



“Sustainability as a fundamental choice based on vision and growth strategies, as an entrepreneurial and cultural value and as a responsible component of long-term development sums up the Pirelli Group's approach to business, which it continued to refine in 2008. Such an approach helps reduce economic, social and environmental risk. Internal cohesion grows in step with the overall vision needed to balance business activity as much as possible with the interests of different stakeholders, in view of compensating the impact of specific historic conditions through the pursuit of long-term stability, which a business must achieve at least in those areas where it can take the initiative. The current global economic crisis is forcing businesses to change, restructure and sacrifice. It is also forcing profound industrial and social changes, which Pirelli intends to address not only with appropriate short-term measures, but also and especially by continuing to focus on innovation, in the broadest sense of the term. This means focusing on the most advanced technologies but also research, training, the promotion and development of “talents”, especially younger people, growing occupational safety, multicultural experience and sensitivity to social implications in the communities with which it constantly interacts around the world. With these aims in mind, Pirelli launches its “green performance” strategy for environmentally sustainable growth. This strategy translates into new products and new production systems with reduced environmental impact, low energy consumption, quality and safety. This is what sustainability means to us. This is the approach and performance that will enable us to appear once again on the most prestigious rankings of international sustainability as world leader in the Dow Jones Auto Parts & Tyres Sector. We have been accorded this honour for the second year in row and will continue to uphold it with commitment and consistency.

Marco Tronchetti Provera

”

## A note on methodology

This, the fourth edition of the Pirelli Group Sustainability Report, is a comprehensive 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.

The **perimeter** of this annual report is the same as the Group's consolidated report.

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*, while also taking account of data periodically monitored by the leading rating agencies of sustainable finance. The sections on economic and social dimensions have also drawn on the Reporting Standards issued by the Italian Sustainability Report Study Group (**GBS** - Gruppo di Studio per il Bilancio Sociale).

In this report, 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 made in 2008 in relation to the contents of the 2007 report.

Specific qualitative and/or quantitative objectives have been indicated in the sections dedicated to each one of the Group's stakeholders.

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

Beginning this year, an **outside, independent organisation** has audited both this report and the Pirelli & C. Real Estate SpA Sustainability Report, in order to certify the completeness and accuracy of the qualitative and quantitative information reported in it.

For detailed information on the Real Estate Sector, whose sustainability performance is addressed in this report, please consult the **Pirelli Real Estate SpA Sustainability Report**, which can be found on the website [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 "Sustainability" section of the website [www.pirelli.com](http://www.pirelli.com). The "Sustainability" section dedicated to the external community also offers up-to-date information on sustainability News and Events directly involving Pirelli.

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

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[www.pirellire.com](http://www.pirellire.com) > Corporate Social  
Responsibility

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

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

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# 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 that have an interest in the company’s decisions, influence its success and/or are impacted 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 equitable reconciliation of the interests and expectations of all those who interact with the company. In particular, these are:

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

The Group encompasses 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 sections 2, 3 and 4 of this chapter, to which the reader is referred for further information.



# Sustainable Governance

For Pirelli, sustainable governance means **integrating sustainability with the various 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.

## FUNDAMENTAL PRINCIPLES - MISSION, VISION, BRAND PROMISE

Over the course of 135 years of history marked by changes in business, markets, people, political, economic and social contexts, Pirelli's corporate identity has not changed. This identity is built around innovation, pursuit of excellence, internationalisation, social and environmental responsibility, and sustainable growth and creation of value.

The **Group Mission** is the following: *"...Developing cutting-edge products in terms of quality, safety and respect for environmental and social sustainability, capable of satisfying the needs of our customers and all other stakeholders through the Group's capacity for research and innovation and the skills of our human resources."*

The **Group Vision** considers in turn that *"quality and excellence are distinctive components that can render Pirelli products exclusive and make the Group a benchmark for performance in a continually evolving global context."*

Integration of sustainability in the very essence of Pirelli is expressed through the **Brand Promise**, which states: *"Our claim 'Power is nothing without control' is the essence of Pirelli's products and action: high performance, research and innovation are combined with responsibility, safety, respect for the environment and sustainability."*

The Group's Mission, Vision and Brand Promise are published in *Group* section of the Pirelli website ([www.pirelli.com](http://www.pirelli.com)), which is accessible 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 the fight against corruption.

These involve universally shared values, as they derive 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*, to which Pirelli is firmly committed.

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[www.pirelli.com](http://www.pirelli.com) > Group > Company Profile > Mission, Vision and Values

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[www.pirelli.com](http://www.pirelli.com) > Sustainability > Pirelli and Sustainable Development > Global Compact

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

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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.

This letter, which is published in the *Sustainability* section of the Pirelli website ([www.pirelli.com](http://www.pirelli.com)), is available to the External Community.

## SUSTAINABILITY DOCUMENTS

### Values and Ethical Code of the Pirelli Group

To provide all the Group's affiliates with cogent and uniform guidelines for the professional practices to be followed by those who work for the company, the Board of Directors of Pirelli & C. S.p.A. approved the Values and Ethical Code of the Pirelli Group.

The 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 that affect the main stakeholders with whom Pirelli regularly interacts.

Group suppliers are formally required to comply with the Group Ethical Code, by signing the "sustainability clauses" included in supply contracts and that are dealt with more extensively in a specific section elsewhere in this report.

The Ethical Code will be revised in 2009, to bring it into line with new market requirements involving sustainability and corporate governance. Consistently with the Group's sustainable approach to operations, full implementation of the Code will be ensured by tying it to whistleblowing procedures.

The document has been translated into the various languages spoken inside the Group, and then distributed to all employees. The contents of this document, published in the Sustainability section of the Pirelli website ([www.pirelli.com](http://www.pirelli.com)), are available to the External Community.

### Pirelli Group policy on "Health, Safety, Environment and Social Responsibility"

By publishing its "Health, Safety, Environment and Social Responsibility Policy (HSE & CSR Policy)," signed by the Chairman in June 2004, Pirelli has implemented and reinforced guarantee inside the company that a proper balance would be maintained between sustainability and industrial development. The HSE & CSR Policy brings together in a single document the previous corporate policies on the environment and occupational safety in view of integrated sustainable operation.

The contents of the Policy respond to the desire to translate into a brief but substantial text the Group's commitment to unwavering compliance with the principles set out in the "Universal Declaration of Human Rights," the "International Labour Organisation Declaration on Fundamental Principles and Rights at Work," and

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[www.pirelli.com](http://www.pirelli.com) > Sustainability > Pirelli and Sustainable Development > Ethical Code

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[www.pirelli.com](http://www.pirelli.com) > Sustainability > Pirelli and Sustainable Development > HSE & CSR Policy

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the ILO Conventions on forced labour and child labour, freedom of association, equal opportunity and occupational health and safety.

This is also consistent with the commitments made upon acceptance of the principles set out in the United Nations Global Compact, which are reflected in turn in “The Values and Ethical Code of the Pirelli Group”, and in the Group Equal Opportunities Statement and in the consequent operating activities.

The Policy begins by affirming support and respect for human rights, which offer the essential inspiration for the company's sustainable approach.

Group suppliers are formally required to comply with the Policy, by signing the “sustainability clauses” included in the supply contracts and that are dealt with in more detail in a specific section elsewhere in this report.

Like the Ethical Code of the Pirelli Group, the HSE&CSR Policy will be updated in 2009.

The document has been translated into the various languages spoken within the Group and distributed to all Pirelli employees.

The contents of HSE & CSR Policy, published in the *Sustainability* section of the Pirelli website ([www.pirelli.com](http://www.pirelli.com)), are available to the External Community.

### Pirelli Group Equal Opportunities Statement

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

The document clearly illustrates the Group's approach to personal development in the management of diversity. Compliance with the principles and commitments set out in the Statement is guaranteed by local procedures for reporting and protection of equal opportunity in the workplace.

The Statement, which was distributed to all Group employees in their local languages at the end of 2006, has been published in the *Sustainability* section of the Pirelli website ([www.pirelli.com](http://www.pirelli.com)), which is available to the External Community.

## THE GROUP'S SUSTAINABILITY TOOLS

### Corporate Governance

Pirelli assigns a key role to corporate governance, aware of its importance to value creation.

The Group is thus constantly committed to maintaining its corporate governance system in line with Italian and international best practices, and is always alert to implementing innovative solutions to add value to its own corporate governance system.

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[www.pirelli.com](http://www.pirelli.com) > Sustainability > Pirelli and Sustainable Development > Equal Opportunities

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

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Pirelli has adopted the traditional management and control system based on the central role of the Board of Directors. The company's governance model is based on fair practices for disclosure of the choices and processes followed in making business decisions; on an effective internal control system; on effective rules applicable to potential conflicts of interest and rigorous rules of conduct in carrying out transactions with related parties.

The other key features of the Pirelli governance system include:

- a high level of transparency in its Corporate Governance system, with extensive evidence and description of the governance structure, with evidence of bi-annual updates and integrations contemplated for the corporate governance compared with the content of the Annual Report;
- the presence in the board of a large number of Independent Directors, amounting to 55% of the Board of Directors and more than 65% of total non executive directors;
- the important role given to minorities, which in case of submission of the lists elect 20% of the Board of Directors (currently 4 out of 20);
- the establishment of a Committee for Internal Control and Corporate Governance and a Remuneration Committee solely made up of Independent Directors;
- designation of a Lead Independent Director, who is assigned an active and effective role in coordinating the requests and contributions of independent directors. This officer has always guaranteed his regular attendance at all Board of Directors and Shareholders' Meetings and at meetings of the Committee for Internal Control and Corporate Governance and the Organisational Model Supervisory Body, of which he is Chairman;
- the Directors' strong commitment to their mission, which is also reflected in their regular attendance of Board of Directors meetings;
- periodic meetings of the independent directors and directors without executive authority - in the second case with top management of the Group - in order to improve their familiarity with the company's actual operating conditions and facilitate their contribution to management;
- the Board of Directors' consolidated practice of reviewing its own performance, with the aid of an expert consulting firm.

For further details on the Pirelli Corporate Governance System, reference is made to the relevant section in the Annual Report. The section dedicated to the company's Corporate Governance System can also be accessed through the homepage of the website [www.pirelli.com](http://www.pirelli.com).

### Internal Control and Risk Management Systems

The Internal Control System is comprised by the procedures and tools designed to offer reasonable assurances that the objectives of operating efficiency and effectiveness, the reliability of financial and operating information, compliance with laws and regulations and protection of company assets against possible fraud or attempted corruption be realised.

The Pirelli Group Internal Control System is set up in such a way as to ensure fair disclosure and adequate control of all activities, particularly in areas that are considered potentially at risk. This is the operating translation of the principles set out in the Group Ethical Code, and represents a collegial process intended to pursue fundamental business ethics: fairness, transparency and honesty.

The fundamental principles of this system are the efficiency, cognizance and verifiability of company operations, the reliability of accounting and operating data, formal and also substantial compliance with laws and regulations, and conservation of company assets over time.

The Board of Directors is responsible for the Internal Control System, defining its guidelines and periodically auditing its adequacy and actual performance. It relies on the Internal Control committee and the Corporate Governance Committee, as well as the Internal Audit Department of Pirelli & C. S.p.A. to carry out these activities.

As part of its **risk management** activities, Pirelli identifies potential risks through the **Control Risk Self Assessment (CRSA)** process. Implementing the Management Plan, this process relies on methods of identifying and assessing risks by management at the individual affiliates located in different countries.

The CRSA method has been incorporated in the Planning and Control procedure as part of the Group's administrative processes, in view of developing the management of corporate risks within the framework of that procedure. The aim was to "automate" its application so that the company's various operating units can independently assess risks and adopt appropriate countermeasures together with elaboration of the annual Management Plan. This reflects the clearly high sensitivity to unknown factors tied to local operating and socioeconomic conditions.

All risks to company stability are monitored and assessed, such as meeting targets, protecting corporate assets, the reliability and integrity of information, corruption and the operating risks that are associated the specific company and/or the specific geographical location.

This activity takes a systematic approach in order to analyse existing controls and identify any improvements and reduce the risk profile.

Consequently, the CRSA activity is carried out in order to:

- increase management's attention, awareness and responsibility for risks;
- provide a systematic approach to identifying and measuring the risks that might have a negative impact on strategic objectives;
- prepare a profile that indicates how existing controls have reduced the current level of risk;
- establish how risk can be further reduced through greater controls;
- prepare realistic action plans to mitigate major risks;
- obtain a risk profile that, as a key tool in the decision-making process, is used for change management;
- provide a structured and disciplined risk assessment approach as part of the planning and control process.

Several tools are simultaneously used at the operating level for self-evaluation of risks and controls.

In an initial phase, the business unit managers and their direct subordinates identify the threats that can prejudice achievement of corporate objectives and the tangible and intangible resources that the risks can impact and their likelihood of occurring.

Subsequently, during a consolidation phase, redundancies are eliminated and classes of material risks that had not been initially identified are added.

Then a single list of risks is drafted and sent to management for assessment of the likelihood that the events occur and their impact on operations.

The **risk portfolio**, which is one of the principal outputs of the self-evaluation process, not only orients the formulation of strategies but also plays a major role in audits, both during definition of the annual plan and during audits themselves.

The identification of potential risks supports the internal control system in identifying realistic action plans for risk prevention. It likewise permits the analysis of shared **crisis management** operating strategies, by means of which insurance coverage is periodically adjusted as appropriate in accordance with specific internal policies.

Among the risks connected with individual geographic areas, the **human rights** assessment carried out at the corporate and sector levels merits special attention. This assessment is carried out for those countries where it is more likely that human rights be violated. These countries are the same as the “countries of concern” (according to the EIRIS classification for FTSE indices) where the Company has a presence.

This applies in particular to management of the chain of supply, which requires procedures, prevention and management that are addressed in a specific section elsewhere in this report.

**Ad hoc assessments** are also carried out before entering a specific market, in order to assess any political, financial and social risks, including those connected with respect of human rights. Once the Company sets up operations in such a market, this will enable it to better manage the gap between local practises and Company HR and social responsibility policies, which will be applied on a mandatory basis.

In order to monitor internal compliance with the human and labour rights set out in the SA8000® Standard (the benchmark tool used by Pirelli to manage social responsibility), the Group complements constant monitoring at the corporate level with **independent audits by external consultants**. Such audits enable the company to make complete and objective assessments of any departures from the principles set out in the standard.

In 2008 independent audits were carried out at Pirelli production plants and commercial locations in Turkey, Brazil, Venezuela, Argentina, Egypt, China, Romania, Colombia, Mexico and Chile (commercial offices only are located in the last three countries). Several plans for remedial measures were implemented in 2008 in consequence of these audits.

