, organised by CSR Europe.
3. The Pirelli Equal Opportunities project, judged to be an example of promotion and safeguarding of diversity, was **included in the guide *Riscrivere il lavoro al femminile*** (restructuring work to meet women's needs). This manual of business best practices in support of Equal Gender Opportunities, financed by the Province of Bologna, with funding from the European Social Fund, is geared towards the promotion of female human resources in production. Based on the analysis of a number of businesses, several useful tools have been identified to address the issue of Diversity Man-

agement. Pirelli contributed to this “inventory” by providing its experience in the setting up and implementation of the Equal Opportunities project

4. The project was also presented during the conference **Equal opportunities for all in education and at work** held in Rome on 21 March 2007, organised by the Prime Minister’s Office - Department for Rights and Equal Opportunities, as part of the initiatives for the European Year of Equal Opportunities.




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The Equal Opportunities Project has been included in the *Libro d'oro della Responsabilità Sociale* (the gold book of corporate social responsibility)

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## SELECTION, TRAINING & DEVELOPMENT

### Selection: Talent Attraction initiatives and tools, and Employer Branding

To steer the crucial phases of integration and development of human resources, Pirelli Group implements an extensive policy system at both Group (Corporate initiatives) and Sector/foreign affiliate Company level. Policies that define and regulate the **Personnel Research & Selection** process are implemented locally by affiliates, in accordance with practices and local regulations in force. In Italy, the screening process for recent graduates, for example, is centralised and managed by the HR (Human Resources & Organisation) Department during the first stage of CV sourcing and screening. This stage is followed by assessments based on group dynamics, tests and individual interviews, with the collaboration of a specialized external company. Finally, in-depth interviews are conducted directly with the Line Manager




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[www.pirelli.com](http://www.pirelli.com) > Career

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who is assisted by the HR Department. Candidates who receive a positive assessment are inducted into the Company through a training and orientation track.

**Talent Attraction** initiatives used by the Group to present itself include:

— **Employer Branding:** choice of key universities/faculties/ Master's Degree courses; brand management and Pirelli's presence there through contacts, corporate presentations, case histories, practical training sessions and recruitment days with Line Managers from the various departments/business areas, held in leading universities in Italy, Romania, China and Brazil. In 2007, this attracted an average of 600 recent graduate applications a month in Italy alone.

— **Career Days:** days dedicated to direct contact with graduates, under-graduates and young professionals in the main university cities. In 2007, participation in career days – a key employer branding tool – saw the setting up of Pirelli stands in 7 Italian universities (the Bocconi, the Polytechnic, the Bicocca, and the Catholic universities in Milan, Bari and Turin), in 2 Engineering Universities in Turkey (Istanbul and Ankara) and in 2 Business Schools in Spain (Barcelona). The first Romanian career day was also held in the university city of Craiova.

— **Career Books:** a tool for work orientation, postgraduate training and communication targeted at undergraduates, recent graduates and young professionals. These guides are organised into three sections (postgraduate orientation, company profile and training) and are distributed in placement offices in universities, orientation offices, internship programmes, associations for graduates, bookshops and during Career Days.

— **"POLITONG":** was launched in collaboration with the POLITONG project, involving the Polytechnics of Milan and Turin and the Tongji University of Shanghai. Italian and Chinese students, after having attended courses taught in English together and in alternate years in the two countries, can obtain a degree recognised in both China and Italy and thus enabling them to integrate more rapidly into businesses operating in the competitive Chinese market.

The variety of initiatives aimed at the university world has led to a significant increase in the number of applications from candidates and this year, in Italy alone, has resulted in the selection of around seventy young recent graduates who have been successfully inducted into the company. In this regard, the following were organised in 2007:

— **Interview simulation at the Bocconi University of Milan:** several Pirelli managers were available to the students of specialist degree courses to simulate individual selection interviews. At the end of each encounter feedback was provided on the handling of the interview, highlighting any strengths and areas for improvement.

— **Student Open Day:** groups of school and university students were invited to Pirelli for a whole day, which included organised visits and guided tour of the research laboratories, testing units and production sites.

— **Global Management Challenge:** in 2007, Pirelli took part in an international business strategy tournament, based on a business game, supporting 3 teams of students (2 from the Polytechnic of Milan and one from Bocconi).

— **Executives in classroom:** in 2007, Pirelli managers gave around 20 presentations/lectures at the key universities.

— **New advertising campaign:** entitled *Immagine del seggiolone* (literally “picture of the highchair”), launched at the end of 2007 to attract young graduate talent. It will be used in the website, in brochures and posters in universities, in personnel recruitment adverts and all the attraction initiatives aimed at the world of recent graduates.



The 2007 advertising campaign entitled "Immagine del seggiolone" (literally "picture of the highchair")

## Training & Development: Initiatives and Tools for the mapping, assessment, training and development of human resources

Summarised below are the Group's main tools used to support the processes of assessment and development of the company staff.

— **Skills Catalogue:** geared towards creating a shared set of guidelines for setting out training activities, to meet the needs in terms of the development of skills and the organisational behaviour required of Pirelli Group employees. Reference skills (grouped into 10 categories for ease of identification) were identified by the Top Management during the Pirelli Values certification process.

— **Tools for Assessing Potential:** Assessment Centres, Development Centres and overall Feedback Questionnaires support both awareness raising sessions and the monitoring of managerial potential. These tools are also used in the Group Talent development framework (during the various phases of corporate life) and to provide a snapshot of the population of the various of professional families.

— **Performance gauging Tool:** launched at Group level in 2007. Assessment is based on the objectives, agreed with managers, to be achieved during the year, the level of expertise with respect to the skills of the respective professional family and the training/development undergone to achieve the objectives. In 2007, this tool was used on-line in Italy, Turkey, Brazil, Argentina and Venezuela. In 2008, its on-line use will be extended to Spain, Germany, the UK, Romania and Egypt. Paper forms will be employed in the other countries. Staff managers have been provided with appropriate training to facilitate their understanding of the assessment process and the application of this tool.

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

— **“Global Grade System” Manual:** a list of the “standard positions”, i.e. illustrative schedules of the various positions, focusing on technical-professional skills, abilities/traits, background and organisational structure. The manual provides support for the designation of specific roles, recruitment, job posting, organisational charts, pay schemes, development plans, and target setting for incentive schemes.

### The main Group Training Projects

The most important Training projects conducted at Group level for the main professional categories are listed below.

— **Managerial Development in China:** between the end of 2006 and the start of 2007, a Development Centre programme



was organised for a group of 50 managers, to enable each of them to assess their skills and set out a personal training programme. The Development Centre results led to the establishment of appropriate training courses and skill enhancement initiatives.

— **Intercultural Management in China:** the workshop cycle continued in 2007, aimed at developing skills in recognising differences between the European and Chinese “cultural frameworks”, and gaining a more detailed understanding of China’s macroeconomic framework.

— **Setting out of the Training programme for Romania:** training opportunities, particularly for “on the job” training, were organised for the start-up phase of the new Tyre production plant. Staff received prolonged training (approx. 3–4 months) according to their role. Topics of discussion included Group values, its Ethical Code and multicultural differences. In the second half of 2007, as in China, a Development Centre was organised for around 40 managers and professionals. Also in this case, the results of the Development Centre will be implemented in 2008 to develop a structured and stable long term training programme.

— **“Best Seller” Project for the Italian Sales Force:** at the end of 2007 work started on a training project, to be launched in 2008, for the Italian Sales Force. It is aimed at making Pirelli’s selling proposition more incisive through the use, by sales staff, of new/different methods of approaching customers. The focus will be on relations between the sales force and customers, to make them more effective and mutually beneficial.

— **Team Coaching (Motorcycles Business Unit and Pirelli Information Systems):** two major coaching projects were implemented in 2007. The first, involving the Motorcycles BU, was a response to the change of direction in 2007 and was geared to providing support in addressing the cultural change involved. The aim was to promote an independent managerial and decision making style within the team and in particular among the managers reporting directly to the Director, in support of a culture of feedback and development of human resources. It also sought to improve conflict management within the team and increase its openness to the other Pirelli Group functions. The project initially involved individual and team coaching, followed by training in support of the areas of improvement/objectives emerging from the coaching. The other project involved the Pirelli Information Systems within Pirelli Tyre, and arose from the need to revitalise relations between certain parts of the group, making them more constructive and transparent, in order to strengthen team spirit. The first stage focused on the experiences of the participants taking part in a series of practical exercises, whereas the second involved the analysis and systemisation of the behaviours that emerged.

— **Fostering ACF Skills:** this training programme for the professional family “Administration, Control and Finance” has been developed and managed in association with SDA Bocconi. Launched in 2006, it focuses on the Administration & Control and Finance Functions. Its main aims are to enhance specific “technical” expertise and managerial skills, and increase the

sense of belonging within the professional family. The Programme continued in 2007 and will conclude in 2008.

— **Running the Market:** the first stage of this project involved the mapping of the commercial skills required in the European area. A training programme designed to fill skill gaps and develop role skills was then developed on the basis of the results. The training course involves technical and behavioural skills modules. It is targeted at Top and Middle Managers in the commercial division and Sales Agents. In 2007, the focus was on the technical/professional training of Sales Agents and Middle Managers, whereas in 2008 it will concentrate on both technical and behavioural training for Top Managers and behavioural training for Middle Managers and Sales Agents.