## Organisational Structure

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

In 2005, the Chairman appointed an **Equal Opportunities Steering Committee**, a high-level body to guide and supervise programmes for equal opportunities at 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, an **Equal Opportunities Manager** was appointed for the Group as a whole. Finally, each country has an Equal Opportunities Manager, who is responsible for guiding and supervising the advancement of equal opportunities at the local level.

## Group Rules of Corporate Social Responsibility

The *Rules of Corporate Social Responsibility* (issued on 16 September 2006) set out and regulate the methods applied for internal management of activities associated with corporate social responsibility, with particular attention to the roles and responsibilities of the departments involved. These regulations also govern the planning and control processes, the process of drawing up this Sustainability Report and management of the dissemination of CSR information to the external community.

These rules specifically provide for the full integration of CSR in the Group's financial reporting structure: "...*The cycle of planning and control of CSR follows the Group's reporting and planning calendar.*"

## Adopted management systems

To implement the first principle of the *Health, Safety, Environment and Social Responsibility* policy, Pirelli devotes significant resources to management systems. The Group utilises these tools to improve the quality, effectiveness and efficiency of its processes, in view of continuously reducing impact on the health of its employees, on safety conditions in the workplace and on the environment.

The adopted management systems for occupational health and safety (**OHSAS 18001**), environment (**ISO 14001**) and product quality (**ISO 9001, ISO/TS 16949, ISO/IEC 17025**) are extensively described in the specific sections dedicated to them elsewhere in this report.

The international **SA8000®** standard was adopted in 2004 as the benchmark 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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In 2008 Pirelli commissioned **independent audits** at its plants and commercial locations in Turkey, Brazil, Venezuela, Argentina, Egypt, China, Romania, Colombia, Mexico and Chile (commercial offices only are located in the last three countries). Several plans for remedial measures were implemented in 2008 in consequence of these audits.

### IT System for CSR information management

In 2008 Pirelli completed the “CSR-DM” (CSR Data Management) system. This is an IT system for the management of Group sustainability information. Created in 2007 to improve the efficiency of the process of contribution, validation, consolidation, analysis and management relating to sustainability, the system has been used to collect the data reported here.

### STOCK MARKET INDICES AND ETHICAL FINANCE

Pirelli has received major recognition for its commitment and the results achieved in the field of sustainability through its inclusion in some of the most prestigious international stock exchange indices for sustainability.

#### Dow Jones Sustainability Indices

Launched in 1999, the Dow Jones Sustainability Indices are the first global indices to track the financial performance of leading companies in terms of sustainability. Compiled on the basis of cooperative efforts between Dow Jones, STOXX Limited and SAM Group, 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 in the **Dow Jones Sustainability World** index.

**In January 2009 Pirelli was named world sustainability leader in the “Autoparts and Tyres” Sector and Gold Class Company for the second year in a row by Sustainability Asset Management Group (SAM). This recognition was published in the prestigious *Sustainability Yearbook 2009*, published by SAM in collaboration with PricewaterhouseCoopers.**

The *Yearbook* is the most complete and authoritative global benchmarking tool for sustainable finance specialists. Only 15% of the companies listed in 57 business sectors are included, following assessment by SAM of more than one thousand multinational companies.

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[www.pirelli.com](http://www.pirelli.com) > Sustainability > SRI and related Indexes

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[www.pirelli.com](http://www.pirelli.com) > Sustainability > SRI and related Indexes > Dow Jones Sustainability Indexes

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

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## FTSE Indices

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

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

[www.pirelli.com](http://www.pirelli.com) > Sustainability > SRI and related Indexes > FTSE4Good Indexes



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

## 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. The ASPI survey pool is comprised by the companies included in the DJ EURO STOXX SM index.

In an important Vigeo assessment, whose results were published in Italy in September 2008, the Company was recognised as a leader in its sector for its policies and practises, especially in the fields of “Human Rights,” “Environment,” and “Customers and Vendors” (which the Vigeo model considers to be some the areas with the greatest risks/opportunities), for which Pirelli received the highest score. Its score for human rights was far higher than the sector average. Vigeo has also given Pirelli high marks in the environment category, reflecting the Group’s environmental management systems. Appreciation was also expressed for the Group’s equal opportunities and product safety policies and transparency in regard to Board of Directors compensation.

[www.pirelli.com](http://www.pirelli.com) > Sustainability > SRI and related Indexes > ASPI Index



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

## AXIA Indices

Pirelli has been included in the **Axia Ethical Index** since 2004 (the year when the index was created) and in the **Axia Csr Index** since 2005 (the year it was created). Pirelli is also included in the 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 highest capitalisation for the S&P MIB and Eurostoxx60 indices. Pirelli’s current rating is **A+++**, which is the highest obtainable in the “ethical class”.

[www.pirelli.com](http://www.pirelli.com) > Sustainability > SRI and related Indexes > Axia Index



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

## KEMPEN Indices

Pirelli has held “Pass Status” since 2003 in the entire Kempen Capital Management “**SNS Socially Responsible Investing Universe**” with continually improving ratings. The investing universe includes companies listed in Europe that prove they have adopted the highest standards in terms of ethical, environmental, and human resource standards.



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

## Scs Consulting Accountability Rating

Scs Consulting, a management consultancy, presented its **Accountability Rating** for the first time in Italy in December 2008. This tool was designed to measure the capacity of firms to respond and their transparency to interlocutors on significant management aspects, particularly strategy, governance and management systems, capacity to engage stakeholders and the impact of their core business on the competitive environment.

Scs assessed the companies listed on the S&P/MIB index, which is the principal Italian stock market index, and its ranking put Pirelli in the top ten.

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[www.accountabilityrating.com](http://www.accountabilityrating.com)  
[www.scsconsulting.it](http://www.scsconsulting.it)

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## PRINCIPAL INSTITUTIONAL COMMITMENTS

Pirelli's adherence to the United Nations **Global Compact** has already been mentioned above.

### Membership in the European Alliance for CSR

Pirelli's participation in the European Alliance, formalised in 2007, is based on its full acceptance of the role of sustainability as a strategic and competitive way to manage a company. So far, Pirelli's participation in the initiative promoted by the European Commission to encourage the spread and exchange of the best sustainability practises amongst businesses, has been expressed through its active participation in the **Alliance's European Laboratories**, coordinated in Italy by the Sodalitas Foundation (where Pirelli has a seat on the Steering Committee).



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[www.ec.europa.eu/enterprise/csr/alliance.htm](http://www.ec.europa.eu/enterprise/csr/alliance.htm)

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The Equal Opportunities Workshop produced a toolkit entitled **"Practising Gender Equality in Careers"** prepared by Pirelli together with IBM Italia, L'Oreal, Telecom Italia, Poste Italiane, Roche Diagnostics and Indesit Company on occasion of the European Equal Opportunities Year (2007). This toolkit, presented in Brussels on 19 June 2008 at the CSR Europe General Meeting, took a year to complete and encompasses all the best practises for management of gender diversity. These practises are described in terms of key operating procedures and are aimed at businesses that have decided to draw inspiration from existing best practises.

Since 2008 Pirelli has also participated in the Italian Workshop on **"Managing Multiculturalism"** at work, which will produce a management manual in 2009 based on existing best practises for multicultural management.

### Chairmanship of ETRMA - European Tyre and Rubber Manufacturers Association

Francesco Gori, CEO and General Manager of Pirelli Tyre, is serving his second consecutive term after being re-elected Chairman of ETRMA (European Tyre and Rubber Manufacturers' Association) in October 2008, promising continued focus on three priority themes - environmental protection, road safety and greater competitiveness.



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

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While the Group confirms its institutional commitment to the Association, which has represented the continental tyre and rubber product industry before European Union institutions and other international organisations since 2006, the programme of activities to raise awareness for road safety continues. A year after the signing of the **European Road Safety Charter**, which represents a commitment to halve the number of highway accident deaths by 2010, ETRMA launched a European Safe Driving Campaign in 2008. It has offered an educational quiz for everyone, but especially an opportunity for drivers who want to measure their own knowledge of the “Golden Rules of Safety” that everyone should know and apply.



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

### WBCSD - World Business Council for Sustainable Development

Pirelli actively participated in the WBCSD - World Business Council for Sustainable Development once again in 2008. Headquartered in Geneva, this is an association of about 200 international companies based in over 30 countries that have made a voluntary commitment to unite economic growth with sustainable development.



[www.wbcsd.org](http://www.wbcsd.org) > Tire Industry

Pirelli Tyre is a member of the **Tire Industry Project Group**, the project launched in 2006 to identify the potential impact on health and the environment of the materials associated with the manufacture and use of tyres. Sixteen months after research work began, the heads of leading world tyre manufacturers that belong to the group met in Tokyo on 12 June. This important event offered an update on programme progress and outlined major new approaches to study.

### Participation in the Kyoto Club and the energy efficiency conference

Pirelli was one of five Italian companies invited to attend the roundtable on **Energy Efficiency, the Main Priority**, a conference held on 11 September by the Kyoto Club and hosted by the city of Milan. This roundtable was part of the programme for raising awareness and providing information and training in the fields of energy efficiency, use of renewable energy sources and sustainable mobility promoted by the Kyoto Club to achieve the greenhouse gas emission reduction targets set in the Kyoto Protocol. Formed in 1998, the Club is a non-profit organisation comprised by businesses, institutions, associations and local government authorities committed to stimulating proposals and policies for action in the energy and environmental sector.

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

One of its members is Pirelli Ambiente Renewable Energy, the Pirelli Ambiente company that operates in the renewable energy source sector and, in particular, waste-to-energy activities through the production of quality fuel, developed and patented with the contribution of Pirelli Labs and Pirelli Real Estate.

## Collaboration agreements with universities and public authorities for joint research projects

The Group signed a collaboration agreement with the **Region of Piedmont, Province Turin, City of Settimo Torinese and the Turin Polytechnic** for development of research and innovation programmes to develop the new Pirelli industrial centre in the territory of Settimo. In particular, this agreement calls for introducing cutting-edge technologies on which Pirelli is focusing its tyre research activities at the Settimo Torinese industrial centre. A major part of this project will be carried out in collaboration with the Turin Polytechnic. This will include the new generation MIRS, a substantial evolution in the robotised tyre manufacturing process that guarantees uniform product quality, TSM (Twin Screw Mixing), a new process of mixing materials at high standards of quality and reliability, and the Cyber Tyre, the future “smart tyre” equipped with sensors that can transmit useful information for driving and controlling vehicles.

The Pirelli Group and the **Milan Polytechnic** have signed an agreement to create a professor’s chair and fund five scholarships for doctoral degrees over the course of ten years on the *Chemical Foundations of Rubber and Compound Technology*. The new professor’s chair is intended to pursue study of innovative materials and the application of nanotechnology to development of new generation tyres.

The Fondazione Silvio Tronchetti Provera foundation and the **Shandong University in Jinan** (China) have signed a research agreement for the study of a new generation of “green tyres.” The university researchers will work with the Group’s R&D Department in China to create tyres with low rolling resistance, in order to reduce fuel consumption. This project is part of the research and development activities pursued by the Group for some time now to develop increasingly eco-compatible tyres.

## Agreement with the Niguarda Ca’ Granda Hospital in Milan for a cooperation project with the Slatina Hospital

Intended to further the **continuing education** of Romanian physicians and nurses at the Milan hospital, the **three-year medical cooperation programme** between the Niguarda Ca’ Granda Hospital and the Slatina Hospital financed by the Pirelli Group engaged the participation of 25 Romanian physicians and nurses in its first year of activity. They received a total of 300 hours of training in the Emergency Medicine, Emergency Surgery, Intensive Care, Resuscitation and Emergency Gynaecology Departments at Niguarda.

The cooperation programme envisages engaging the participation of about 70 physicians and nurses from the Slatina Hospital over the course of three years, through participation at theoretical and practical courses on Emergency Medicine, Emergency Surgery, Intensive Care, Resuscitation, Gynaecology and Hospital Epidemiology.

The agreement is one of the social programmes undertaken by Pirelli in support of the community of Slatina, where the Group has built a large industrial centre dedicated to the production of high performance tyres for the Central and East European markets.

### Participation in the 20<sup>th</sup> National Quality Campaign

This year Pirelli participated in the 20<sup>th</sup> edition of the National Quality Campaign, an annual initiative sponsored in Italy by the Galgano Group. It aims to promote the strategic role of quality in our national economic system.



Launched back in 1989 by the three big quality associations **Japanese Union of Scientists and Engineers (JUSE)**, **American Society for Quality Control**, now the **American Society for Quality (ASQ)** and the **European Organization for Quality (EOQ)**, since 1995 the National Campaign has been part of the European Quality Week, which the European Union launched by inviting Member States to hold a series of promotional initiatives during the month of November to spread awareness of the following issue: quality as focus on the customer, innovation and competitiveness, added value that permits the elimination of waste and improvement of productivity, and a strategic key to building success.

These were the themes in 2008. During this campaign, sponsored by the President of the Republic of Italy and key ministries, an ad has been published in leading Italian newspapers and a series of conferences are being organised in various Italian cities to emphasise the importance of quality and the development of a new quality-oriented culture.

### PRINCIPAL AWARDS RECEIVED

In 2008, the Pirelli Group received numerous awards and expressions of preference by consumers around the world, thereby taking a leading position in surveys and comparative studies carried out by respected specialised magazines and prestigious companies specialising in brand analysis. The common denominator of these awards is the recognised reliability of the Pirelli Group and its products.

Research institutes also recognised the Group's technological innovations. Ratings of the Group prepared by the analysts of the most prestigious indices of sustainable finance at the global level kept climbing, as discussed in detail elsewhere in this chapter. In particular, the Group was recognised for its leadership in global sustainability in the "Autoparts and Tyres" Sector and as a Gold Class Company by Sustainability Asset Management Group (SAM) for the second year in a row.

Some of the principal forms of recognition received by the Group in 2008 are illustrated below. News for 2009 are also included here, as they are considered significant events occurring before publication of this report.

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

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### Pirelli one of the 100 most respected and reliable companies in the world

This is what was said in the 2008 edition of **The Global Pulse Project**, sponsored by the Reputation Institute of New York. The special ranking published in July considers more than a thousand companies in 27 countries according to a system that measures the public's degree of trust, admiration, esteem and respect. The annual survey is compiled from interviews of more than 30,000 consumers. The results of the study are published annually by Forbes.

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

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### Pirelli is one of the 10 most famous Italian brands in the world

This was announced by an Italian ranking prepared for the first time by **Interbrand**, the biggest brand consultancy firm that specialises in analytical, strategic and creative disciplines for brand creation, management and assessment in order to maximise a brand's economic value. In the midst of a market downturn, the Company has received this major international recognition, which not only confirms its investments in the brand, but also major prospects for growth in its core business and fashion.

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

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The scorecard for Pirelli says: "Strong focus by the Group on its core business of making tyres, characterised by a consistent message at the global level ("power is nothing without control"), the brand seems to be sustaining its price-mix growth policy with success. In a sector where environmental sustainability is now a requirement rather than a choice, Pirelli's challenge will be to capitalise on the branding of its investments in eco-tyres, without diluting its performance image".

### Pirelli Tyre is the "Tire Maker of the Year," winning the "Tire Technology International Award 2009" for the creation of innovative materials and environmental benefits

The "Tire Technology Expo" was held on 18 February 2009 in Hamburg. This is the world's most important show and conference dedicated to the tyre industry, which hands out the prestigious "Tire Technology Awards for Innovation and Excellence" every year. The jury of international authorities on tyre manufacturing and research named Pirelli Tyre "Manufacturer of the Year".

This choice was justified by research as a key factor in Pirelli's activity in 2008, characterised by the creation of innovative materials, environmental benefits and the establishment of partnerships with research institutes like the Fondazione Silvio Tronchetti Provera and Shandong University in China.

### Pirelli the best tyre maker of the year in China

In December 2008, Pirelli won the prize "**Best Tyre Maker of the Year**" at the **China Auto Service Golden Finger Awards**, winning the consensus of experts, technicians, journalists and web users. This recognised the Company's long commitment to top

quality tyres and high performance, which have become standard equipment on the world's best cars. Presented by *Auto Driving & Service Magazine* (one of the most authoritative car magazines in China) and Sohu Auto Channel, the China Auto Service Golden Finger Awards and Golden Wrench Awards are among the most influential and best-known awards in the car industry.

### Pirelli best investor in the Gorj District, Romania

In December Pirelli & C. Eco Technology was elected **"Best Investor of the Year"** in the **Gorj District** of Romania. This was the decision of **Antena 1**, Romania's top national commercial television broadcaster, which created the prize in 2008 with other organisations.

Pirelli Eco Technology ended the year on a positive note. On 5 December this Group company, which is committed to reducing air pollution, celebrated **the first Feelpure particulate filter produced at the Bumbesti-Jiu plant**, in the historic region of Oltenia.

### The winner is Pirelli Labs!

On 9 May 2008 the CNR (Consiglio Nazionale delle Ricerche - Italian National Research Council) awarded the Oscar Masi Prize for Industrial Innovation to Pirelli Labs. They won the 2007 competition, whose theme was the application of nanotechnologies, with the **"tunable laser"** one of the world's most innovative solutions for the creation of a universal source in long-distance fibre optic telecommunication systems, which is covered by 14 international patents.

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

### The Swiss prefer Pirelli tyres

For the third year in a row, Pirelli won in the "Best Brand" tyre category, the most popular competition for readers of *Auto Illustrierte*, a prestigious independent car magazine published in Switzerland.

The "Best Tuning Cars & Best Brands 2008" prizes by the readers of *AI* were awarded in Basel on 13 November, as usual, during the most important and most visited German Swiss car show, the Auto Zürich Car Show.



### American drivers recommend Pirelli

Pirelli received a score that was 22 points above average in the *Original Equipment Tire Customer Satisfaction Study 2008*, an annual survey conducted by the California research institute J.D. Power and Associates that measures car driver satisfaction on original equipment (OE) tyres during the first two years after car purchase. Satisfaction with the OE is measured on the basis of five basic factors: durability, traction, design, driving pleasure and handling. The survey compared the products of 14 manufacturers.

Customer satisfaction is the most important factor in deciding to buy the same brand when tyres have to be replaced, or recommending them to friends and relatives. Here again, while the industry average is 32%, Pirelli ranked 38%.

#### The Cinturato P6 tyre is ranged number 1 in France for safety

In the test organised by the French magazine *L'Auto-Journal* and published in its 11 September issue, four models of ecological tyres that were market leaders were ranked according to stopping distance at different speeds, within the speed limits imposed by motor vehicle codes. The Pirelli Cinturato P6 tyre beat its competitors with 22 points.

#### Pirelli is the favourite brand of SportAuto readers

Performance and emotions: for the readers of *SportAuto*, a leading German magazine in the sports car sector, Pirelli is the top brand for “sportsmanship and emotion”. This is what was reported in the survey that the specialised publication conducts every year amongst its readers to get their opinions and reward the brand that satisfied them the most.

In its comparison of the most important tyre makers, Pirelli stood out for safety and dynamic handling, distinguishing itself for its sure grip on curves, stability at high speed, safety in wet conditions and excellent performance while braking. The Pirelli brand received high scores in many areas, including its sporty look and the results of different evaluation tests. “The ‘**Best Brand**’ prize is a major incentive for the future for us. We are going to work hard to hold on to this title”, said Michael Borchert, Pirelli Marketing and Sales Executive in Germany.

**Other awards received from outside organisations for sustainable performance in 2008 are mentioned in the sections below, where they are discussed in the specific subsections.**



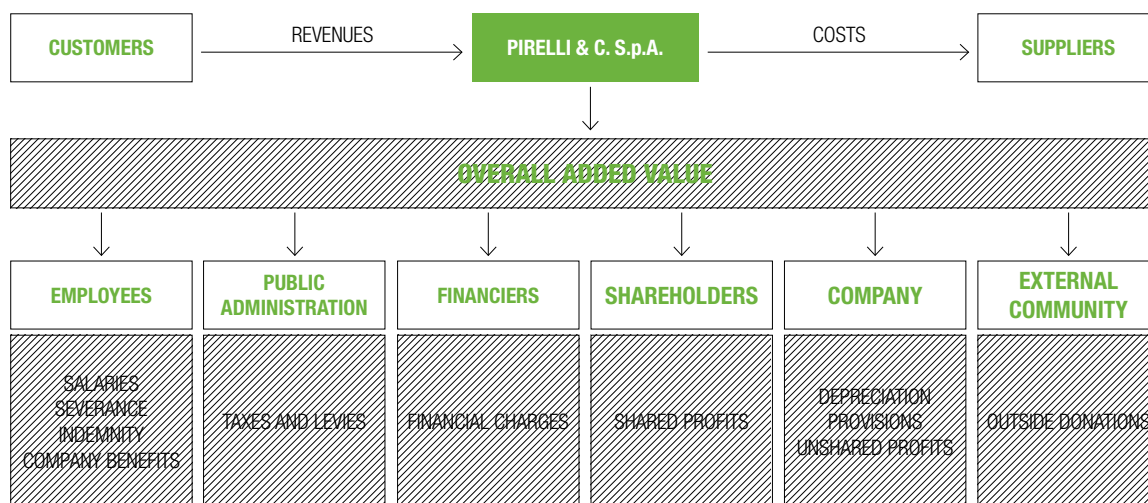


# Economic dimension

*Pirelli 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 between 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 2008, 2007 and 2006 is broken down as follows:

#### ADDED VALUE (in thousands of Euro)

	2008		2007		2006*	
<b>GROSS OVERALL ADDED VALUE</b>	<b>1,169,029</b>		<b>1,871,969</b>		<b>1,996,516</b>	
Remuneration of personnel	(1,210,440)	103.5%	(1,156,170)	61.8%	(1,075,819)	53.9%
Remuneration of Public Administration	(78,335)	6.7%	(133,503)	7.1%	(127,849)	6.4%
Return on credit capital	(76,087)	6.5%	(36,288)	1.9%	(126,976)	6.4%
Return on venture capital	-	0.0%	(169,503)	9.1%	(78,299)	3.9%
Remuneration of the company	(200,866)	-17.2%	(368,132)	19.7%	(579,535)	29.0%
External donations	(5,033)	0.4%	(8,373)	0.4%	(8,038)	0.4%

\* 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 write-down of the affiliate company Olimpia (2,110 million Euro).

The changes in the items comprising gross overall added value as indicated above are adequately explained in the *Directors' Report*, before the beginning of this chapter. Reference is made to that report for further details.

The table below shows the contributions and donations made by Pirelli & C. Group in the three-year period 2008, 2007 and 2006, broken down by category:

#### AREA OF INTERVENTION (in thousands of Euro)

	2008	2007	2006
Education	1,322	1,035	1,246
Culture	2,076	5,774	5,188
Sport	137	287	244
Research	615	483	339
Solidarity	880	656	739
Other	3	138	282
<b>TOTAL</b>	<b>5,033</b>	<b>8,373</b>	<b>8,038</b>

The current complexity associated with the economic situation has led to revaluation of what has been allocated to the different areas of intervention. The changes for 2008 shown in the table are indicative in this sense, which shows a significant reduction in the total amount of contributions and donations although, when the individual items are observed, there has been a substantial increase in resources allocated to research, training and solidarity, which are of fundamental social importance during hard economic times. Consequently, the social responsibility of Pirelli is demonstrably sustainable and adequate.

Reference is made to the *Social Dimension* section for a detailed description of the principal actions associated with these contributions and donations.

Finally, Group companies “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*).*

Pirelli attributes great strategic importance to **financial communication**, considering it a key tool for building a trust-based relationship with the financial markets.

Through top management and the Investor Relations Department, the Group maintains an open and transparent dialogue with analysts and investors - both individuals and institutional investors - in view of promoting fair valuation of its assets. At the same time, Pirelli believes that constant dialogue with professionals in the financial sector represents a key tool to enhancing the value of Company assets by keeping up-to-date on changes in business trends affecting the Group and, more generally, macroeconomic trends.

Accuracy, timeliness, equality and transparency are the basic rules that Pirelli applies to its financial disclosures.

It uses typical communication tools and channels: from conference calls to present financial results to one-on-one meetings between top management and analysts and investors; presentation of the Company business plan during road-shows to leading financial markets; from the web to daily contact through the Investor Relations Department with financial analysts and investors.

In February 2009 Pirelli unveiled its Business Plan for the three-year period 2009-2011. Its basic goal is to transform the Group through intensification of restructuring, reorganisation and rationalisation of businesses aimed at the development of solutions that anticipate market demand. This applies in particular to the businesses connected with the development of “green” technologies and products that are compatible with new environmental standards.

The Business Plan is based on four guidelines:

- focus on core activity, then on tyres and the development of particulate filters;
- stimulus for the development of cutting-edge products and solutions in the “green economy”, in the areas of sustainable mobility, environmentally compatible building construction and renewable energy sources. The Group has set a target percentage of total revenues that must double from 20% in 2008 to 40% in 2011;
- accelerated reorganisation of Pirelli Real Estate to permit the evolution of strategic partnerships in property management in Italy and Germany;
- sale of some equity holdings to improve the Group’s financial flexibility to support growth in its core business.

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

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[www.pirelli.com](http://www.pirelli.com) > Sustainability >  
Stakeholders > Shareholders and the  
Financial Community

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During the current market phase - characterised by extreme volatility in stock prices and uncertainty over changes in the macroeconomic situation - Pirelli intends to intensify its dialogue with the financial community.

Consequently, investor relations activities in 2009 will be focused on promoting more frequent meetings with analysts and investors and enhancing the visibility of the Group's new Equity Story. Consistently with its strategic goal of becoming a "green performer" in the industrial sector, Pirelli has always dedicated special commitment and attention to interaction with rating companies that address sustainability issues.

In January 2009 Pirelli was named world sustainability leader in the "Autoparts and Tyres" Sector and Gold Class Company for the second year in a row by Sustainability Asset Management Group (SAM). This recognition was accorded in the prestigious *Sustainability Yearbook 2009*, published by SAM in collaboration with PricewaterhouseCoopers.

During the 2008 financial year, Pirelli also confirmed its position in the most prestigious rankings of ethical finance at the global level, with its scores improving markedly. This topic has been illustrated extensively in the introductory section of this report, to which reference is made for more details.

Information on the composition of Company shareholders and its share capital is provided in the *Corporate Governance Report* that is a part of this annual report, to which reference is made for more details. The cited information is also published in the Governance section of the Company website, [www.pirelli.com](http://www.pirelli.com).

The "Investors" section of the Company website [www.pirelli.com](http://www.pirelli.com), whose layout and organisation were revised at the end of 2008, provides a complete information tool for matters of interest to shareholders and the financial community. Reference is made to that section for further details.

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

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## Customers

### TYPES OF GROUP CUSTOMERS

The types of customers vary greatly from one business unit 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 about 15 distribution channels (for car, truck and motorcycle tyres), and whose importance differs from country to country.



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Milano Bicocca, Italy. Pirelli Information Systems.

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The **Real Estate Sector** is comprised by:

- “Investment & Fund Management”, whose customers are funds and property holding companies and non-performing loans, in which Pirelli & C Real Estate generally has qualified minority shareholdings;
- “Service companies”, whose customer include, in addition to third parties, funds and property holding companies and non-performing loans managed by the Asset Management departments of Pirelli & C. Real Estate, which are also served by the franchising network.

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

- added value retails;
- system integrators;
- telecommunication operators;
- distributors.

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

- Customers in the Renewable Energy sector, i.e. companies that convert solid urban waste to energy;
- Customers in the Site Remediation sector, i.e. companies - mainly in the Group and other closely affiliated companies - that assess, plan and manage the demolition and decontamination of buildings and/or lands;
- Customers in the Solar Utility sector, i.e. national electricity grid operator to which Solar Utility sells the electric power produced by photovoltaic plants.

Customers of **Pirelli Eco Technology**, i.e. companies that operate in public transport, freight transport, waste collection, the mining sector and construction. Pirelli Eco Technology also operates through partners that are licensees of its Gecam<sup>TM</sup> technology and operate independently in Italy. In addition to receiving royalties on its licensee's sales, the company also indirectly performs the technical and marketing activities connected with the product.

The following table shows the **breakdown of Group sales by geographical area**:



## BREAKDOWN OF SALES BY GEOGRAPHICAL AREA

% of total value of sales

### NORTH AMERICA

2008	6%
2007	6%
2006	7%

### ITALY

2008	18%
2007	24%
2006	27%

### REST OF EUROPE

2008	34%
2007	34%
2006	33%

### CENTRAL AND SOUTH AMERICA

2008	28%
2007	23%
2006	21%

### AUSTRALIA-ASIA-AFRICA

2008	14%
2007	13%
2006	12%

## GROUP POLICIES

Customer orientation - a key aspect of the *Values and Ethical Code of the Group* - presumes that Pirelli has a constant and on-going commitment 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 to satisfy the customer's needs.

These principles are set out explicitly in Articles 2 and 4 of the Pirelli *Ethical Code*. The relevant excerpts are given as follows. "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 cooperation" (*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 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 2007, we have decided to focus again in 2008 on relations between the Tyre Sector and its customers, partly so that a year-on-year comparison of performance can be made.

[www.pirellityre.com](http://www.pirellityre.com) > Company >  
Sustainable Development

### Dialogue and interaction

The relationship is managed principally through two channels:

- the local sales organisation, which has direct contact with customers and, by using the Sales Force Automation (SFA) information management system, can process and respond on-site to all customer information requirements;
- the Contact Centre, which handles provides both informational assistance or order management (inbound) and telemarketing (outbound).