— **Building Purchasing Competencies 2007 – 2008:** in 2006 and 2007 the Purchasing Department organised international training courses at the European Institute for Purchasing Management, for managers from Italy and other affiliates. The duration of the courses ranged from three weeks to a year. This training programme will be continued in 2008, “tailored” to the specific needs of the participants and organised within the Group’s offices.

— **Italy Catalogue, General Catalogue and Specific Catalogue for Research and Development:** a range of courses are on offer aimed at developing cross-disciplinary skills for all the professional families, accompanied by specific courses for Research and Development staff. Subscription takes place through the Learning Lab portal in the Intranet. Since 2007, employees have also had access to available training through the on-line Performance Management system mentioned above. This has enabled the precise planning of training needs, assessed in conjunction with the identification of annual targets. The wide variety of topics covered by the available training courses includes **Fostering Diversity**, specifically targeted at Professionals, Managers and Executives based abroad or who have significant interaction at international level.

The Group has focused particular attention on the **planning of the training scheduled for 2008 at the Turin Industrial Centre**.

Indeed, in 2007 a study was initiated of the technical, managerial and behavioural training and retraining programme for all the workers at the new Pirelli Technical Centre in Turin. The aim is to transfer the necessary skills and behaviour to ensure the highest standards of quality, production, technology and safety. In 2007, work focused on the design of introductory modules on health, safety and the environment; our customers and our markets; our new factory and lean production; the rules of the organisation; and Sustainability with a focus on Equal Opportunities. The courses will be provided in 2008 and will involve each employee in a series of sequential and integrated training sessions, with intermediate phases of work/on the job training.

In addition to the design of the training programme, by January 2008 the Group, for the first time, will **conduct a survey on En-**

**gement and the Work Climate** at its tyre plants in Settimo Torinese, with the aid of the consultancy firm Towers Perrin-ISR. The survey will involve 1,600 blue collar and staff. The main objectives are to:

- Provide continuous measurement of the level of Engagement of the workers employed in the plants.
- Identify perceived strengths and critical issues in order to set out appropriate improvement measures.
- Identify tools to improve Engagement and the acceptance of change (Settimo Torinese).
- Develop a single tool to assess the employees' engagement with the Group's mission and values and to systematically measure their opinion in the future.

The communication of the Project has focused strongly on anonymity, transparency and clarity in relation to the objectives, methodology, and the release of the survey results. On completion of the distributed questionnaire, Towers Perrin-ISR will interpret the results for the next step, which will involve the presentation of the overall results, highlighting the main indications of the priority improvements to be made.



Cover of the questionnaire "Qual è la tua opinione?" ("What's your opinion?") addressed to Settimo Torinese employees

Training modules will be provided over the next three years in the following areas: organisational model and company rules, health safety and environment, quality and technology, work processes, installations and maintenance, planning and production efficiency, continuous improvement, communication, team working, problem solving and decision making. Specific training courses will be developed for certain key positions, designed to address the responsibilities and objectives of specific roles within the organisational model. For example, the production assistant will have specific training sessions focusing on the enhancement of skills for the management and motivation of co-workers. Finally, there will also be modules addressing the use and management of processes relating to the new technology from the research and development programmes, such as Next MIRS.

**Group training on sustainability:** during the course of 2008, extensive training will be provided on sustainability at all the Group Affiliates.

**“Organisational Model” Course – Italy:** from the start of 2008, an on-line training course will be provided to all Italian employees to present the Organisational Model, which Pirelli has made significant changes to following the recent developments in the Regulation No. 231.

#### Main development initiatives – “Talent assessment & development”

The main initiative in terms of talent assessment and development is the **Career Development Programme**, organised, managed and coordinated at Group level. The objective is to support High Potential Personnel over the course of their professional career. The programme involves Development Centres (at Local, Group and Individual level) dedicated to the analysis, assessment and development of the skills that make up the Pirelli managerial model.

In 2007, Local Development Centres, conducted in the local languages, were started up in the countries where Pirelli has its production facilities (Italy, UK, Spain, Germany, Romania, Turkey, Brazil, and Argentina). In 2008, two editions are due to be held in China. The Group Development Centres, in English or Italian, take place in Italy and are targeted at High Potential Personnel who have been with the company for 4 to 7 years.

The table below shows the number of Local Development Centre editions held in 2007 in the various countries together with the number of participants.

### LOCAL DEVELOPMENT CENTRE IN 2007

Country	Company	Editions	Participants
Brazil	Brasil Pirelli Pneus SA	2	24
Germany	Pirelli Deutschland GmbH	1	12
Italy	Pirelli & C, Pirelli Tyre, Pirelli Labs, Pirelli BBS	3	38
Spain	Spain PINSA	1	8
Turkey	Turk Pirelli Lastikleri AS	2	20
UK	Pirelli Tyre Ltd	1	13
Argentina	Pirelli Neumaticos	1	16
Romania	Pirelli Tyre Romania	1	8
<b>TOTAL</b>		<b>12</b>	<b>139</b>

The number of participants in the 6 Group Development Centre editions held in 2007, broken down by country of origin, are shown below.

### GROUP DEVELOPMENT CENTRE IN 2007

Country	Company	Participants
Brazil	Brasil Pirelli Pneus SA	5
Germany	Pirelli Deutschland GmbH	10
Argentina	Pirelli SA	2
Turkey	Turk Pirelli Lastikleri AS	2
UK	Pirelli Tyre Ltd	2
Spain	Pirelli Neumaticos	4
Egypt	Egypt Pirelli PATCO	3
Greece	Pirelli Elastika	1
Singapore	Pirelli Singapore	1
Romania	Pirelli Tyre Romania	2
Italy	Pirelli & C	3
	Pirelli Tyre	40
	Pirelli LABS	6
	Pirelli BBS	4
	Pirelli Ambiente	1
	SSC	4
<b>TOTAL</b>		<b>90</b>

Together with the Development Centres, candidates is offered the opportunity of understanding the business complexity and company strategies by attending seminars on *Understanding Business Complexity*, *Managing Growing Complexity*, and *Developing Managerial Excellence*, organised in association with the best European Business Schools. A summary description of the contents of these three workshops is provided below:

- 1. Understanding Business Complexity (UBC):** designed to facilitate the understanding of business complexity and develop the ability to read the competitive scenario and its evolution. The seminar alternates between lessons, case histories, and case studies, encouraging the comparison of the experiences of the participants from different cultures, businesses and corporate functions.
- 2. Managing Growing Complexity (MGC):** designed to develop the ability to handle complex situations and to make



strategic decisions. It alternates between sessions on improving the ability to read the macroeconomic scenario and trends, studies of company success stories that have involved creating and obtaining a competitive advantage, and phases designed to improve leadership, especially with regard to achieving results through the support provided for the setting out of well structured development plans.

- 3. Developing Managerial Excellence (DME):** a veritable compact Executive Masters course aimed at the Group's Key Executives, running over a period of 8 days. The main objective is to strengthen key skills in the following areas:
- Functioning of financial markets.
  - Strategic market analysis.
  - Organisational planning.
  - Results measurement.
  - People management.

The tables below show the number of participants in the UBC and MGC seminars in 2007, 2006 and 2005, broken down by country of origin.

#### UNDERSTANDING BUSINESS COMPLEXITY - UBC

	Italy	Germany	Spain	Turkey	Brazil	UK	China	Egypt	France	Argentina	USA	Venezuela	Mexico	COM Units	TOTAL
2007	18	8	2	5	16	2	5	1	1						58
2006	10	2	1	1	2	2				1					19
2005	23	3	2		5	4	1		1		1	1	1	1	43

#### MANAGING GROWING COMPLEXITY - MGC

	Italy	Germany	Spain	Turkey	Brazil	UK	China	Egypt	Romania	Singapore	USA	Australia	Hungary	Middle East	TOTAL
2007	27	8			4	2	4	3	1	1					50
2006	12	3		1	1	1		2							20
2005	21	5	1		4	2					3	1	1	1	39

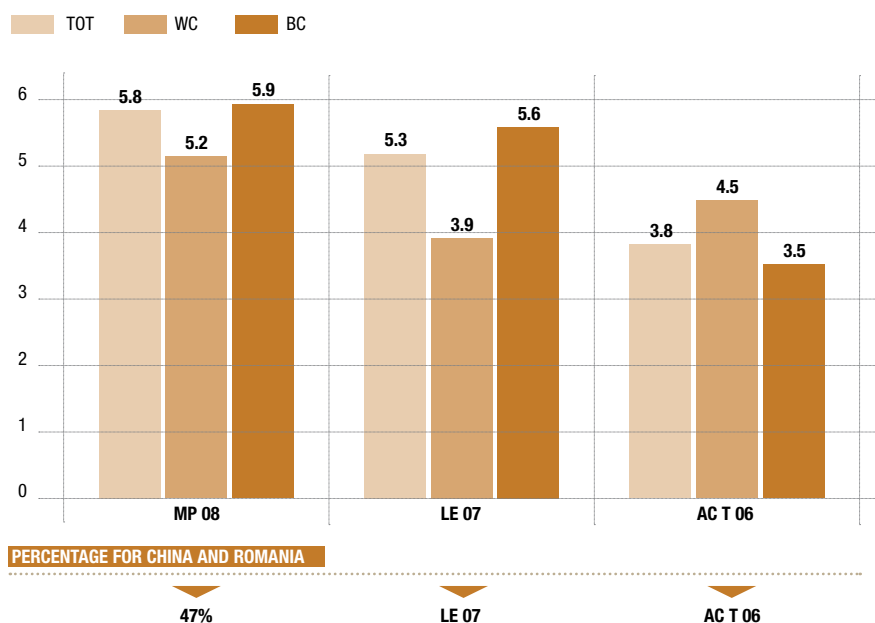
#### DEVELOPING MANAGERIAL EXCELLENCE - DME

	Italy	Germany	Japan	Greece	France	UK	Romania	China	Turkey	Brazil	Russia	Canada	TOTAL
2007	10	4			1	2	1	2	1			1	22
2006	13	1	1	1						2			18
2005	10					1				1	1		19

## SUMMARY FIGURES FOR TRAINING & DEVELOPMENT

The table below shows the average number of days of training & development per person broken down into Blue Collar and Staff for 2006 and 2007, together with a forecast for 2008. The increase in 2007 in Europe was due to the intensification of standard training for management, the increased investment in the Career Development Programme and the initiatives implemented for the specific professional families. Finally, significant investment in training was made (and will continue in 2008) in the new production facilities (China and Romania).