The existing monitoring systems generate reports that can be used to evaluate efficiency, effectiveness and level of customer satisfaction:

1. **KPI Contact Centre** monthly reports: quantitative measurement of the principal customer service parameters to aid the analysis of offered service levels.
2. **WMT (Workflow Management Tool)**, which is an application that permits mapping of all requests originating from the marketing to obtain both quantitative (number of requests by subject area and requestor, response times, etc.) and qualitative (response method) analysis designed to improve service and enhance customer care.
3. **Dealer Satisfaction Surveys**, which are periodic surveys of satisfaction ranked on a scale of from one to five, conducted in the form of interviews with native language operators, anonymous surveys, and web based questionnaires.

The following table shows the results of the surveys for the last three years:

#### SATISFACTION LEVEL

	2008	2007	2006
Number of countries involved	11	11	13
Overall satisfaction level (1-5)	3.96	4	3.96

Numerous surveys have been conducted by important newspapers and specialised organisations to determine end customer preferences and satisfaction. Pirelli enjoyed particularly enviable results for 2008: in the *Original Equipment Tire Customer Satisfaction Study 2008*, an annual survey conducted by the California research institute J.D. Power and Associates that measures car driver satisfaction on original equipment tyres during the first two years after car purchase, Pirelli's score was more than 22 points above the sector average.

For the readers of *SportAuto*, a leading German magazine in the sports car sector, Pirelli is the top brand for “sportsmanship and emotion”. This is what was reported in the survey that the specialised publication conducts every year amongst its readers to get their opinions and reward the brand that satisfied them the most. For the third year in a row, Pirelli won in the “Best Brand” tyre category, the most popular competition for readers of *Auto Illustrierte*, a prestigious independent car magazine published in Switzerland.

Dialogue with the Company is assured by a **Contact** available to customers on the Pirelli Tyre website for any questions or requests they might have.

### Focus on quality: certifications

The focus placed on quality by Pirelli Tyre, both as manufacturer and supplier, is demonstrated by the **certifications it has received**, which comply with international standard and address aspects regarding processes, products and services. In particular:

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

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#### ISO 9001

The Group **Quality Management System**, set up in 1970, has gradually been introduced to all the plants. The Pirelli quality system has been ISO 9001 certified since 1993. All of its factories are certified in accordance with the most recent version of this standard.

#### ISO/TS 16949

To meet the requirements of **car makers**, the Group obtained certification for its quality management system under the ISO/TS 16949 standard in 1999, and has since maintained its certification in compliance with the current version of that standard. All plants that supply car makers have obtained this certification.

#### ISO/IEC 17025

In 1993 the Pirelli Group **Materials and Products and Outdoor Experimentation Lab** implemented a quality management system that is accredited under the ISO/IEC 17025 standard. This quality management system is maintained in accordance with the current standard.

Pirelli's car tyres are an excellent example of the Company's focus on quality, which is confirmed by its pre-eminence in a large number of product tests, and also ensured by the Company's close links with highly prestigious partners (famous car makers, specialist magazines, driving schools, etc.) for product development and experimentation.

#### European Regulation no. 1907/2006 (REACH)

In certification of the compliance of chemical products pursuant to European regulations to protect worker health and the environment, the Group has recently implemented all measures necessary to comply with REACH requirements. Pursuant to these requirements, Pirelli does not produce or does not directly import chemical substances from non-EU countries, constantly controls the chemical substance registration processes implemented by its suppliers, verifies their certification and requests continual updates in accordance as necessary to carry on its business.



Bollate Italy. Car Tyre Factory.

Over the next few years, the efforts of the Pirelli Tyre R&D Department will be increasingly focused on the development of innovative performance products capable of anticipating market demand, particularly in all businesses connected with the definition or development of technologies and **“green products”** that are compatible with the new environmental standards.

This will particularly involve **new ecological materials**, first and foremost **silica from rice chaff**, which offer both environmental and cost benefits. The development of “green performance” products is planned for various segments, reinforcing its current leadership especially in the premium segment. In particular the new Cinturato P7 tyre, which will be presented next April, represents the green revolution that adopts the tradition of performance.

Pirelli is increasingly focused on ecology and road safety, i.e. **sustainable mobility**. This process began some time ago and, not by accident, it has had solid roots in the Group’s passion for innovation for more than 130 years (when it became a benchmark for the automotive industry) and in a Research & Development Department that boasts five centres of excellence located around the world (in Italy, Germany, Brazil, United States and United Kingdom), about one thousand professionals and the highest annual investment as a percentage of sales in the entire tyre industry.

All of the Group’s efforts are being focused on green performance. It will soon be ready to introduce many innovations that will change the history of the entire industry, just as it did with the radial ply tyre in the 1950’s or the low-profile tyre in the 1970’s. These innovations reflect a global, integrated ecological approach: from ever-more ecological tyres in all segments to the use of new materials that are not derived from petroleum; from integrated solutions for the automotive industry to production processes that are less and less harmful to the environment (or more and more friendly to it). In other words: **ecology applied to the whole production chain, from tyre manufacturing solutions to the final product.**

Green performance in a tyre means reducing fuel consumption and harmful emissions, higher mileage, the use of environmentally compatible materials and improved performance under dry and wet conditions.

Exploiting its acquired know-how, Pirelli will continue developing cutting-edge products to realise green performance. At the end of the three-year period, the impact of the **“green”** component in Europe will represent more than two-thirds of all sales in the replacement and original equipment channels.

This means that at the end of the three-year period, the impact of the “green” component on Group revenues is expected to increase to **about 40%** of the total, compared with about 20% now.



The family of **Cinturato** tyres, launched last year in the P4 and P6 versions dedicated to small and mid-size cars, points in that direction. The Cinturato P7 tyre, developed for top-end cars, consolidates Pirelli's position on this path and puts it once again on the cutting edge with a tyre that exalts the characteristics of the P4 and P6 and launches a challenge that has never been attempted before in the automotive world: to simultaneously offer performance and environmental compatibility without sacrificing anything, from driving pleasure to safety, while reducing fuel consumption and harmful emissions.

### Consumer safety: product innovation and institutional campaigns

The Group has always pursued product innovation to improve quality and safety for the end consumer. To achieve this, Pirelli Tyre relies in part on its close ties with the leading car makers in a segment that is particularly scrupulous and demanding in terms of safety: the ultra high performance market.

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

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To cite a few examples, customer safety is part of the DNA of the following products:

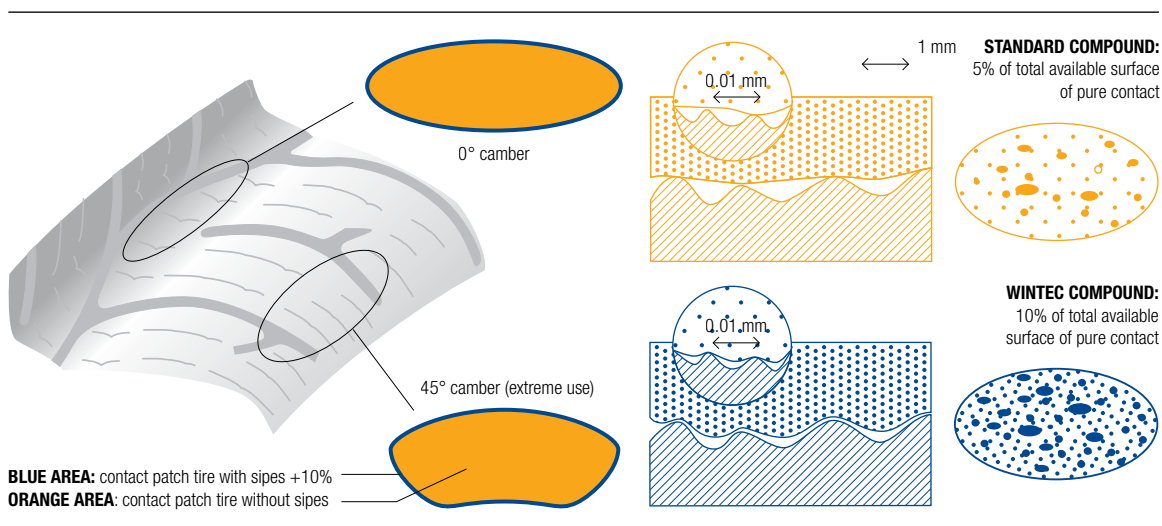
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[www.pirellityre.com](http://www.pirellityre.com) > Cinturato

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- **The New Pirelli Cinturato**, whose innovation combines driver safety and reduced environmental impact. The New Cinturato is discussed in detail in the section “Environmental Dimension,” to which the reader is referred for further information.
- **K-PRESSURE OPTIC™**, an innovative, intuitive and immediate safety device based on sensors installed in place of the tyre valve cap, capable of clearly showing whether tyre pressure is correct or below the danger level, without the need for additional devices. All you have to do is walk around the car and look at the colour of the valve cap: if pressure has been lost, the device immediately shuts the tyre valve and turns red. The sensor turns white again only after the tyre has been brought back to the right pressure.
- **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 tyre pressure. Mobility is guaranteed by the self-supporting fabrication process, which involves inserting elastomeric reinforcements in the sidewalls, thus rendering the structure self-supporting. In other words, when pressure is lost, it supports vertical loads and the horizontal and transversal stresses from the vehicle, allowing the driver to reach the nearest service station safely.
- New generation winter tyres like the new **Winter Sottozero Serie II introduced in June 2008**. This is the ideal tyre for safe driving in the most critical winter conditions, suitable for all sedans and high-performance supercars to offer maximum mobility during autumn and winter months.
- New concept tyres like the **Pzero** that, thanks to its special tread compound, offers the extreme performance of a warm tyre from a “cold” start. This permits immediate driving pleasure 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.

- **WINTEC, the first winter tyre for motorcycles and scooters.** Wintec is an innovative technology developed to help motorcyclists deal with the problem of seasonal weather conditions. It embodies a new concept of mobility, by extending traditional demands of safety and road hold in cold and/or wet conditions. Starting from the classic limits of motorcycle and scooter use and working on the constraints imposed by seasonal weather, this tyre guarantees a higher level of safety and makes it possible to use motorcycles and scooters even during the winter. Wintec was created on the basis of a detailed analysis of the technical, economic and environmental context, while also exploiting synergies with other Company business units that had already developed similar products. The identified technical solution was applied to scooters so that they could be used any day of the year, even in severe weather conditions, with a significant improvement in safety margins. With the first cold tyre for motorcycles and scooters, Pirelli makes it possible to extend the usage season and helps solve the problem of safe mobility in large cities.



- **Cyber™Tyre Lean System**, the first TPMS (Tyre Pressure Monitoring System) device capable of measuring pressure, temperature, the average load on each wheel and the number of rotations of the tyre, and of sending the vehicle's data directly to the vehicle's onboard computer via radio. Cyber Tyre Lean is an ecological device that, thanks to a technology patented by Pirelli, is self-powered through the energy released by the tyre's mechanical vibrations as it rotates.
- **Cyber™Tyre System**, a truly "intelligent tyre" that can not only provide real time data about tyre pressure but also read the road and interface directly with the systems that control the wheel's dynamics, providing the other electronic systems installed on the car with additional information for safe driving. The tyre itself will function as an electronic "sensor", interacting with other devices like ABS and ESP, to provide real-time information such as the used and potential friction coefficient, the forces of contact between the tyre and the road, making it possible to maintain maximum, safe control of the car.

Finally, mention must be made of the Group's commitment to increasing driver attention to comparisons of tyres - and thus his or her own safety - through dedicated **institutional campaigns** like **"Tyre Life"**.

Tyre Life is an international initiative that rewards consumers who decide to buy Pirelli tyres, by offering them a series of important benefits. In case of tyre puncture caused by nails or other objects, damage caused by impact against a sidewalk or by fire, Tyre Life replaces the tyre without limits within 24 months after the date of purchase. Tyre Life also pays for the cost of installation and balancing for replacement of the damaged tyre. A customer who installs Pirelli tyres can relax: he or she will be contacted before the scheduled deadlines for free inspection of tyre condition, so that he can always travel in absolute safety. This programme is valid in Italy, Spain, Switzerland, Austria, Greece, Germany, Poland, Czech Republic, Turkey and Belgium.

Of particular note is the role played by Pirelli Tyre in **ETRMA**. Its Chairman is the General Manager and CEO of Pirelli Tyre, who was responsible for the signing of the **European Road Safety Charter**.

#### Quality, Safety, Eco-sustainability: Awards:

**Pirelli Tyre won the "Tire Technology International Award 2009" for the "creation of innovative materials" and "innovative environmental benefits," and was elected "Tire Maker of the Year".**

**The Company was also recognised as the best producer of tyres of the year in China, at the China Auto Service Golden Finger Awards.**

Pirelli's focus on quality is confirmed by its pre-eminence in a large number of product tests, and also ensured by the Company's close links with highly prestigious partners (car makers, specialist magazines, driving schools, etc.) for product development and experimentation.

The following charts illustrate the excellent results achieved by Pirelli in 2008 in numerous product tests on summer tyres, winter tyres and motorcycle tyres, performed by leading specialist magazines.

## RESULTS ACHIEVED BY SUMMER TYRES

Magazine	Issue	Tested pattern	Size	Test vehicle	Final Result	Comments
	mar-2008	PZero	225/45 R 17 Y	VW Golf	<b>TEST WINNER</b>	Whether by wet conditions or by dry ground the Italian can't shock for nothing. Thanks to its high performance nearly in all fields it's a worthy winner
	apr-2008	PZero	F 235/35 ZR 19 (Y) R 295/30 ZR 19 (Y)	Porsche 911S Techart	<b>TEST WINNER</b> Very Recommendable	Very balanced handling performance on wet and dry ground. Very precise steering behaviour. Braking and aquaplaning performances at top level
	apr-2008	PZero	F 235/35ZR19 (Y) R 255/30ZR19 (Y)	Mercedes C63 AMG	<b>TEST WINNER</b>	The Pirelli PZERO (19 inch) is the Top Performer. Outclass Performance on dry ground and highest level on wet track
			F 235/40ZR18 (Y) R 255/35ZR18 (Y)		Very Recommendable 3rd position out of 8	The "little" Pirelli convinces on dry ground, weaknesses on wet lateral aquaplaning performances.
 "Tuning Spezial"	apr-2008	PZero	225/30 ZR 20 (Y)	Audi S5	<b>TEST WINNER</b>	Excellent handling and best braking performance on dry ground. Precise driving behaviour and a very high grip level also on wet
	lug-2008	PZero	225/40 R 18 Y	Mercedes C-Class	<b>TEST WINNER</b>	Top-quality tyre with sporty and dynamic handling-characteristics and convincing cornering grip; the shortest braking-distance on wet and dry ground.
	ago-2008	PZero	225/45 R 17 Y	VW Golf	<b>TEST WINNER</b>	What's required for a strong performance in the wet normally counts against a tyre in dry conditions, and viceversa, but the Pirelli bucks the trend and, unlike most of its competitors here, is superb whatever the weather.
	mar/apr-08	Cinturato P4	175/65 R 14 T	Ford Fiesta	<b>TEST WINNER</b> Very Recommendable	Very well balanced tyre; very good notes in the most relevant fields; the tyre with the best score on treadwear
	apr-2008	Cinturato P4	175/65 R 14 T	Ford Fiesta	<b>TEST WINNER</b>	-
 	mar/apr-08	Cinturato P4	175/65 R 14 T	Ford Fiesta	<b>TEST WINNER</b> Very Recommendable	-
		P6	195/65 R 15 V	VW Golf	Good 2th place out of 19	-
	mar-08	P6	195/65 R 15 V	VW Golf	<b>TEST WINNER</b> Very Recommendable	Very well balanced tyre; very good notes in the most relevant fields.

## RESULTS ACHIEVED BY SUMMER TYRES

Magazine	Issue	Tested pattern	Size	Test vehicle	Final Result	Comments
	mar-2008	P7	205/55 R 16 V	VW Passat	<b>TEST WINNER</b> Very good	The best for the well balanced and comfortable performance absorbing all the braking and handling requests. Good in aquaplaning and rolling resistance.
	apr-2008	PZero Nero	215/45 R 17 Y	Opel Corsa	Recommendable 3rd place out of 11	Balanced and safe driving behaviour on wet pist, short braking distance on wet and dry ground and good aquaplaning performance
	apr-2008	PZero Nero	215/45 R 17 Y	VW Polo	Exemplary 3rd position out of 10	-Convincing All-rounder with good steering precision and a dynamic driving behaviour on wet and dry, short braking distance on wet
	mar-2008	PZero Nero	225/45 R 17 Y	Mercedes C-Class	Good 5th place out of 17	-Dynamic - sportive driving behaviour with good lateral grip on wet ground, short braking distance on wet and dry ground and a silent behaviour
	mag-2008	Chrono Camper	215/70 R 15 CP/C	-	Good 5th place out of 8	-High steering precision, good behaviour by aquaplaning, low rolling resistance. Weaknesses on dry ground.
	ago-2008	P2500 4S	195/65 R 15 H	VW Golf	Satisfactory 7th place out of 8	Balanced and safe driving characteristics with a stable lateral grip and a safe driving on wet and dry ground. Limited performance by snowy ground with a moderate traction and a long braking distance by wet.
	mar-2008	P6/P7/ Cinturato P4/ PZero Nero/ P3000 Energy	155/70R13 T 165/70R14 T 175/65R14 T 185/60R14 H 195/65R15 V 205/55R16 V 225/45R17 Y	-	<b>TEST WINNER</b> 6 best buy's out of 7 test	The best brand together with Continental; 6 size best buy's out of 7; 4 times with a better score against the main competitor
	mar-2008	Scorpion Zero Asimetrico	235/65 R 17 V	Land Rover Freelander	<b>TEST WINNER</b>	The best in wet and dry braking distance; excellent performance in handling and comfort behaviour
	nov-2008	Scorpion ATR	P265/70 R 17	Chevrolet Silverado	<b>TEST WINNER</b>	the best among all terrain tires, based primarily on impressive grip in dry and wet conditions"
	ago-08	Scorpion Zero Asimetrico	255/55 R 18	Mercedes ML	Recommendable 6th place out of 7	Very good handling performances, good confort. Relativ long braking distance by dry conditions; moderate performance when aquaplaning, high rolling resistance.



## RESULTS ACHIEVED BY WINTER TYRES

Magazine	Issue	Tested pattern	Size	Test vehicle	Final Result	Comments
	set-2008	Winter Sottozero Serie II	225/45R17 H	Mercedes C-Class	EXEMPLARY 3rd place out of 10	Convincing performance on snowy track, sporty dynamic driving characteristics in any atmospheric conditions. Slightly long braking distance.
	set-2008	Winter Sottozero Serie II	225/55R16 H	Mercedes C-Class	VERY RECOMMENDABLE 3rd place out of 10	Top driving behaviour, very good traction and the best braking performance by snow, good on wet track, low rolling resistance. Modest comfort, noisy.
	ott-2008	Winter Sottozero Serie II	225/45R17 V	BMW 330i	VERY RECOMMENDABLE 3rd place out of 9	The best on wet ground, strong in dry conditions, only ordinary on snow
	nov-2008	Winter Sottozero Serie II	215/45R17 HV	Opel Corsa	<b>TEST WINNER</b> Exemplary	Top winter tyre with exemplary driving characteristics and the best traction on snowy ground. Very good safety level when aquaplaning and a dynamic and safe handling behaviour on wet ground. Slightly high noise level.
	nov-2008	Winter Sottozero Serie II	245/40R18 V	Audi TT	RECOMMENDABLE 4th place out of 6	Extremely definite steering behaviour and a very good driving stability on dry. Very good traction on snow. Low grip level on wet ground and very difficult driving behaviour. Ordinary performance when aquaplaning.
	set-2008	Winter Snowcontrol	195/65R15 T	VW Golf	VERY RECOMMENDABLE 3rd place out of 19	Very well balanced tyre, good on wet and snowy ground, relativ low fuel consumption.
	set-2008	Winter Snowcontrol	175/65R14 T	Ford Fiesta	RECOMMENDABLE 8th place out of 21	Good on snowy ground, low fuel consumption. Slightly weak on wet ground.
	ott-2008	Winter Snowcontrol	185/60R14 T	Skoda Fabia	VERY RECOMMENDABLE 5th place out of 11	The very balanced and sporty performance gets to the Pirelli our recommendation.
	nov-2008	Scorpion Ice & Snow	255/55R18 T/VW	VW Touareg	GOOD 4th place out of 8	Balanced sporty driving behaviour by dry conditions, very good on snowy ground.

## RESULTS ACHIEVED BY MOTORCYCLE TYRES

Brand	Tested Pattern	Final Result	Competitors	Comment	Magazine	Issue
Pirelli	Diablo Rosso	Sport Tire Test Winner	Mich Pilot Power, Metzeler Sportec M3, Continental Sport Attack, Bridge BT016, Dun Qualifier	Impressed by the uniformity of this tire, very precise and not heavy feeling. Faired also the difference in braking, with no tendency to stand-up. Offers greater accuracy and improved power control.		May-08
Pirelli	Diablo Strada	1st Place - Sport Touring Tire	Mich Pilot Road 2, Metzeler Roadtec Z6, Dun Sportmax Roadsmart, Conti Road Attack, Bridgest Battlax BT021, Avon Storm	Least abrasion in the test and has worked better in this test. Balanced and extremely handy Sport-tour tires with stability in all conditions. Presented good precision in the curves and no problem on wet roads.		Sept / Oct-08
Pirelli	Scorpion MX 454	4-out-of-4 Traction, Rigidity	Dunlop K739, Kenda K775, Kyoto, Vee Rubber VRM 229	Braking security, great angular feeling, and resistant to wear on hard surfaces		Jun-08
Pirelli	Diablo Strada	Sport Touring Tire Test Winner	Dun Roadsmart 3CT, Max Supermaxx M6029, Mich Pilot Road 2, Metz Roadtec Z6, Cont ContiRoad Attack, Bridge BT 021, Avon Storm ST	They feel like dedicated sportbike tyres....better than the bike will allow. There's loads of grip and turns quickly and accurately. On the brakes, midcorner stability, under acceleration and flat out – they perform perfectly. You can ride much harder, if you choose to, than any of the other tyres tested would allow. Outstanding sporting potential.		Jul-08
Pirelli	Diablo Rosso	Sportbike Tire Test Winner Summer	Dun Qualifier D109, Cont ContiSport Attack, Metz Sportec M3, Mich Pilot Road 2CT, Avon Viper Sport, Max Supermaxx Sport, Bridge BT 016	They hold the line when turning-in at whatever speed and even on the throttle with minimal movement from the rear. They were quick-steering, accurate, good on the brakes, stable midcorner. Like you have written with a pencil all week, then you sharpen it: they're just that bit sharper than the rest.		Jul-08
Pirelli	Diablo Strada	Sport Touring Tire Test Winner	Dun Roadsmart, Bridge BT021, Mich Pilot Road II, Pir Diablo Strada	The Diablo Strada underlines the broad area of application of high level, modern sport touring tyres. In lateral acceleration, braking and acceleration potential is above the competition. A superb tyre.		Apr-08
Pirelli	Diablo Rosso	Sportbike Tire Test Winner Winter	Dun Qualifier D209, Met Sportec M3, Bridge BT016, Avon Viper Sport, Cont ContiSport Attack	The winning Supersport tire is the Diablo Rosso, while costing more than most rivals, the confidence and feedback they give is worth the premium. They let you get on the power early and turn-in quickly with confidence.		Nov-08
Metzeler	MC6	4-out-of-4 Traction	Dun K739, Kenda K775, Kyoto, Vee Rubber VRM 229	Versatility on different terrains, ideal wear, good grip and endurance characteristics.		Jun-08
Metzeler	Sportec M3	Best Hyper-sport	Mich Pilot Power 2CT, Diablo Rosso, Cont Sport Attack, Bridge BT016, Dun Qualifier RR	Quickest and best performance on dry. Surgical precision and stability accelerating out of curves.		Jul-08
Metzeler	Sportec M3	Sport Tire Test Winner	Mich Pilot Power 2CT, Pir Diablo Rosso, Cont Sport Attack, Bridge BT016, Dun Qualifier RR	A true joy to ride on. Razor-sharp steering and blessed with very good cornering stability.		Dec-08
Metzeler	Roadtec Z6	Sport Touring Tire Test Winner	Dun Roadsmart, Bridge BT021, Mich Pilot Road II, Pir Diablo Strada	A good friend in testing sport touring tyres which consists of a lot of good competition. Unbelievable what is possible with sport touring tyres nowadays. In the everyday category the Z6 doesn't expose itself. Easy cornering with new tyres, gives trust in it's capabilities, not hectic at any time. Is always there when needed and it's very fast! Not only for a short time which leads to overheating, no it keeps going and going. Is it because of the microstructure in the compound or the multi radius contour? Doesn't matter, it works. Great tyre.		Apr-08

For more details on the principal awards and recognition received, please see the specific section in the chapter “Pirelli and Sustainable Development”.

# Suppliers

## GROUP POLICIES

The *Health, Safety, Environment and Social Responsibility* 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". 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 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 suppliers.

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

## SUSTAINABILITY CLAUSES OF CONTRACT

In 2008 the sustainability clauses of contract, which had previously been applied since 2006 as an integral part of the *General Conditions for Purchase of Goods and Services*, were amended so that they could be implemented whether or not the *General Conditions for Purchase* had been signed by the supplier. In this way, all possible contractual scenarios that might bind the Company to a Supplier of goods/services are covered.

More specifically, the sustainability clauses are introduced in contracts and purchase orders for goods and/or services and/or works, including acting as agent and/or on behalf of the Company, both with private suppliers and with the Public Administration (or entities/companies controlled by them), regardless of whether or not the *General Conditions for Purchase* format has been signed.

The clauses envisage implementation of the policies implemented in the ambit of sustainability: Ethical Code, Code of Conduct, and the "Health, Safety, Environment and Social Responsibility" Policy. Execution of the contract gives Pirelli the right to carry out audits of its suppliers to assess compliance with the principles and commitments agreed to by signing the clauses.

The sustainability clauses have been translated into 22 foreign languages. This guarantees maximum clarity and transparency towards the supplier in terms of his sustainability obligations under contract, which he assumes not only in his relations with Pirelli itself but also at his own facility and in relations with suppliers.

So that the clauses could be signed by all Group suppliers in an accurate and traceable way, and thus promote maximum operating effectiveness and efficiency, an **IT tool dedicated exclusively to signing of the sustainability clauses** by suppliers was created in 2008.

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

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This tool has been used on an experimental basis with all suppliers of raw materials and services to the Tyre Sector, sent by the Sector Purchasing Manager for online signing by means of a letter sent via e-mail to each one of them. An excerpt of this letter follows below:

*Dear Supplier,*

*Pirelli Tyre, a leading global tyre maker, fully integrates Sustainability in its growth and competitive strategies. Our sustainable approach is formally recognised and appreciated at the international level, as well as by the world's most prestigious indices of ethical finance, including Dow Jones and The Financial Times.*

*We conduct our business in accordance with the Values and Principles set out in Pirelli Sustainability documents, such as the "Ethical Code of the Pirelli Group," the "Code of Conduct" and the Group "Health, Safety, Environment and Social Responsibility" Policy.*

*We are proactively committed to support for universally recognised Human Rights and Labour Rights, and to continuous improvement in the environmental impact of our processes and products, doing so in the ambit of activities and relations that we conduct every day at the highest standards of transparency and fairness.*

*We expect that our Suppliers, as fundamental Partners in developing the business of Pirelli Tyre, operate their own businesses in accordance with our Principles and Values, in view of jointly sustainable growth.*

*You will find the clauses to be signed by you in your preferred language on the Pirelli Tyre website: (<http://sustainability.pirellityre.com>). To access the site, please use the following log in: (XXXXX) and the following password: XXXXX*

*If you do not accept the foregoing clauses, Pirelli may lawfully decline to renew the procurement contract with your firm.*

The letter and the clauses have been submitted to suppliers in their local language. If there are any questions, a system contact is guaranteed for dialogue with the supplier.

In 2009 the management system will be gradually extended to the **suppliers of all Group businesses**, with local operation and control by the Buyers and CSR Referents, supported by the departments with central responsibility.



Home page of the website "Supplier's Sustainability" of Pirelli Tyre.

## DISTRIBUTION OF PURCHASED GOODS AND SERVICES BY GEOGRAPHICAL AREA AND TYPE

The following table illustrates the geographical breakdown of purchases made by the Group, which are distinguished as OECD and non-OECD countries, with the "weight" of the various areas on the total amount.

## GEOGRAPHICAL BREAKDOWN OF GROUP PURCHASES

		% of number of suppliers			% of total value of purchases		
		FY 2008	FY 2007	FY 2006	FY 2008	FY 2007	FY 2006
<b>OECD countries</b>	Europe	51.6%	69.9%	73.1%	50.7%	67%	63%
	North America	1.4%	2.1%	4.0%	1.3%	3%	6%
	Others (1)	0.4%	0.2%	0.2%	0.4%	1%	2%
<b>Non-OECD countries</b>	Latin America	25.4%	19.0%	19.3%	25.0%	13%	15%
	Asia	19.4%	7.3%	1.6%	20.9%	15%	12%
	Africa	1.8%	1.5%	1.8%	1.8%	1%	2%

1 Australia, New Zealand, Japan, Korea

The following table instead shows the breakdown of purchases by type of goods and services. The table also shows the percentage weight of purchases made in each area over the total number of suppliers and over the total value of all purchases made.