### NO. DAYS TRAINING PER PERSON



## INTERNAL COMMUNICATION

### Communication channels

In 2007, internal communication was subject to an extensive rethink at Corporate level.

This led to the renewal of the two main tools for information and interaction with employees, the Intranet and the corporate press, together with the development of several communication initiatives targeted at employees, like the “CSR Company” campaign.

The common objectives are to refocus communication on the employee and to produce content that is useful, interesting and engaging for the employee, using a common language, with as little formal and technical jargon as possible.

### The Intranet

Pirelli was one of the first Italian companies to set up its own **worldwide Intranet**. Over the years this portal has undergone several different phases of development, mainly of a technologi-

cal nature, with the introduction of new functions designed to facilitate the operations of the various businesses.

In 2007, the Intranet was the subject of a study by a cross-disciplinary team, which set out a plan of preliminary interventions to be implemented over three years. The first stage focused on Group communication with a structural change to the home page, representing the access point used by all the employees. The objective was the sharing of information between companies, between functions and businesses, and between individuals, through the creation of a constant and coordinated news flow, in order to strengthen the sense of belonging to the company and to empower individual employees. A central editorial function has been set up, tasked with news gathering and production at Corporate level, together with a network of local "scanners" to pick up news in their respective areas. This structure ensures wide ranging, up-to-date and highly effective reporting, thanks to a style of communication that makes full use of the latest multimedia tools and interactivity and adapts to changes in surfing habits.



Pirelli Intranet home page

The first stage has also involved a complete reorganisation of the document content to make it more user friendly. Identification is intuitive, i.e. icon based, as part of a wider ranging graphic restyling designed to facilitate consultation.

New interactive functions will follow to create employee-to-employee flows within the on-line “community”.

## Pirelli Corporate Press

As described in detail in the previous edition of the Sustainability Report, at the end of 2006 the Group had **28 magazines**, edited by its affiliates and branches all over the world, with many different formats, but consistent with the specific features of each market. In 2007, there were no significant changes in numbers, instead the most recent publications were enhanced and, at Corporate level, a project team was set up to **reorganise** the corporate press.

The project focused on the three long-standing magazines published by the Group in Italy: *Pirelli Flash*, *Fatti&Notizie* and *Pirelli World*. For *Pirelli Flash*, an information tool traditionally targeted at blue collar workers, the work focused on its **updating**, transforming it from a monthly magazine into an online bulletin updated directly by factory managers in real time.

The bimonthly magazine *Fatti&Notizie* was subject to a rethink of its content, language style, graphics, format and distribution. **A complete overhaul**, to talk about company life from the inside, based on a “team” approach that shakes off the last remnants of top down communication. The new editorial format of the magazine, whose first edition will come out in February 2008, will include interviews with employees, focus articles on topics of direct interest to Italian readers, and encouragement for employees to make themselves heard.



The new *Fatti&Notizie*

The quarterly publication *Pirelli World*, originally a magazine targeted at the Group's management around the world, has attracted a considerable outside readership in recent years to the extent that in some countries it plays a significant role in promoting the Group's image. The overhaul project is designed to expand this process, **opening the publication up to the external community** by redefining not only its public, but also its content and writers. This shift of emphasis is reflected in the modern and attractive graphics, which also reinforce its role of image promotion.

The study of the **second stage** of the corporate press reorganisation project is currently underway, aimed at the harmonious and coordinated transfer of the main elements of the Group identity to all the Pirelli publications, whilst maintaining the added value of the specific local characteristics.

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[www.pirelli.com](http://www.pirelli.com) > Media >  
Comunicazione > Internal Magazine

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### The "CSR Company" campaign

In the second half of 2007, a **communication and awareness raising campaign** was launched targeted at all Group employees, in their respective languages, on the meaning of sustainability and its integration into Pirelli's operations. The "CSR Company" brochure was introduced by a message from the Chairman to all the workers and accompanied by a form through which the workers could provide anonymous feedback of their thoughts on sustainability and suggestions for the improvement of the company's performance in this area.

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The "CSR Company" brochure distributed to all Group employees

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The results of the survey will be made available to all Group employees in the first half of 2008, through a widespread communication project.

The campaign featured the following:

- Distribution to all the employees of a leaflet on CSR in Pirelli, translated into the local languages.



- Setting up in all the company entrances of stands dedicated to the communication and distribution of the leaflets to **employees, supplier and customers**.
- A survey of employees (through the distribution of anonymous feedback forms to be placed in the stands) aimed at obtaining suggestions for improvements to be made for CSR.
- Creation of areas dedicated to the subject on the Group Intranet.

### Group Opinion Survey

In 2006, we saw the widespread communication of the results emerging from the first worldwide opinion survey launched by Pirelli in November 2005. Following a detailed analysis, differentiated by country, professional family and business, the results were published on the corporate Intranet under these segmentations. This communication was accompanied by information and feedback sessions initially involving Country Managers and Central Department Directors and, gradually, extended to the other levels in each facility (through ad hoc focus groups) to share and interpret the results and to encourage the identification of targeted actions for improvement.

This carefully structured and wide-ranging initiative was geared towards launching projects in 2006 and 2007 encouraging greater focus on effective internal communication (between Functions, between managers and workers, and between the company and individual employees). In 2007, the following projects were implemented:

- Introduction of a **new Performance Management system**, designed to increase transparency and feedback in relations between managers and workers.
- **Redesign of the Group's international Career Development system**, to provide more opportunities and focus on the assessment and improvement of skills for professional development.
- **Completion of the worldwide Equal Opportunities Project**, as described in the specific section on this subject.
- **An opinion survey** of blue collar and staff in the two Settimo Torinese plants, geared towards gathering opportunities and requests for improvement in view of the establishment of the New Industrial Centre

Given the high participation rates in this first worldwide opinion survey (approx. 70%), a sign of the engagement and desire of employees to contribute towards continuous improvement for the Pirelli Group, **a second edition of the survey will be conducted in 2008** that, in addition to Management and Staff, will also involve Blue Collar workers from the production sites at the centre of technological and skill transformations (Romania and Brazil).

Pirelli Real Estate, which has now conducted three annual opinion surveys of its employees, has set out an **improvement plan based on the results**, which has been communicated via

the Intranet. Indeed, 2007 saw the implementation of the action plan that emerged from the 2006 survey. Following a benchmark analysis against other companies, it was decided to schedule staff satisfaction surveys every two years instead of the yearly surveys that have been conducted to date. This will allow a more realistic assessment of the impact, on the corporate climate, of the actions implemented, which usually take effect over the medium rather than the short term..

## COMPANY INITIATIVES FOR THE INTERNAL COMMUNITY

### Focus on Romania

As in 2006, Pirelli has included a specific focus on one of its geographical areas of operations in this year's sustainability report. For 2007, the choice was Romania where a new industrial and technology centre of international importance is nearing completion, for a total investment of 235 million euro.

In line with its tradition of establishing firm roots in the countries where it operates, Pirelli has accompanied the project for the new industrial complex with a series of initiatives in support of the training and the wellbeing of its employees, their families and the local community.

In Romania, and in Slatina in particular, the integration of young people into the social environment is clearly a problem, also due to the lack of meeting places and opportunities. Pirelli, as part of its process of establishing a strong local presence, identified the need for intervention in this area. Indeed, in 2007, festivals and social events were organised like the **Soccer Tournament** and the **Fishing Tournament**, which represented opportunities to bring people together to socialise and share experiences, characterised by fair competition, respect for the rules and the learning of teamwork.



Soccer tournament in Slatina

In 2007, a **Steering Committee** was set up with the task of continuously monitoring the areas of intervention and assessing

the procedures for the implementation of the related projects, which led to the execution of a series of extremely important initiatives in the area of social responsibility, such as the opening of a new infirmary and the sponsoring of the **“Overland for Smile”** project. The latter is a travelling humanitarian project aimed at providing practical dental care assistance for children in Romanian orphanages, involving dentists, dental hygienists and dental assistants, who have decided to spend part of their spare time providing free treatment to orphans. Pirelli’s association with the project in September 2007 enabled the children of our Romanian employees to receive a free dental check-up.