## BREAKDOWN BY TYPE OF GOODS AND SERVICES PURCHASED BY THE GROUP

	% of number of suppliers		% of total value of purchases	
	FY 2008	FY 2007	FY 2008	FY 2007
Raw materials	3%	6%	59%	48%
Consumables	6%	7%	5%	5%
Services	82%	80%	27%	39%
Plant and equipment	9%	7%	10%	8%

It should be emphasised that the goods and services purchased by the Tyre Sector represent 80% of all purchases by the Group. Therefore, this year was decided to dedicate focus on the relations between Pirelli Tyre and its suppliers, just as in the 2007 annual report.

## FOCUS ON PIRELLI TYRE

The following table shows the distribution by type of goods and services purchased by Pirelli Tyre in 2007-2008. The table also gives the percentage weight of purchases made in each category over the total number of suppliers and over the total value of all purchases made.

[www.pirellityre.com](http://www.pirellityre.com) > Company >  
Sustainable Development > Stakeholders  
> Suppliers

## BREAKDOWN BY TYPE OF GOODS AND SERVICES PURCHASED BY PIRELLI TYRE

	% of number of suppliers			% of total value of purchases		
	FY 2008	FY 2007	FY 2006	FY 2008	FY 2007	FY 2006
Raw materials	3%	7%	7%	54%	53%	56%
Consumables	5%	5%	5%	6%	6%	4%
Services	83%	80%	80%	32%	32%	32%
Plant and equipment	9%	8%	8%	9%	9%	8%

**Raw materials are selected** in order to reduce as much as possible the use of substances that are harmful to humans and the environment. Accordingly, Pirelli **systematically evaluates the environmental and toxicological characteristics** of any new chemical before using it in production processes.

Pursuant to recent European classification, labelling and packaging rules for hazardous substances and preparations, Pirelli has updated the list of substances that cannot be used in production processes, or for which replacement programmes have been initiated.

The following graph illustrates the percentage composition of the mix of raw materials purchased by Pirelli Tyre in 2008:

#### RAW MATERIAL MIX



#### 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:

- **Approval of new suppliers (or Vendor Approval)**, where the interdepartmental process based on specific quality standards lead to the addition of the approved material/vendor to the Vendor List. This is the Company's list of approved suppliers for each individual product. **The sustainability limits have been integrated in this phase** since 2007. This led to the signing of a sustainable development plan by a strategic supplier in 2008. The sustainable development plans can have the following targets: improvement of the environmental impact of the activities and/or relations with the internal/external community. In these situations, Pirelli know-how is provided to the supplier, in order to create a qualitatively adequate growth plan based on dialogue and in view of sustainable growth that is fully accepted in terms of values and operating procedures.
- **Vendor Rating**, assessed on the basis of the quality of the product supplied or service provided (monitored using the specialised CARMAC software), the quality of the commercial relationship, technical/scientific cooperation, performance in terms of occupational safety, environmental and social responsibility through on-site audits and periodic monitoring of the progress of the actions scheduled in any improvement plans that have been signed.

The Vendor Rating now covers all merchandise and geographical areas of purchase and is used as an integral component of commercial negotiations.





Yanzhou, China. Supplier Conference 2008.

These procedures are implemented by the entire sector and are supported by a special website available online through the Purchasing Portal. This website supports the Regulations (including the Purchasing Manual, General Conditions to be applied by suppliers), the Vendor List, surveys, 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 continuous process improvement, in terms of both quality and tools. Specifically, the Vendor Rating results are regularly revised 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 performance. Each purchase contract includes the name of the buyer contact, to provide the supplier with a company channel that is always available for any feedback.

In November 2008 the “**1<sup>st</sup> China Suppliers Conference**” was held at Pirelli Tyre China, located in Yanzhou, in order to introduce Pirelli Tyre in China and exchange questions, solutions, methods and strategies in view of development. This conference was attended by about 200 **production companies of raw materials, spare parts, services and industrial goods**, both locally based and large multinational groups, for a total of over 400 participants. Special emphasis was given to **sustainability** as a competitive advantage. Following a presentation on *Sustainability at Pirelli and in relations between Pirelli and its supplier*, the participants received a copy of the Pirelli sustainability clauses (which include the CSR Policy and the Ethical Code) to be signed in both Chinese and English. The initiative was a success and many of the suppliers that attended the event signed it.

## Projects in 2008 and goals for 2009

Several new projects to improve the purchasing process and support relationships with suppliers were developed and implemented in 2008. In particular:

- a business intelligence project on raw materials, which permits monitoring and managing purchases for each merchandise category and individual supplier more efficiently;
- start-up of the project to create a data warehouse for equipment;
- development of the IT management system for signing sustainability clauses by suppliers, which permits tracking their signatures and managing their objections on a punctual basis;
- “One Supplier” Project, designed to maximise the traceability of and separation of roles in the purchase process for compliance with Law 262 and Legislative Decree 231.

The “Rubber Network Project” - developed in 2007 - which permits automation of the order/delivery/invoicing flow between Pirelli and its suppliers through WEB or HUB platforms, the use of Electronic Data Interchange (EDI) documents and scanning of documents continued in 2008 and reached North America with extension of the Order to Invoice project.

Specifically in regard to supplies of indirect production materials, an IT platform will be developed in 2009 for monitoring and managing expenditure in view of process efficiency.

In 2009, the “One Supplier” project is expected to be closed, and the supplier base to which the IT management system for signing sustainability clauses applies will be extended by involving buyers and local CSR contacts.

### AUDIT of Supplier Sustainability

As part of its audits of supplier compliance with the sustainability clauses, Pirelli Tyre plans to subject its own Suppliers to sustainability audits in 2009 to address the following scope of activities:

- 50% of natural rubber purchases;
- 50% of the revenues of services purchased in countries of concern (according to the EIRIS classification of countries defined as highly at risk of corruption and/or violation of human rights).

“**S**tarting from an unprecedented crisis in the post-war era, we have to figure out what Pirelli will be like three years from now and beyond. Industrial processes are changing, and we have focused our whole plan on transforming the company with eco-compatible technologies that will enable us to compete on the market. This means focusing research more on the green component, and this applies to tyres, to particulate filters, to all our businesses.

**Marco Tronchetti Provera**

”



# Environmental dimension

## The Pirelli approach to the management of environmental issues

*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 “Health, Safety, Environment and Social Responsibility”, which has been discussed in detail in the first section of this report and whose text is available to the External Community in the “Sustainability” section of the website [www.pirelli.com](http://www.pirelli.com).

The Pirelli Group is comprised by a wide variety of businesses, as follows:

- the manufacture of car, industrial and commercial vehicle, bus, motorcycle tyres and steel cord, all produced by Pirelli Tyre S.p.A.;
- the Real Estate sector: Pirelli & C. Real Estate S.p.A.;
- environmental clean-up, waste-to-energy generation and environmental services: Pirelli & C. Ambiente S.p.A.;
- the development of sustainable mobility technologies (new fuels, innovative systems for exhaust gas reduction): Pirelli & C. Eco Technology S.p.A.;

- the development of innovative products for broadband access by residential and business customers: Pirelli Broadband Solutions S.p.A.;
- research and development in the fields of new materials and optoelectronic components: Pirelli Labs.

The common denominator in all areas of activity is environmentally sustainable management of processes, products and services, in view of developing **cutting-edge green solutions**.

The Group has implemented environmental management policies for years that pursue continual improvements in performance. **ISO14001 certification** is concentrated at Pirelli Tyre production units, which have the greatest potential impact on the environment. All the same, other Group companies, whether they are involved in design, research, logistics or services (including the Tyre Test Track at Vizzola Ticino) are preparing for or have already obtained this certification, which represents a common goal for all 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**), created and operated at the corporate level by the Health, Safety and Environment Department. This system permits the monitoring of environmental performance at every production plant in the Tyre Sector and the preparation of a wide variety of reports that are required for management and operational purposes.

Alongside the HSE-DM system, Pirelli has completed the “**CSR-DM**” (CSR Data Management), an **IT system** for managing Group sustainability information, which is used to consolidate the environmental performance of all Pirelli business units.

The following pages describe environmental performance and projects in 2008, with specific reference to the Group's various companies that own the various businesses mentioned above.

The specific environmental performance of tyre and steel cord production activities of Pirelli Tyre S.p.A. are analysed separately, being characterised by different products and, above all, different fabrication processes.

## Pirelli Tyre S.p.A.

### THE COMPANY

As measured by sales, Pirelli Tyre is the world's fifth largest tyre manufacturer, which has been the Group's core business for over a century, and commands a leadership position in the high performance segments.

Pirelli Tyre is active in two principal segments: Consumer, which produces tyres for cars, sport utility vehicles (SUV), light com-

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[www.pirellityre.com](http://www.pirellityre.com) > Company >  
Sustainable Development > Stakeholders  
> Environment

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mercial vehicles and motorcycles and scooters; and Industrial, which produces bus, truck and agricultural equipment tyres and steel cord, which is a key component used to reinforce radial tyres. These businesses are focused in turn on two different sales channels: original equipment, sold directly to car, truck and motorcycle makers, and replacement equipment, for replacing tyres on vehicles that are already on the road.

The Company is the Pirelli Group's main industrial division and has 24 production units, including 19 dedicated to the manufacture of tyres, while steel cord is produced at the remaining five, mainly for the fabrication of tyres.

The Company has 24 plants located in 12 countries (Argentina, Brazil, China, Egypt, Germany, England, Italy, Romania Turkey, Spain, United States and Venezuela) and a commercial network covering over 160 countries.

### Principal Corporate Commitments in 2008

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

**Chairmanship of ETRMA (European Tyre and Rubber Manufacturers Association)** - in October 2008 Francesco Gori, Chief Executive Officer and General Manager of Pirelli Tyre, was re-elected Chairman of ETRMA for his second consecutive three-year term, a sign of continuity for the priorities to be pursued: environmental protection, road safety and greater competitiveness.

**WBCSD (World Business Council for Sustainable Development)** - Pirelli actively participated in WBCSD again in 2008. Headquartered in Geneva, this is an association of about 200 international companies based in over 30 countries that have made a voluntary commitment to pursue economic growth with sustainable development.

Pirelli Tyre is a member of the Tire Industry Project Group, the project launched in 2006 to identify the potential impact on health and the environment of the materials associated with the manufacture and use of tyres. The heads of leading world tyre manufacturers that belong to the group met in Tokyo on 12 June, sixteen months after research work began. This important event offered an update on programme progress and outlined new approaches to study.

The Pirelli Group and the Milan Polytechnic have signed an agreement to create a **professor's chair**, which was funded together with five scholarships for doctoral degrees over the course of ten years on the "Chemical Foundations of Rubber and Compound Technology". It will organise the study of innovative materials and application of nanotechnology for the development of new generation, low environmental impact tyres.

The **Silvio Tronchetti Provera Foundation and the Shandong University in Jinan (China)** have signed a research agreement for the study of a new generation of "green tyres". The university researchers will work with the Pirelli Group's R&D Department

in China to create tyres with low resistance to rolling, in order to reduce vehicle fuel consumption.

The Company has always pursued the goal of disseminating and consolidating a **safety and energy efficiency culture**, aware of the tyre industry's role in daily life. In 2008 it spearheaded major actions to raise awareness in collaboration with public institutions, business associations and other industrial groups inside and outside Italy.

In particular, Pirelli Tyre participated in the **ENI "30PERCENTO - consumare meglio, guadagnarci tutti" ("30 PER CENT - consume less, everyone wins") 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 tyres, the first step towards ensuring energy efficiency, reducing harmful emissions and driving more safely.

It is committed to promoting the **sustainable mobility culture: the Progetto 10x10 of Quattroruote®** was initiated at the end of 2007 by this leading monthly car magazine, and commits ten big companies to reduce the carbon dioxide emissions of their company fleets by 10%. The choice of *Quattroruote*, which has long been committed to responsible and sustainable use of private vehicles, fell on CO<sub>2</sub> for several reasons:

- it is a greenhouse gas responsible for events like global warming and climate change;
- it is an easily measurable parameter, being ascertained upon certification of cars and indicated on their registration card;
- it is one of the principal environmental objectives of the European Union;
- a 10% reduction in overall carbon dioxide emissions represents a realistic goal that can be immediately pursued, in the expectation that industry develop new technologies to produce more eco-compatible cars.

Pirelli Tyre immediately joined the 10x10 project by adopting the objective to reduce the carbon dioxide emissions of its own Italian corporate car fleet by 10%. Most vehicles in this fleet are equipped with Cinturato tyres that, as previously mentioned, can reduce fuel consumption and harmful emissions by up to 4%, while guaranteeing high mileage (+30%).

In addition to taking steps to increase employee awareness on the issue of reducing air pollution and encouraging **eco-compatible driving courses, it has introduced corporate car pooling and intercompany shuttle services**. The decision to privilege video-conferences over traditional personal trips and the use of public transport is consistent with this strategy. Systems for enhancing more efficient organisation of trips to visit customers have been suggested to the sales force. In parallel with the 10x10 project, the Company has promoted an initiative to raise awareness on the issue of environmental impact by involving as wide a public as pos-



[www.quattroruote.it](http://www.quattroruote.it) > Eco10x10 >  
L'iniziativa

sible, by engaging the participation of Pirelli tyre buyers to **contribute to reforestation** and protection of an area in the Parco del Ticino that can absorb at least 50,000 kg of CO<sub>2</sub> in a few years.

## ISO 14001 CERTIFICATION AND THE ENVIRONMENTAL MANAGEMENT SYSTEM

The benchmark standard for certification of environmental management systems is ISO 14001. The Sector project to implement an environmental management system at its production units based on shared Group procedures and guidelines, led to it obtaining the first ISO 14001 certifications in 1998.

This is now a well-established process: at 31 December 2008, 23 out of 24 production units had an ISO 14001 certified system. The Tyre plant at Slatina, Romania will be ISO 14001 certified by the end of 2009.

The Company also has scientific test centres for tyre/vehicle performance, which conduct experiments and trials on tyres under different conditions of use, by means of subjective and controlled techniques. The test track located in the town of Vizzola Ticino (Varese, Italy) merits special mention. It was designed and built at the end of the 1960's near the Ticino River. The **ISO 14001 certification of the Centre**, obtained in 2005, assumes particular importance considering that its 26 hectares lie within the Parco Lombardo della Valle del Ticino (Lombardy Ticino Valley Park), an Italian nature preserve listed as a UNESCO MAB ("Man and Biosphere") area - one of 425 biosphere reserves in 95 countries worldwide.