To provide assistance for studies, annual grants will be awarded for the children of employees, as well as financial contributions for post-graduate courses. Specifically, a **cooperation agreement** has been signed **between the University of Craiova and the Silvio Tronchetti Provera Foundation** involving a programme of intensive training based on post-graduate courses and shared areas of research. The aim is to achieve the implementation in Pirelli of RFID technology (Radio Frequency Identification) to track all the different tyre processing stages, thus ensuring increasingly high quality and safety standards.

Pirelli Romania supports its employees by providing them, in addition to opportunities to socialise and have fun, like during Pirelli Days and public holidays, with specific contributions aimed at improving their and their families’ quality of life and wellbeing.

## INDUSTRIAL RELATIONS

The Group Industrial relations are conducted on the basis of constructive dialogue, fairness and respect of the various roles involved. Guaranteeing and respecting employees’ freedom to engage in union activities has always been one of the company’s core principles.

Relations and negotiations with Trade Unions take place locally, in accordance with the laws, the national and/or company-level collective agreements and the prevailing customs and practices in each country. These are accompanied by the role played by the Central Functions, which intervene to ensure both the coordination of activities and the respect of the abovementioned principles.

In 2007, Industrial Relations activities saw the achievement of significant negotiation results, with the renewal of the collective agreements in the various Group production plants in Spain, Germany, Argentina and Romania.

In Italy, signature of the union agreement on 13 November 2007 for the development of the new Settimo Torinese Technology and Production Centre, which will integrate the current Settimo Vettura and the Settimo Veicoli Industriali sites, was of major significance. This agreement follows on from Pirelli Tyre framework agreement with the Piedmont Regional Authority, the Turin Provincial Authority, and the Municipality of Settimo

Torinese, which has strengthened dialogue with local administrative authorities.

### European Works Council (EWC)

The Pirelli European Works Council (EWC), set up in 1998, holds an ordinary meeting once a year, following the presentation of the Group's financial statements, to be updated on economic performance, financial-economic forecasts, investments made and planned, research progress, etc. The agreement establishing the ECW also allows for the possibility of holding other extraordinary meetings to fulfil its obligations to provide information and consult its delegates in view of transnational events involving significant changes to the corporate structure, i.e. new openings, the restructuring or closure of sites and widespread changes in work organisation. EWC Delegates are provided with the IT tools they need to perform their duties and a connection to the corporate Intranet system, for the real time communication of official company press releases. Following Romania's entry into the European Union, the Council is now made of 12 members.

### Compliance with legal and contractual requirements on overtime and time-off

The Pirelli Group policy has always involved compliance with all legal and/or contractual requirements concerning working hours, the use of overtime and the right to regular days of rest. These are often the subject of agreements with both trade unions and individual workers, in line with the many different regulatory contexts.

There are no restrictions to any of the workers' right to use their total number of holidays, and the holiday period is generally agreed between the worker and the company.

### Labour and social security lawsuits

In 2007, the level of conflict continued to remain low, generating a very small number of labour and social security lawsuits.

In Brazil, the level of labour-related lawsuits is traditionally high, representing around 90% of the lawsuits currently being brought against the whole Group. This continues to be a very widespread phenomenon, which also affects other multinationals operating in this country. Labour lawsuits are generally initiated when an employment contract is terminated, and they usually involve the interpretation of regulatory, legal and contractual issues that have long been controversial.

### Unionisation Levels and Industrial Action

The Group's unionisation levels cannot be calculated precisely, as this information is not available in all the countries. We can

however estimate that about half the Group's employees are trade union members.

The percentage of employees covered by collective agreements in 2007 remains unchanged compared to last year, at around 90%. This percentage is the result of the historical and cultural differences in various national frameworks.

Individual contracts are held by approximately 10% of the employee population, such as the 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 2007 was very low. Industrial actions during the year were only recorded in Italy and Spain. The industrial action in Spain took place in Manresa production during the renewal of the collective company agreement, whereas in the Italian plants it mainly involved operational issues and disputes over salary policies.

All the above disputes were resolved by agreement between the parties.

### Occupational pension plans and healthcare schemes

No significant changes were made in this area in 2007, with the majority of affiliates providing supplementary pension schemes for their employees. The Group has adopted a policy involving the abandonment of defined benefit schemes in favour of defined contribution schemes.

Defined benefit schemes are in place in the UK (involving employees who were hired prior to a particular date, whereas those hired later participate in a defined contribution fund), in the USA (these funds were closed some years ago to active employees in favour of defined contribution funds; since then they only involve retired staff and are not affected by wage increases) and in the Tyre Sector in Germany (the scheme was closed to new recruits in 1982). There are also other defined benefit funds within Pirelli Real Estate in Germany and in Holland for the Tyre Sector, which represent a relatively insignificant liability for the Group.

Pension schemes are generally complemented by insurance policies against death and permanent disability. In Italy, the reform of the supplementary pension fund legislation came into force on 1st January 2007, giving employees of private companies the right to participate in supplementary pension funds, open or closed, and allocate them the severance indemnity starting from 1<sup>st</sup> January 2007.

The Group affiliates still provide healthcare schemes in compliance with local needs. The schemes differ from country to country in terms of allocation levels and types of cover provided. These schemes are managed by insurance companies or specially created Funds. The company participates by paying a fixed rate, as in Italy, or an insurance premium, as in Brazil and in the USA.



## OCCUPATIONAL HEALTH, SAFETY AND HYGIENE

*Group companies shall safeguard health and safety in the workplace and consider respect for workers' rights as fundamental to the business (Article 6 of the Ethical Code – Human Resources).*

Health, Safety and Hygiene Management complies with the principles set out in the Group's Ethical Code and the "*Group Policy for Health, Safety, Environment and Social Responsibility*", discussed in the introduction to this report.

The various topics discussed below have been divided under "Pirelli Tyre", "Pirelli Real Estate" and "The Group's Other Sectors/Companies". Further information on the Real Estate Sector is available in the Sustainability Report of the subsidiary Pirelli & C. Real Estate S.p.A., on the web site [www.pirellire.com](http://www.pirellire.com).

### Safety Management System

Pirelli Tyre S.p.A.

A Safety Management System organised and certified to meet **OHSAS 18001** standards has long been in operation in the Tyre Sector (which also comprises steel cord production plants). At the end of 2007, there were 20 Operating Units certified to this standard out of a total of 24 units. The remaining four production units are also due to achieve certification.

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" within the Group, in terms of the key elements of workplace safety management and a uniform shared mode of operations.

A summary description is provided below of some practical examples of safety management.

#### — **Safety of machines, installations and work environments.**

Pirelli decided many years ago to adopt the same standards of safety all over the world for machines, installations and work environments as those in force in its European facilities, which are regulated by specific community directives.

This decision has resulted, for example, in the installation of machines in the new Yanzhou (China) plant with safety features that are not required by the local legislation.

#### — **Personal protective equipment.**

In 2007, a project was started up to guarantee a standard level of protection in all facilities. Starting with Europe, a process is underway for the identification of equipment that will guarantee adequate levels of protection to all workers against similar risks and environmental conditions.

This project will involve a progressive standardisation of all the non-European factories.

— **Monitoring and analysis of the priorities of all the projects associated with the improvement of safety in the workplace.**

All the information relating to improvement initiatives has been progressively centralised and, on the basis of assessments shared with all the facilities, the necessary resources have been allocated.

**Main objective for 2008**

The main focus will be on the reduction of accidents at work, which should see a falling trend in the frequency index (FI), as a result of the continuous improvement programmes underway.

**Pirelli Real Estate S.p.A.**

Given the nature of Pirelli Real Estate S.p.A.'s operations, which essentially involve "services", a formal certification of the safety management system based on the OHSAS 18001 standards was not deemed necessary. Nevertheless, the corporate organisation has been structured in order to ensure the proper management of issues involving safety at work through: a system for the detection of potential critical situations; the setting out of the actions required for their reduction or removal; and a system for the verification of the implementation and effectiveness of the planned actions.

Following the completion of the process for the delegation of responsibilities for safety management with the associated spending powers, involving the management chains of the various Group Companies, a special awareness raising campaign (information, training, written appointment – assignment of functions – of the designated individuals - safety officers - even when not required) for the "safety officers" was launched in 2007, with particular focus on the Real Estate Affiliates whose operations involve high levels of risk. Raising the awareness of the safety officers should ensure further improvements in the actual level of accident prevention and safety at work given their role and their presence in the workplace.

Since 2006, Safety Department representatives have also participated in the Peripheral Committees for Operational Areas (solely for Pirelli RE Facility's operational areas located throughout Italy, i.e. Milan, Turin, Genoa, Verona, Rome, Pozzuoli, Naples and Palermo) to raise awareness among all operational area personnel on issues involving Health, Safety, Accident Prevention and Hygiene at work.

Since March 2005, Prevention and Protection Managers have been present in all Pirelli RE Facility's local operational areas (Milan, Turin, Verona, Genoa, Rome, Pozzuoli and Palermo), with a dedicated department operating centrally for the other Group companies.

In addition to receiving the legally required training, appointed personnel are constantly updated on new legal provisions and provided specific technical updates through the documentation and implementation of support actions by the Department Head.

In addition, since 2006 the Prevention and Protection Management has organised meetings with groups of labourers and project technicians from Pirelli RE Facility aimed at engaging them and listening to their opinions on issues of work safety. These meetings were also extended to several Local Trade Union Organisations to present the safety management models adopted by Pirelli RE and to raise the awareness of the workforce on the subject of prevention and safety.

In 2007, the Prevention and Protection Service continued to provide assistance, information and “proactive control” for all the company’s operational facilities.

We believe that the achievement of the best results over time in Safety and Prevention not only requires purely formal or paper based controls, but also those of a proactive and, where possible, of an educational nature geared towards the promotion of a culture of safety and prevention at work and raising the awareness of the personnel involved, i.e. safety managers, safety officers and workers.

In 2007, initiatives geared towards improving the safety at work of the operational personnel (technicians and blue collar workers) continued, together with tackling the problem of “undeclared labour” and social security contribution evasion by contractors and subcontractors working at the building sites and the premises of the customers of the Pirelli RE Group Companies.

The projects listed below, launched in 2006, were extended to all ongoing contracts and the new contracts obtained in 2007.

- Standardisation and use of Safety Plans for Pirelli RE Facility personnel who are called to different locations as needed);
- Standardisation and use of Safety Plans for Pirelli RE Facility personnel assigned to customers’ premises;
- Standardisation and use of Safety Plans for Pirelli RE Facility personnel assigned to supply specific services or installations.

The three types of “Safety Plan” contain a “pull-out section on hazards” delivered to each worker exposed to such risks. This innovative means of informing workers, a relative novelty in Italy, on many occasions has been met with approval by local health authorities.

- Safety at Construction Sites (large construction/repair sites)

- The setting up of a control and monitoring system, using specific indicators, for the safety of individual construction sites and for their compliance with safety applicable laws.

- Prevention of undeclared work and social security contribution evasion by contractors/subcontractors.

- Establishment of a procedure for identifying and monitoring “on site” workers and trades people and regular verification of the social security compliance of the businesses operating in the construction sites.

- Since 2007, careful monitoring of the social security compliance of the contractors and subcontractors in all of the Pirelli RE Facility operational sites (collection and updating of social security compliance certifications). For the sites covered by Law 494, the social security compliance certification checks have been performed since 2006 by the Works Managers.

— Analysis of air quality and particulate in the basement archives of the Pirelli RE Milan HQ (outcome: satisfactory).  
Analysis of electromagnetic pollution at Pirelli RE's offices in Rome, located in the vicinity of radio base antennas and radio links (outcome: satisfactory).

### **Main objectives set for 2008**

— Improvement and structuring of the system of communication (new procedures, new regulations issued on safety, etc) between the functions responsible for company Safety and the staff appointed for their implementation (vested with the adequate spending powers). For Pirelli RE Facility, this new system will also continuously update the Employer.

— Establishment of a computerised SAFETY DIARY, which will enable the “monitoring” and “maintenance” of all the initiatives taken to protect individual workers, i.e. details of information provided, training, risk-specific brochures for duties assigned to employees, IPD delivery, etc. This diary will also be used by the Competent Doctor to bring health surveillance as much as possible into line with the actual health risks for the individual employees.

### **Other Group Sectors / Companies**

#### **Pirelli Broadband Solutions**

The company is implementing an Integrated Safety and Environmental Management System (ISO 14001 / OHSAS 18001), due to undergo the certification audit by the first half of 2008.

#### **Pirelli Labs**

The activities carried out in 2007 focused on the one hand on the update of the chemical risk assessment for white room operations, and on the other on the analysis of specific problems and the training of internal and external staff.

As already implemented by the Group's operational units, **Pirelli Eco Technology**, **Pirelli & C Ambiente** and the other group companies are developing a Safety Management System based on the Group Policy for Safety, Environment and Social Responsibility.

As was the case for Pirelli Real Estate, no formal certification of the Health and Safety System was undertaken in the abovementioned companies. Instead, it was decided to encourage the local development of management systems that could better adapt to

each facility's characteristics, according to the types of operations conducted and their features.

At organisational level, a system of delegation for safety, with spending powers, is in place, together with structures to support local safety management.



Researchers in the Pirelli Labs

### Health & safety performance gauging

Pirelli Tyre S.p.A.

With regard to **Safety** and focusing on injury data recorded in **production plants**, there has been a substantial improvement in performance compared to 2006 in terms of the Frequency Index (FI), i.e. the relative number of injuries occurring. The Gravity Index (GI), however, worsened.

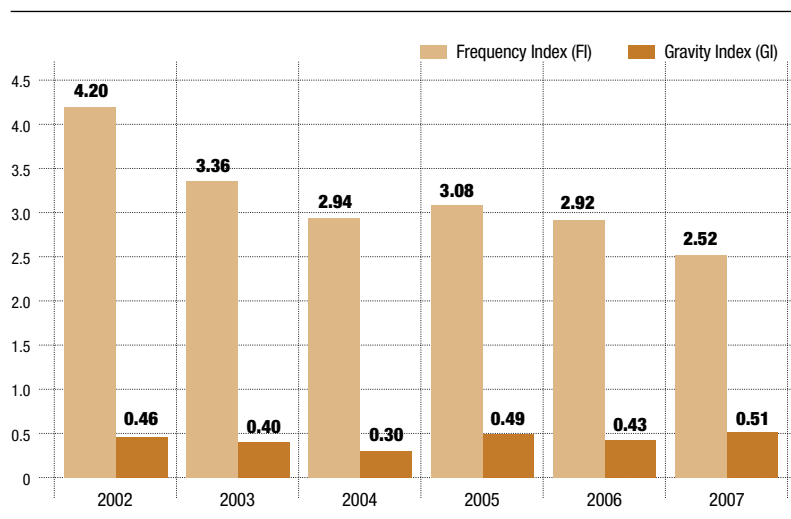
Including all the injuries occurring in tyre factories, **the Frequency Index (FI) figure for 2007 was 2.52, whereas the Gravity Index (GI) was 0.51.**

To better understand these data, it should be recalled that the GI was calculated by considering all calendar days between the injured person's interruption of work and their return to the factory as "lost", without counting the day of the accident. Holidays and weekly rest days that occurred during this period have therefore been included.



The calculation of the aforementioned indexes did not include so called “*in itinere*” injuries, which are discussed later in this report.

See the graph below.

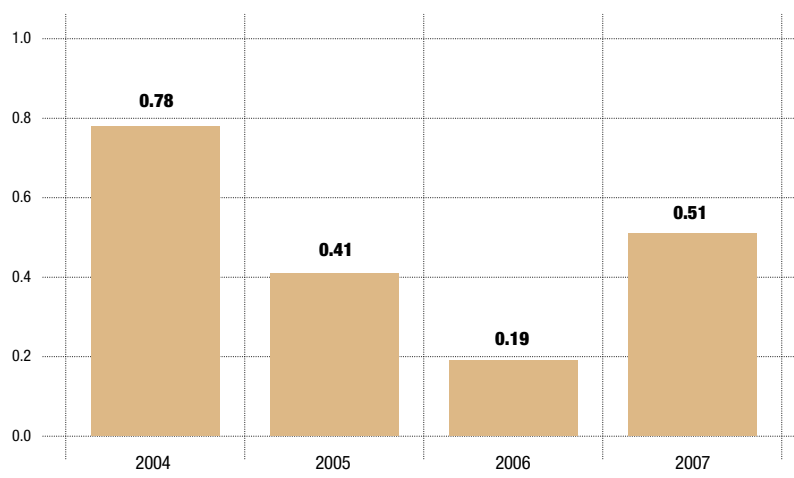


$$\text{FI} = \text{Frequency Index} = \frac{\text{Total number of injuries with work interruption} \times 100,000}{\text{Total hours actually worked}}$$

$$\text{GI} = \text{Gravity Index} = \frac{\text{Total days lost due to injuries} \times 1,000}{\text{Total hours actually worked}}$$

With regard to the **Health** of employees, the 2007 **frequency index** for new cases of occupational disease was **0.51**. Compared to previous years there was a sharp increase in the occupational diseases reported. This increase was almost exclusively concentrated in one Operating Unit, where a documentary update was performed in 2007.

#### OCCUPATIONAL DISEASE FREQUENCY INDEX



Shifting the focus to injuries occurring in Tyre Sector's **non production units**, considering the total number of injuries independent of the number of days lost for each injury, the following values were recorded in 2007:

**FI = 1.50**

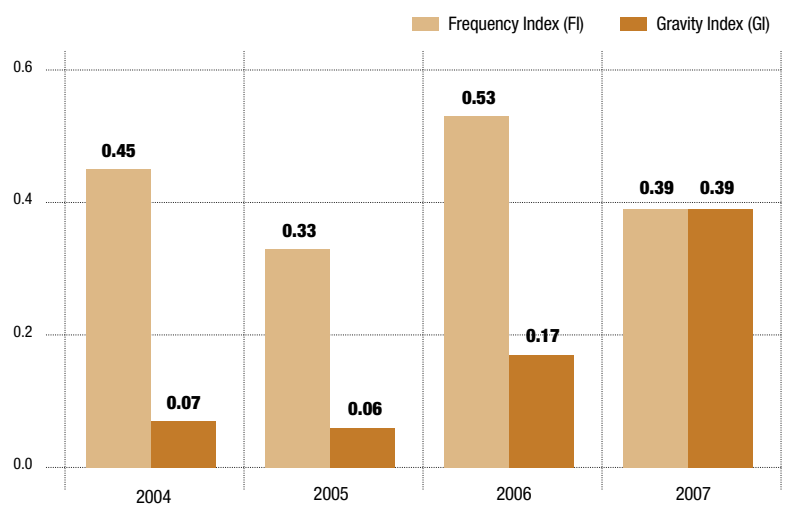
**GI = 0.23**

In 2006, the figures for these indexes were FI=1.61 and GI=0.33, which were calculated solely taking into account injuries that involved an interruption of work of more than three days (excluding the day of the injury), and not, as in 2007, on the basis of the total number of injuries recorded.