The Vizzola site is used by various Group companies for experiments and tests, 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 made it possible to define and achieve waste management optimisation targets. Similarly, programmes spanning over several years have been set up and are currently underway to **rehabilitate and re-develop 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 town of Vizzola and the Parco della Valle del Ticino. Through an agreement with the park administration, it contributes in economic terms to environmental improvement of the area outside the park. No spills or other significant environment-related incidents occurred in 2008. Consequently, no significant fines were imposed. However, several minor events did occur, which were promptly dealt with and resolved in accordance with the procedures set out in the implemented environmental management systems, and had no negative impact on health or the environment.

## COMPREHENSIVE ECO-INNOVATION: FROM PROCESSES TO PRODUCTS

Full integration of environmental sustainability with competitive development strategies is the principal driver for the profound “green revolution” that is taking place throughout the Group, particularly in the tyre sector. This awareness translates into concrete planning of green improvement activities throughout the entire product life cycle, which involve production *processes* as well as the *products* themselves.

The commitment to **process** eco-innovation has been confirmed by a number of major achievements:

- planning of new low environmental impact production centres and modification of existing ones in compliance with internal “**green factory**” standards;
- realisation of new production technologies, such as **Next MIRS™**;
- streamlining of production efficiency, with the aim to **reduce the consumption of natural resources, energy and raw materials**, as represented by such advanced processes as **CCM** and **TSM**.

The eco-innovation commitment to **products** is confirmed by:

- the **new Cinturato**, introduced in 2008, which can reduce rolling resistance by 20%, fuel consumption and greenhouse gas emissions by 4%, and simultaneously increase total mileage by 30%;
- the research conducted by Pirelli Labs to recover material and energy from **used tyres**.

The details of these innovations are illustrated below.

### PROCESS ECO-SUSTAINABILITY

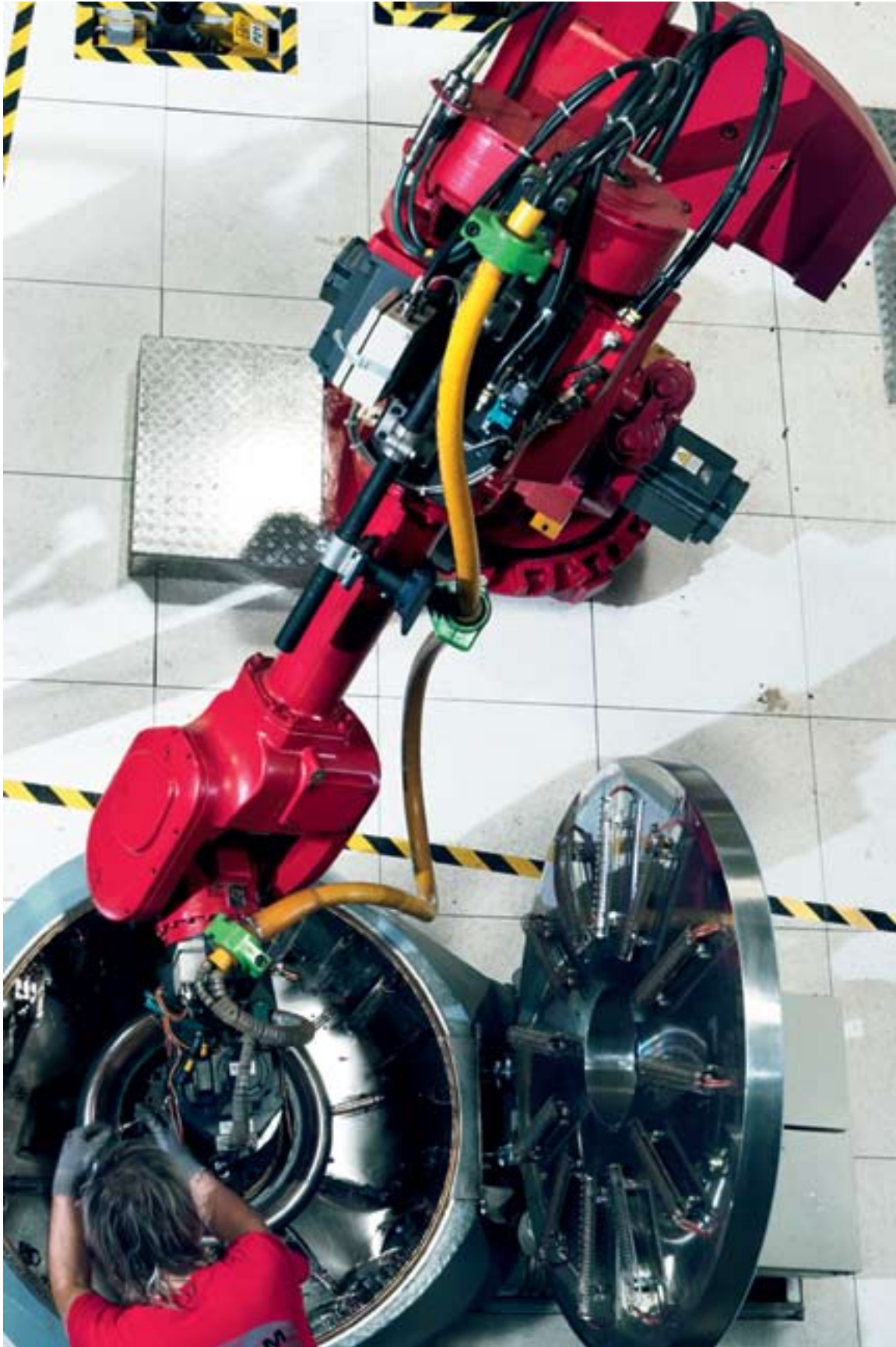
#### Green factory

Work on creation of the Technological and Production Centre at Settimo Torinese for production of *green* tyres continued in 2008, as part of the process to improve efficiency and productivity standards. This project is being carried out as part of a framework agreement between Pirelli Tyre and the Region of Piedmont, Province of Turin and the City of Settimo Torinese.

This will be a state-of-the-art industrial centre, the Group's most advanced in terms of technology and efficiency. The most advanced production technologies created by Pirelli research will be used and, perfectly in line with its sustainable development strategy, appropriate measures will be taken to **limit environmental impact and resource consumption as much as possible**. All of this will be done within the framework of eco-compatible architecture and design.

In this context, Pirelli Tyre and the Turin Polytechnic have signed an agreement to pursue joint research and technological innovation projects dedicated not only to minimising the impact of the new industrial site but especially further innovation of the most advanced processes and products of Pirelli Tyre research (such as Next MIRS™, CCM and the “smart” Cyber Tyre).





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Breuberg, Germany. MIRS™ Process.

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## Next 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 fabricated around a heated drum that is tailor-made for a particular tyre model. The drum is continuously rotated by a robot under an extrusion device that distributes rubber over the surface. The drum rotation and compound feeding movements are coordinated to provide the correct distribution of materials to create the specific tyre model.

Compared to 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.

The use of robotics in the production process makes it possible to realise extremely high product quality, due to the geometric distribution of the rubber fibres that is constant for each model.

## 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 continuously operating twin-screw extruders.

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 process improves the quality of the produced compound, and consequently the quality of the finished product.

By means of a specially designed powder capture and recycling system for solid materials, CCM technology has reduced dust levels in 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 TSM process

TSM (Twin Screw Mixing) is the new process for preparation of compounds that offers high levels of quality, reliability and efficiency, developed specifically for the production of compounds used in the new Pirelli green tyres.

This technology makes it possible to realise major improvements in terms of compound uniformity, reduced dispersal of ingredients and a 30% reduction in energy consumption as compared with traditional techniques.



## Energy efficiency

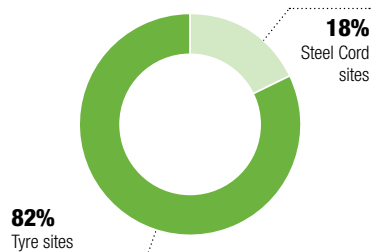
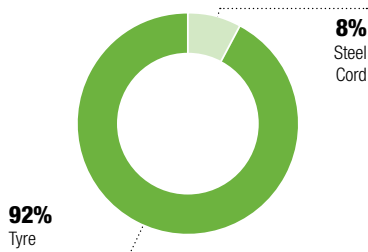
Pirelli is going to great lengths to realise energy efficiency, with positive results overall. Progress in realising energy savings is not linear and depends on the availability of technologies that are appropriate for industrial production in a specific context, including the economic cycle. In spite of constant improvements, **specific** energy consumption remained virtually unchanged between 2007 and 2008. This must be attributed to the concomitance of numerous factors associated with the current economic cycle. The general downturn in production volumes has caused the percentage impact of fixed consumption to rise, insofar as it is independent of production volumes. This stems from the fact that certain types of plants must remain active regardless of production volumes. Added to this is the impact of decommissioning and modifying certain production lines.

Current measures to realise energy efficiency consist in increasing the energy efficiency of production processes in technical, economic and environmental terms. Special attention is dedicated to the study of alternative energy sources, in order to increase diversification of energy on an eco-sustainable basis.

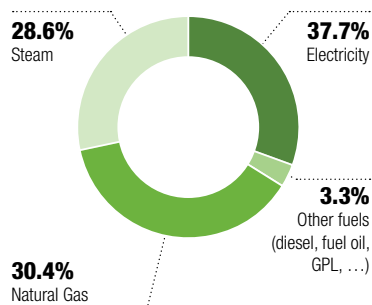
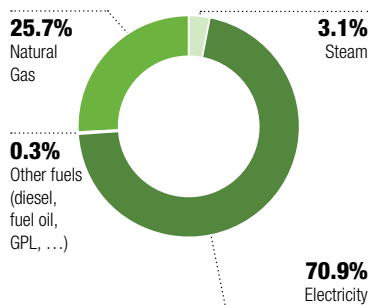
Energy efficiency levels are constantly monitored by means of specific gauges and indicators installed at all production units, where programmes to streamline and rationalise energy consumption have been implemented. A central organisation that is responsible for supervision and monitoring promotes energy saving measures. Their dissemination is tied both to informational and cultural aspects and to revision and streamlining the energy consumption of existing plant and equipment.

This has made it possible to achieve high levels of efficiency. The tyre production process has achieved a **9.2% reduction in its specific consumption of energy and 12.7% reduction in its water consumption over the last five years**, as illustrated in the table of environmental performance described elsewhere in this section.

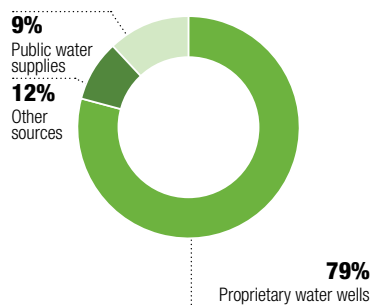
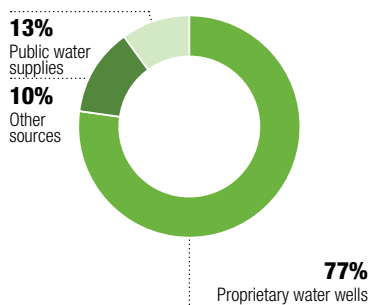
In the following charts, it is interesting to observe the different weight of energy and water consumption by the tyre production business as compared with the steel cord production business.

**CONSUMPTION****Energy 2008** (GJ/year)**Water 2008** (m<sup>3</sup>/year)

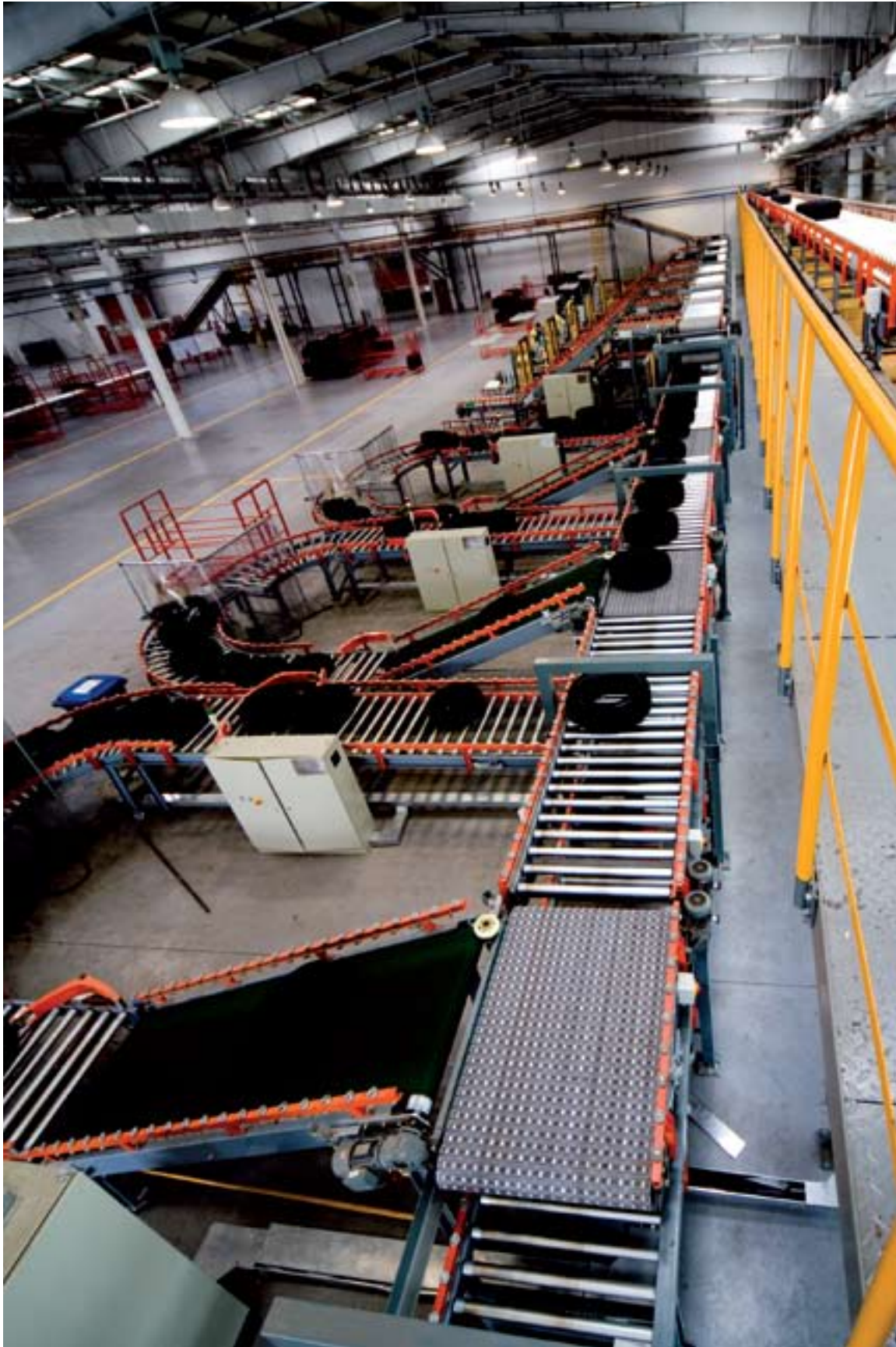
The following chart illustrates the mix of energy sources provided by the Tyre and steel cord factories.