Pirelli Real Estate S.p.A.

Including all injuries at work that involved an interruption of work, the frequency index for 2007 was **FI = 0.39** and the gravity index **GI = 0.39**.

The figure below shows the trend of the indexes from 2004 to 2007.



The following initiatives were implemented in 2007 to tackle the increase in injuries:

- Raising of awareness of Pirelli RE Facility operations area Managers and safety officers (prevention campaign for operational personnel).
- Publication of a “Safe Driving” handbook to prevent road accidents (in *itinere* and non).
- Half-year injury analysis: classification and analysis of individual injuries.
- Onsite visits (in all cases) to the location where the injury occurred by the Prevention and Protection Department.

The Prevention and Protection Department also manages the reporting of dangerous situations by employees and by the Workers' Representatives for workplace Safety.

The Department deals with all reports (written or via telephone) within 24 hours of their submission. The documentation certifying this “attention” to the various reports is kept in a special archive.

### Other Group Sectors / Companies

In Pirelli Broadband Solutions no injuries occurred at work in 2007, whereas 3 *in itinere* injuries were recorded. No injuries were recorded during 2007 for Pirelli Labs.

The aggregate injury figures for Pirelli Ambiente and Corporate for 2007 reveal a frequency index of **FI = 0.41** and a gravity index of **GI = 0.04**, a slight increase against 2006, which recorded an FI = 0.05 and GI = 0.001. Since these values are so low, no significant statistical indications can be drawn from what is essentially a stable trend.

### *In itinere* injuries

Information on *in itinere* injuries (i.e. occurring during work transfers or while travelling to reach the workplace) was also collected and processed in 2007.

At **Group level**, a total number of **117 *in itinere*** injuries was recorded, i.e. **3.8** accidents every one thousand workers, (4.5 in 2006). Unfortunately in one case a road accident led to the death of the person involved.

### Fatal accidents

In 2007, no fatal accidents at work were recorded for Pirelli Group employees.

However, two employees employed by an external company died. One of the accidents occurred in Brazil, in the Santo André Pirelli Tyre Plant, during the manoeuvring of a truck in the material unloading area, and the other in Venezuela in the Guacara plant, during maintenance work on a roof.

### Sharing of experiences between production plants

All information on injuries is collected in a tailor-made IT system (injury analysis, corrective measures adopted, etc.) and, if the accident dynamics are significant, all production plants are informed and requested to: 1) internally check the existence of conditions similar to those that caused the specific injury and 2) set out any corrective actions required.

The IT system records the solutions adopted by the various production plants and shares those considered to be the best.

## Awareness raising and training

### Pirelli Tyre S.p.A.

As in previous years, 2007 also saw the active implementation of awareness raising and training initiatives on health and safety issues targeted at all grades of staff and designed to promote safer conduct.

The Safety Training Programme for new recruits and for those who have started working for Pirelli, in various capacities (agency workers, interns etc.), was continued in 2007.

Training for personnel with operational assignments was provided through specific sessions held both in the classroom and, especially, in the workplace. Educational tools also included operational instructions describing the typical duties of the various roles. Experience gained through risk analysis reviews and from past injuries was also shared. In all the production plants workers have been provided training to handle emergencies.

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

The delivery has been completed of the kits containing job and risk-specific brochures to all Pirelli Real Estate employees, with particular focus on Pirelli RE Facility management personnel (chemical, electrical and machinery risk).

Since the end of 2005, a regular information (bimonthly) service has been in operation, targeted at all Safety Managers and at Safety Officers in particular, for new regulations concerning Safety, Prevention, Protection, Environment and Management of Property assets.

Specific information brochures will also be distributed on a regular basis, aimed at raising the awareness of operational staff and safety officers in relation to safety and prevention at work (the first of these was issued in December 2005, entitled "Global Service and Laws 626 and 494: Safety in Maintenance Work"). The programme of providing information kits (launched in 2005) consisting of various brochures to new recruits continued.

In 2006, a "safety" intranet accessible to all employees was created, containing 60 means of information, prevention and protection, some of them highly innovative, geared specifically to labourers, safety officers and project managers. In 2007, the information, prevention and protection instruments in the "safety site" increased from 60 to around 100.

The site is structured as follows:

- Information and training: contains risk fact sheets for all jobs in the Pirelli RE Group, and also for work in brownfield areas; the coordination of works conducted in buildings and installations; the coordination of works at construction sites; and a guide to safe driving.

- Work procedures.
- Safety in construction (tender contracts under Article 7 Legislative Decree 626/94).
- Safety at construction sites (sites covered by Law 494).
- Management and Safety of Properties (also contains an operational fire prevention manual for “Property Managers”).
- Operating standards for employees of Pirelli RE Facility (analysis of various work risk situations and the hazards of drinking alcoholic beverages on the job).
- Work equipment fact sheets (a guide to purchasing, safety hazards, prevention and protection, user instructions, and IPDs for the use of equipment).
- Safety plans for Pirelli RE Facility operations.
- Technical standards (including a specific provision relating to asbestos risk produced “in-house” to make it as relevant as possible to the Group’s actual operating conditions).
- Safety News: a list of the legislative changes in the field of safety, accident prevention, occupational hygiene and property management.

## Other Group Sectors / Companies

Safety is also a central element of employee training programmes in the other Group sectors / companies.

In 2007, training organised in the abovementioned companies involved, among others, safe working practices in laboratories and during experiments, with a particular focus on training and information campaigns for new recruits and external personnel.

## Health & safety investments and expenditure

The most significant investments in 2007 were recorded by **Pirelli Tyre**.

In 2007, investments in health and safety by Pirelli Tyre reached a total of around **7 million euro**.

Investments involved the improvement of machinery and plants and, more generally, the overall work environment (i.e. improvement of microclimate and lighting conditions, layout changes to improve operating ergonomics, measures to ensure the healthiness of infrastructures, etc.).

These investments were accompanied by safety related expenses essentially attributable to work environment monitoring (i.e. sampling and analysis, consultancy studies, etc.), purchasing of personal protection equipment (e.g. injury prevention shoes, gloves, safety eye-glasses, etc.) and collective protection devices (e.g. better protection of machinery, suction systems and measures to improve the workplace environment not covered by specific investment projects).



### Healthcare assistance during working hours

For decades Pirelli has had infirmaries operating in 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 health 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 2007, Pirelli gave its workers the opportunity of being inoculated free of charge with the seasonal anti-flu vaccine.

In 2007, the anti-flu campaign was given further impetus through wide reaching information tools targeted at all organisational levels (involving southern hemisphere workers in the spring and those in the northern hemisphere in autumn).

Several thousand people took part in the initiative.

### Group Policy "No Smoking Company"

In June 2003, a letter sent by the Top Management to all the Group's Chief Executive Officers announced the corporate decision to become a "No Smoking Company", to safeguard the health of both smokers and non smokers. 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 the damage caused by cigarette smoke were also implemented through the distribution of leaflets, organisation of conferences on nicotine addiction and publication of questionnaires on smoking on the Company's Intranet System.

The verification of the implementation of the no smoking policy also led to reports of 55 breaches of the policy by staff on Pirelli premises.

# External community

## RELATIONS WITH INSTITUTIONS AND PUBLIC AUTHORITIES

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

In 2007, Relations with Institutions actively involved both the countries where the Pirelli Group has a well established presence and those where the Group's presence is more recent.

In Romania and China, Pirelli, in line with its tradition of establishing firm roots in the countries where it operates, was involved in continuous dialogue over the year with institutions at national and regional level geared towards strengthening its local presence both from a business perspective (investments to enhance existing production sites) and in terms of the role played by the company within the local cultural framework, improving its potential whilst respecting specific cultural identities.

In 2007 the Group companies have maintained and strengthened a stable channel of dialogue and exchange with national and supranational partners (Governments, embassies, Parliaments, Public bodies, central and local authorities, and the European Commission).

Pirelli's activities included the identification and monitoring of legislative activities and the rules and procedures set out in specific European and national regulations. Dialogue has been strengthened with regional/national institutions, aimed at identifying funding opportunities for investment projects, scientific and technological research, as well as projects of a socio-economic nature (training/retraining programmes).

These relations with public authorities are based at all stages on the utmost transparency and veracity of the information conveyed (from the identification of funding sources to checks and inspections conducted by the funding institution), in the belief that ethical conduct in these relations should go hand in hand with the company's success.

## INVOLVEMENT OF THE INTERNAL COMMUNITY WITH THE EXTERNAL COMMUNITY

### Children in Crisis: Pirelli Broadband and Pirelli Labs for the Congo

In October 2007, a school was inaugurated in the Congolese village of Bushushu that will provide over 450 children with access to secondary education.

The **Bushushu** Project, completed in just one year, was entirely funded by Pirelli Broadband Solutions and Pirelli Labs, also

with the direct participation of employees, suppliers and customers. Children in Crisis Italy – a not for profit organisation committed to improving the lives of children who are the victims of conflict, poverty and disease – carried out the work together with the local NGO PEF-PAFU. In addition to the school, a mill has been built to grind cereals, providing a small business to help finance the school.



The Bushushu project supported by Pirelli Broadband Solutions and Pirelli Labs

The two buildings, which represent a rebirth for the community of South Kivu, a region of the Democratic Republic of Congo that was the victim of an earthquake in 2004, are also intended to act as a foundation for the integration and peaceful coexistence of the various communities.

### Inaugurations of the “My Time for Indonesia” schools

After around a year and a half of work, June 2007 saw the inauguration in Indonesia of the two senior schools reconstructed after the 2004 tsunami, thanks to the contribution of Pirelli and all the employees who donated almost 10 thousand hours of work during the “**My Time for Indonesia**” project.

The project involved two upper technical institutes: one in Banda Aceh - the provincial capital of the Island of Sumatra – capable of hosting 1,400 students, and the other within the province able to accommodate 400 students. The opening of the schools is the symbolic conclusion of a project, born from Pirelli Group's desire to contribute to the reconstruction of an area that, on 26 December 2004, suffered enormous devastation and massive loss of life. The allocation of the funds was agreed with the local authorities, with whom an agreement was signed in April 2005.

The schools, in addition to providing education to future generations, also represent a landmark for the entire population in the reconstruction process.



The amount of money needed to implement the project, around 500 thousand euro, was collected through the deduction of the number of hours that each employee decided to donate from their payslip, together with a contribution from the company. The collection of the funds and the construction work, which Pirelli employees were able to follow on the company intranet, were monitored by a Guarantee Committee for Italy (consisting of the Pirelli management, the Trade Union and a representative of Price Waterhouse Coopers) and a Guarantee Committee for Indonesia (made up of the Pirelli management, the Indonesian Minister for National Education and a representative of Deloitte).

Inauguration in Banda Aceh of the schools provided by the project "My time for Indonesia"

## COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY

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

[www.pirelli.com](http://www.pirelli.com)  
> Stakeholders > External Community

*"Pirelli Group supports and respects the protection of internationally proclaimed human rights" (Policy on Health, Safety, Environment and Social Responsibility).*

The awareness of its role in promoting the civil and cultural progress of communities where it operates has been a cornerstone of Pirelli business culture for over 130 years. This is why the Group organises and backs social, cultural and educational initiatives by working with both public and private institutions, local authorities, associations and bodies in all countries where it operates.

This commitment is not only consistent with the principles expressed in the Code of Ethics and Group Corporate Social Responsibility Policy, but also forms an important part of Pirelli strategy of maintaining its role as an international company that is one of the most integrated and active within the communities where it operates. As a consequence, Pirelli has always been involved in social, artistic, educational, training, and sports initiatives. All these activities are carried out in association with partners with a proven track record, chosen on the basis of criteria designed to ensure their quality.

## Solidarity

Produced by the Milan Institute for the Blind in partnership with Pirelli, **Dialogue in the Dark** is an exhibition set in an environment without any light, which invites sighted people to enter the world of the blind to experience the problems they face and appreciate the extraordinary skills developed as a result of their “disability”. Pirelli has worked with the Institute since the initiative’s launch in 2005, with excellent results in terms of interest from the public and schools.

The Group also maintains excellent relations with several of the most important Italian non-governmental organisations. Pirelli is one of the founders of **Emergency**, an independent, neutral and non-political humanitarian organisation, set up to provide free high quality medical-surgical assistance to the victims of civil wars, landmines and poverty throughout the world.

Pirelli also provides support at institutional level to the aforementioned **Children in Crisis Italy**, an Italian association that belongs to the international Children in Crisis network founded by the Duchess of York in 1993. Active in 13 countries around the world, it seeks to improve conditions for children who are the victims of conflict, poverty, disease and other situations of serious hardship. Still within the area of solidarity, the Group also supports the association **Sempre Insieme per la Pace** (together for peace), which is involved in humanitarian interventions at international level.

Pirelli also pursues its mission of supporting youth at local level in Milan, through its contribution to associations like the **Fondazione Boccafogli** - dedicated to winning over street youth by encouraging their artistic and expressive potential, or the **Centro ausiliario per i problemi minorili** committed to youth hardship, or the age old Milanese institution **Fondazione Asilo Mariuccia** dedicated to abandoned children.

In the area of health, Pirelli supports the **Fondazione Benedetta d’Intino**, which treats autism and perception disorders in children, the **Fondazione Giancarla Vollaro** and the **Associazione Marco Semenza**, working in the field of cancer research, and the **Centro Dino Ferrari**, specialising in the study of neuromuscular and neurodegenerative diseases.

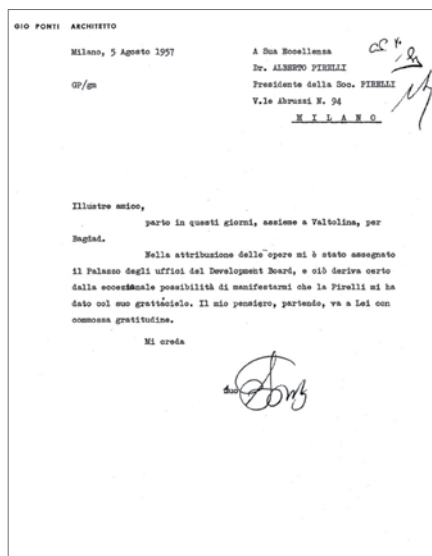


Pirelli actively supports the promotion of the artistic heritage, talent and local resources of all the countries where it operates, through a model of active cooperation that combines the skills of its partners with its own expertise in the fields of technology, organisation and communication. Pirelli has long been an engine for cultural development in Milan, having set up its **Pirelli Cultural Centre** decades ago, whilst for over twenty years the Pirelli magazine has been an example of an internationally focused business culture.

The Group also has long standing and prestigious partnerships in the art world. The most recent – December 2007 – involves an agreement with the Milanese Design Museum **Triennale di Milano** to design and develop shared initiatives. The objective is to revive the relationship between business culture and design culture and the image in architecture, urban development, visual arts, graphics, design and communication. A strategic alliance between two of the most important historical institutions in Milan, joined by a bond that stretches as far back as the Fifties with the collaboration – in addition to the friendship and personal esteem – between the then chairman Alberto Pirelli and Gio Ponti, the leading character in the story of the Triennale, which was assigned the job of constructing the Pirelli Skyscraper.

This partnership follows on from the Group support for the exhibition “100 Objects from the Italian Design Permanent Collection of the Triennale di Milano”, promoted by the Italian Embassy and the Cultural Institute of the Indian Embassy. A contribution to the spreading of that wonderful blend of culture

[www.triennale.it](http://www.triennale.it)



A poster from the advertising campaign “Un viaggio sul sicuro - Cinturato Pirelli” (a safe journey - Pirelli Cinturato) and the letter from Gio Ponti

and production that is **industrial design**, for which Milan has been, and continues to be, a global centre of excellence. One of the first initiatives (starting in 2008) is the exhibition *Un viaggio, ma...*, (a journey, but ...), which accompanied the launch of the new Pirelli Cinturato at the Triennale (rebates and discounts are given to Group employees).

In April 2007, Pirelli signed an agreement with the **Solomon R. Guggenheim Foundation of Venice**, to become one of the small number of partner-companies that form part of the *Intrapresae group* and that, among other benefits, provides for free entry to all Pirelli employees and their families to the prestigious Palazzo Venier dei Leoni museum.

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[www.guggenheim.org](http://www.guggenheim.org)

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A decade ago Pirelli signed an agreement to provide corporate support to the **Brera Art Gallery**, the most ancient art collection in Milan and one of the most important in Europe. The Group assists in the restoration of the fifteenth century Venetian paintings in the XIV Hall. Following on from the *Pala Pesaro* by Giovanni Gerolamo Savoldo, it is now the turn of the *L'adorazione dei Magi* by Jacopo Palma il Vecchio. Pirelli's involvement has enabled the development of an innovative device – designed by the architect Sottsass – through which the restoration can be performed in public, maintaining the paintings on view for the visitors.

Pirelli has long partnered the **FAI – Fondo per l'Ambiente Italiano** (the National Trust for Italy) in various initiatives including the organisation of courses on history of art for the public. The 2007/2008 season saw Pirelli and FAI involved – with the patronage of the Ministry for Cultural Heritage and Activities, the Lombardy Regional Authority, and the Provincial and Municipal Authorities of Milan – in a new edition of the *I mercoledì dell'arte* (art Wednesdays), a series of 29 lessons at the University of Milan. This edition, entitled *Meeting Asia*, provided hundreds of people with the opportunity to improve their knowledge of oriental art through to the contemporary.

## Theatre and Music

Within the field of visual arts, Pirelli has a long standing association with the **Fondazione Pierlombardo** supporting the work of the *Teatro Franco Parenti*, one the most active, firmly rooted theatres in the Milanese cultural fabric. The significant role played by the Group has already been acknowledged with the naming of the theatre's exhibition area for the work of young artists as the "Pirelli Hall".

Another example of the focus on culture within the Milanese areas is the support for the theatre **Piccolo Teatro di Milano** on its seventieth anniversary. The joining of the theatre's Group of Supporters was an almost inevitable "return to roots": Pirelli was one of the founding partners in 1947 of the first public stable theatre in Italy. A relationship that was also reinforced by the participation – through the Silvio Tronchetti Provera Foundation – in the **Galileo Project**, aimed at using the theatre stage to encourage new generations to study scientific disciplines. In

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[www.piccoloteatro.org](http://www.piccoloteatro.org)

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[www.performinggalileo.net](http://www.performinggalileo.net)

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November 2007, over 900 students from Milanese senior schools watched *The life of Galileo* by Bertolt Brecht, brought to the stage in Italy for the first time since 1963 in the Piccolo Theatre. For the students it was an opportunity to record the spectacle and interview the actors, directors and spectators in view of the “Performing Galileo” competition, involving the reinterpretation of the play using the language and technology of multimedia youth culture. The work will be published and classified according to school level on the site [www.performinggalileo.net](http://www.performinggalileo.net), produced by the Milan Polytechnic, and will then be judged by a jury chaired by Umberto Veronesi.



The poster of the “Performing Galileo” campaign

Moving from the theatre to music, in September 2007, Pirelli initiated its support for the **MITO SettembreMusica**, an international music festival, which last year for the first time involved Turin and Milan together in a packed programme of over 180 events of classical, contemporary, jazz, rock, pop and ethnic music, meetings, dedicated reviews and film projections. Still within the world of music, over the past three years Pirelli has sponsored “*Per non dimenticare*” (To not forget) – a concert organised by the *Fondazione 8 Ottobre* at the Scala Theatre every year in memory of the victims of the 2001 air accident at the Milan Linate airport.

## Education & Culture

### Bicocca Hangar

A fundamental instrument for Group relations with the local area and the community is the **Bicocca Hangar**, a site of over




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The Bicocca Hangar

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15 thousand square metres that has been transformed by Pirelli RE into an institution devoted to arts and culture. With a strong focus on research and experimentation and capable of attracting creative arts and culture from all over the world, the Bicocca Hangar is an ideal location for bringing art and visitors together, geared towards active participation by the public. In 2007, its schedule included a wide variety of events promoting dialogue between leading figures in contemporary culture and various different types of audience. Two events worth mentioning were *Not Afraid of the Dark* – as part of the “Emergencies” project - and the *Art for Business Forum*.

“Emergencies” is a programme of events, exhibitions, reviews and art projects on the issues surrounding humanitarian and social emergencies, intended to provide an opportunity for knowledge expansion and a series of encounters between the world of culture and socially conscious businesses.

Designed and managed by Bartolomeo Pietromarchi with the scientific direction by the *Fondazione Adriano Olivetti*, and promoted and supported by the Hangar Bicocca and The Family, “Emergencies” involves a series of initiatives in various sites in Milan including: *Not Afraid of the Dark*, an exhibition where internationally famous artists have proposed - through installations, performances and video projections – a reflection on controversial social and political issues. The *Art for Business Forum* is an initiative promoted by the Bicocca Hangar and Trivioquadrivio, in association with Pirelli RE and with the participation of numerous partner universities. Two days of encounters, round tables and workshops to explore the potential of art for business development and its tangible/intangible values. An excellent example of how culture has regained a central role and educational function.

The other communication initiatives promoted by Pirelli RE included the *Great Architects: A journey in the mind of...*, a series of DVDs produced in association with the magazine *Interni*, a journey into contemporary architectural culture, where leading architects describe their design research and their own personal way of working.

## Education

Starting from the academic year 2007-2008, the Group has set up two study grants of 10 thousand euro each for the final year students of the **Liceo Classico “Carducci”** (classics senior school) of **Milan**. Dedicated to the memory of Leopoldo Pirelli and his brother Giovanni, they are awarded to needy and deserving students due to enrol in a science and in a humanities degree course in a Milanese university.

The year 2007 will also be remembered for the five year framework agreement signed between Pirelli and the **Turin Polytechnic** that provides for the involvement of this academic institution in research in the tyre sector. The agreement envisages the cooperation between the polytechnic’s research facilities to develop production processes and Pirelli’s most advanced technology, from the next generation of the MIRS™ process to the CCM™ system and the “intelligent” Cyber Tyre. The Group also contributes to the funding of a professorship in Mechanical Engineering. The innovations generated by this cooperation will be developed in the Settimo Torinese industry and technology centre. Pirelli’s partnership with the academic world also involves **Bicocca University of Milan**. In 2007, through the CORIMAV (*Consorzio Ricerca Materiali Avanzati – advanced materials research consortium*), Pirelli funded three research doctorates in the Materials Science department. The objective is to promote the study of scientific and technological disciplines, especially those focused on the development of materials with potentially useful applications.

The Group also makes a teaching contribution to the department through its specialist researchers who provide **tutoring** to the PhD students.

The relationship with university and scientific world also underlies Pirelli’s partnership with the **Silvio Tronchetti Provera Foundation**, aimed at promoting research and the nurturing of talents in economics, science, technology, and management, through funding, awards, study grants and contributions to academic and scientific institutions. This takes place directly or in association with other parties, including a partnership with three academic institutions: the Milan Polytechnic, the Luigi Bocconi University and Bicocca University of Milan, whose chancellors sit on the Foundation’s board. In association with the Veronesi Foundation and the Cini Foundation, over the last three years the Silvio Tronchetti Provera Foundation has promoted *The Future of Science* in Venice, a series of conferences and debates on the subject of science attended by a number of Nobel Prize winners and world famous scientists and researchers.

Following on from the relationship between scientific knowledge and human life in 2005 and evolution in 2006, in 2007 *The Future of Science* focused on environmental issues, from energy supply to climate change and the sustainability of our development model.

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[www.polito.it](http://www.polito.it)

[www.polimi.it](http://www.polimi.it)

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[www.fondazionetronchetti.it](http://www.fondazionetronchetti.it)

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## Sport

Pirelli has been involved for over a century not just in two and four wheel motor sports competitions, but also in other fields (cycling, athletics and tennis), a testimony to its wide ranging commitment to sport in its many different forms.

### Soccer

The Group's commitment to soccer is known the world over through its sponsorship in Italy of Inter Milan F.C. and other top class teams including Palmeiras in Brazil, Peñarol in Uruguay, Velez Sarsfield in Argentina, and Basel in Switzerland. Its commitment, however, goes beyond professional soccer.

Pirelli is involved in the **promotion of sports culture**, which means the promotion of responsible and ethical social interaction also among young people.

This was the spirit behind the launch in 2007 of the project **"Leoni di Potrero - Calcio per tutti"** (lions of Potrero – soccer for everyone), a free training centre supported by Pirelli & C. in association with the Inter Milan soccer players Esteban Cambiasso and Javier Zanetti, aimed at children between 5 and 12 years of age. The objective is to take part in the development of the young students, fostering positive values such as friend-

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The soccer school "Leoni di Potrero" (Potrero lions) supported by Pirelli in association with the Inter Milan soccer players Zanetti e Cambiasso

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# PIRELLI

ship, loyalty, fidelity, respect and tolerance. A way to teach the concept of integration to children from different social classes, working to prevent negative situations like isolation and loneliness.

## Sea sports

Pirelli's involvement in this area also spans over almost forty years. In spring 2007, the 38th edition of the **Pirelli Coppa Carlo Negri Regattas** was held in the waters of Santa Margherita Ligure, with several boats taking part once again from "Matti per la Vela" (mad about sailing), a major therapeutic and rehabilitation project supported by Pirelli RE that uses sailing as a tool in addressing youth hardship, social exclusion, drug addiction and disabilities.



An edition of the Pirelli Coppa Carlo Negri Regattas



As for the activities involving the internal community, this report also includes a focus on the initiatives undertaken by Pirelli in Romania in favour of the external community.

### Focus on Romania

In 2007, Pirelli signed an **agreement with the Niguarda Cà Granda Hospital of Milan** and the **Slatina Hospital** for the professional training of Romanian medical and nursing staff at the Milanese hospital.

The three year training programme will involve around 70 doctors and nurses from the Romanian hospital, who will take part in theoretical and practical courses on emergency medicine, emergency surgery, intensive care, reanimation, emergency gynaecology and hospital epidemiology at the Niguarda Hospital. Over the three year period, several medical directors from Niguarda will go to Slatina to assess the implementation of the new technologies and procedures within the Emergency Ward and the Emergency Department.

Pirelli has allocated 500 thousand euro to the project over the three years, including the donation of modern diagnostic and emergency intervention medical equipment to the Slatina Hospital.

As regards the younger members of the community, Pirelli, in association with Inter Milan FC and the **Associazione Comu-**

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Pirelli works with the Slatina hospital to improve the public health of the local population

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**nità Nuova Onlus**, has set up a new “Intercampus” in Slatina. The project uses the game of soccer as an educational and social networking tool for the youth of the Slatina community, providing them with a fun and effective opportunity for growth and interaction.

*Comunità Nuova* has been assigned the task of handling the social interaction and educational aspects together with the organisation of recreational and study related activities for children. Inter Milan FC, on the other hand, through its Intercampus has been given the job of engaging the youngsters by providing them with top class sporting and training programme.

Intercampus is backed by the Mayor of Slatina and the Ministry for Youth and supported by the Slatina college of physical education, and the main public and private voluntary associations.

## Summary tables

This section is designed to enable readers to relate the issues addressed within the report to the international experience of the GRI and the Global Compact.

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