**ENERGY SOURCES****Tyre****Steel cord**

As for the water supply of Tyre and Steel Cord factories, the following chart illustrates that most water is taken from proprietary water wells as compared to what is obtained from the public water supply.

**WATER SUPPLY SOURCES****Tyre****Steel cord**

The Company is constantly engaged in conserving its use of natural resources. In particular, it will devote increasing focus on eco-compatible technologies in terms of integration with renewable sources, reduction of climate altering emissions and water consumption.



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Yanzhou, China. Car tyre plant.

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## Investments to improve environmental performance

The investments made in 2008 to improve the environmental performance of Pirelli Tyre S.p.A. factories totalled 3.5 million Euro.

## Environmental performance at production sites

As previously mentioned, the **specific** environmental performance of tyre and steel cord production activities of Pirelli Tyre S.p.A. is analysed separately below, being characterised by different products and, above all, fabrication processes.

### Tyres

The following data consolidate the specific environmental performance of the Pirelli Tyre S.p.A. production units dedicated to the production of tyres. In line with the sustainability reports published over the past five years, the following factors and their environmental indicators are examined:

- water consumption (expressed in m<sup>3</sup>/tonne of finished product)
- energy consumption (expressed in GJ/tonne of finished product)
- solvent consumption (expressed in kg/tonne of finished product)
- waste production (expressed in kg/tonne of finished product) and the percentage of recycled waste
- equivalent emissions of CO<sub>2</sub> and NO<sub>x</sub> (expressed in tonnes/tonne of finished product and kg/tonne of finished product)

**As can be seen, most of the reported indicators have shown a substantial improvement in performance over the past five years, due to the Company's eco-sustainable strategy and commitment.**

### SUMMARY OF TYRE RESULTS

	2004	2008	Diff. 2008/2004 [%]
Water consumption [m <sup>3</sup> /tonne FP]	18.56	16.21	-12.7%
Energy consumption [GJ/tonne FP]	12.34	11.21	-9.2%
Solvent consumption [kg/tonne FP]	3.40	3.49	2.6%
Waste [kg/tonne FP]	102.28	102.00	-0.3%
Recycled waste as total of waste [%]	72.20	72.41	0.3%
CO <sub>2</sub> emissions [tonnes/tonne FP]	1.01	0.92	-8.9%
NO <sub>x</sub> emissions [kg/tonne FP]	1.88	1.60	-14.9%

Special mention should be made of the following points:

- Following revision of the method used to account for energy consumption, energy consumption and carbon dioxide and nitrous oxide emissions from 2004 to 2007 have been recalculated.
- Performance in 2008 was impacted by the current economic crisis and differs significantly from the trend for the last four years. The energy sector, including atmospheric emissions, was the most subject to external action since it does not depend in linear fashion on production. These production totalled about 910,000 tonnes.



- In 2008 76% of carbon dioxide (CO<sub>2</sub>) was accounted for by indirect emissions (electricity and purchased steam).
- The volume of water discharges was 73% of the total uptake of water.
- Solid and liquid fossil fuels, which are characterised by their greater environmental impact than natural gas, represent about 3% of all energy sources used.
- In 2008 the quantity of non-hazardous waste was 93% of all waste produced.

## Steel cord

The data reported below refer to the five production units of Pirelli Tyre S.p.A. that make steel cord. In line with previous Group environmental reports, the following performance and environmental indicators for the last five years were used and examined for this business unit as well:

- water consumption (expressed in m<sup>3</sup>/tonne of finished product)
- energy consumption (expressed in GJ/tonne of finished product)
- waste production (expressed in kg/tonne of finished product) and the percentage of recycled waste
- equivalent emissions of CO<sub>2</sub> and NO<sub>x</sub> (expressed in tonnes/tonne of finished product and kg/tonne of finished product)

### SUMMARY OF STEEL CORD

	2004	2008	% Diff. 2008/2004
Water consumption [m <sup>3</sup> /tonne FP]	11.12	9.40	-15.5%
Energy consumption [GJ/tonne FP]	11.28	11.76	4.3%
Waste [kg/tonne FP]	165.24	183.37	11.0%
Recycled waste as total of waste [%]	52.51	51.37	-2.2%
CO <sub>2</sub> emissions [tonnes/tonne FP]	1.14	1.19	4.4%
NO <sub>x</sub> emissions [kg/tonne FP]	2.41	2.37	-1.7%

The following should be noted in regard to the performance reported in the chart above:

1. Following revision of the method used to account for energy consumption, energy consumption and carbon dioxide and nitrous oxide emissions from 2004 to 2007 have been recalculated.
2. Performance in 2008 was impacted by the current economic crisis and differs significantly from the trend for the last four years. The energy sector, including atmospheric emissions, was the most subject to external action since it does not depend in linear fashion on production. These production totalled a little less than 195,000 tonnes.
3. In 2008, 85% of carbon dioxide (CO<sub>2</sub>) was accounted for by indirect emissions (electricity and purchased steam).
4. Solid and liquid fossil fuels, which are characterised by their greater environmental impact than natural gas, represent about 0.3% of all energy sources used.
5. The volume of water discharges was 76% of the total uptake of water.
6. In 2008 the quantity of non-hazardous waste was 64% of all waste produced.

Finally, the dielectric oils containing PCBs and PCTs with concentrations higher than 50ppm totalled about 8 tonnes for the Tyre Sector, representing a **reduction of 48.8%** from 2004. There were about 8.4 tonnes of **ozone depleting gases**, used in Tyre Sector refrigeration plants, representing a **reduction of 14.7%** from 2004.

## PRODUCT ECO-SUSTAINABILITY

In 2001 the study *Life Cycle Assessment of an average European car tyre* (Prè Consultants B.V. on behalf of BLIC, 2001) highlighted the substantial environmental impact of a common tyre during its useful life, which is far greater than its impact during the other two phases, production and end of life. According to this prestigious publication, about 90% of this impact is attributable to fuel consumption due to the friction between the tyre and the road surface, while the remaining part reflects the impact of the results of this friction (i.e. tyre debris). It has been estimated that during its life cycle, a tyre produces debris that represents between 10% and 14% of the tyre's weight.

The impact of these debris particles is still being studied at the international level.

The Pirelli Group is monitoring this issue through a continual exchange of information and experience with other tyre manufacturers, by participating on the specific working group set up by the World Business Council for Sustainable Development, as previously mentioned.

In order to minimise the environmental impact associated with tyre use, Pirelli is constantly engaged in the design and development of compounds and product lines that, by using new materials, innovative internal structures and different tread designs, can reduce rolling resistance while guaranteeing the same durability of the tyre.

Pirelli is actively developing and using a series of new, **increasingly ecological materials** for compounds. In 2009, **rice chaff** resulting from the processing of raw rice will be introduced as one of the components used to make tyres. The use of this natural product will enable further reductions in the use of synthetic substances, thereby helping to reduce the environmental impact of tyres.



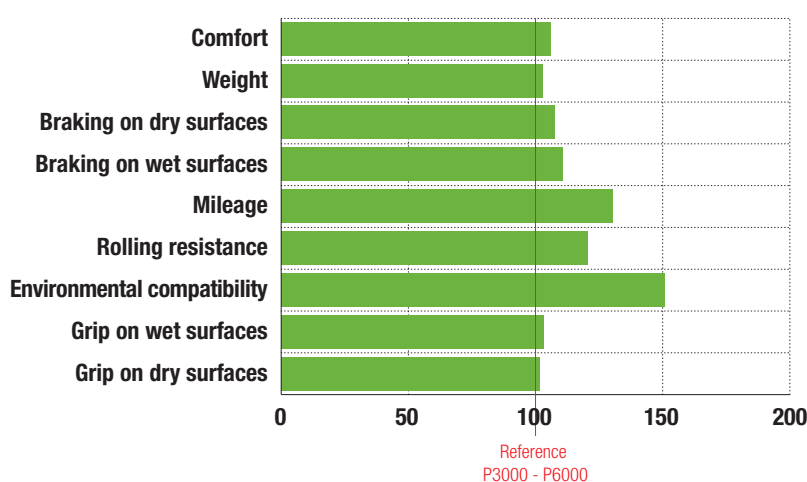
## Green Product: the Pirelli Cinturato

Environmental friendliness, safety and performance are the key features of the new Cinturato, whose innovative compounds, structure and tread patterns ensure lower consumption and carbon dioxide emissions, greater durability and improved safety characteristics in both wet and dry conditions.

In particular, the new Cinturato, available in tread sizes P4, P6 and P7 (dedicated to the premium car segment) and featuring ECOIM-PACT on the sidewall, can reduce rolling resistance by 20% and energy consumption by 4%, while increasing overall mileage by 30%. The tread contains no highly aromatic oils, which is a critical element for the environment due to the abrasion that tyres undergo while rolling.

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

### CINTURATO



The removal of highly aromatic oils from the tread compound anticipates the applicable European regulations that will come into force in January 2010. The tread pattern also offers improved acoustic comfort, by reducing tyre noise levels both inside and outside the vehicle.

More details on the performance of the New Pirelli Cinturato are provided below:

### Lower fuel 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.

Together with mechanical resistance and air resistance, rolling resistance impacts fuel consumption and carbon dioxide emissions. Rolling resistance depends on factors both outside (vehicle speed and weight, type of road surface, air 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 cov-

ered by Pirelli patents.

### **Better durability: thousands more miles**

The tread compound of the new Cinturato has been reinforced with specific ingredients to extend the durability of the tyre without sacrificing grip characteristics. In addition, the tyre geometry has been completely redesigned, from sidewall to tread, in order to strike the right balance between rolling resistance, durability and safety. The average life of the new Cinturato in terms of distance 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 highly aromatic oils from the new Cinturato's compounds, before the applicable European Directive comes into force. The impurities present in these types of oils consist of polycyclic aromatic hydrocarbons, which are potentially harmful to human health.

### **Enhanced safety and performance**

This is achieved by improved braking on 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 1950's, is the other key parameter according to which the new model was designed. The Pirelli P4, P6 and P7 guarantee greater safety under all weather conditions. In particular, they offer improved road hold when cornering on wet surfaces and, most importantly, shorten braking distances. On wet surfaces, the stopping distance is reduced by 11%, while on dry surfaces the braking distance is also significantly reduced



The "Ecoimpact" icons on the sidewall of the Pirelli Cinturato.

as compared with other tyres.

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

The website [www.pirelli.it/cinturato](http://www.pirelli.it/cinturato) is dedicated to its safety and eco-sustainability features, to which the reader is referred for more information.

#### Green product: K-PRESSURE™ Optic

Normal use of a car whose tyre pressure is 20% less than its nominal pressure can cause fuel consumption to increase by up to 3% (with a consequent increase in air pollution). Studies by the U.S. National Transportation Safety Board have shown that for every 0.2 bars of under inflation, there is an average increase in fuel consumption of 1%.

Furthermore, tyre pressure that is 20% below what it should be causes irregular wear on the tyre tread and consequently increases wear and tear by 25%, which translates into a 30% reduction in the lifetime of the tyre.

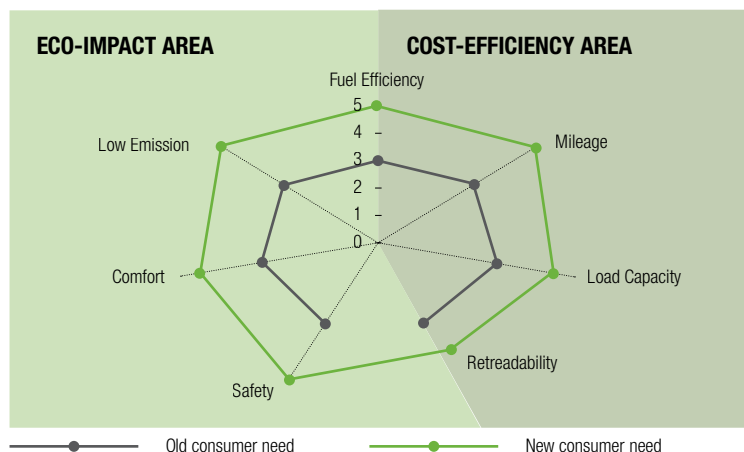
*This is precisely why a tyre pressure monitoring system needs to be installed on the car.*

Pirelli recently presented the new K-Pressure™Optic, a tyre pressure control system dedicated to the replacement part market. Consisting of a sensor installed in place of the normal valve cap, it can detect insufficient pressure, thereby assuring motorists' safety.

The simplest, surest and most economical way to **increase the life** of one's tyres, **reduce gasoline, diesel or gas consumption and reduce the pollution caused by particulates** released in the atmosphere is to inflate the tyres on one's car to their proper pressure (i.e. the pressure specified by the car maker, which is normally indicated in the relevant section of the vehicle user and maintenance manual) and constant, periodic controls.

#### Green product: Truck innovation

**The following chart shows the innovative environmental performance of the Truck Series 01.**



Key breakthroughs of 01 series

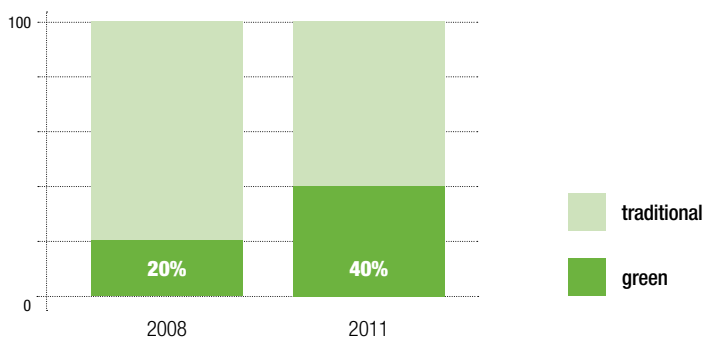
- **Mileage:** 350,000 km on highway
- **Retreadability:** 4 lives
- **Weight** reduction
- Overall stop-gain in **eco-performance**

## GREEN TYRES: THE GOAL FOR THE PERIOD 2009-2011

The Company's goal is to have "green" tyres represent 40% of total tyre sales by 2011.

## GREEN PRODUCTS

% of total sales



## PIRELLI ECO-INNOVATION FOR END-OF-LIFE MANAGEMENT OF TYRES (ELT)

As previously mentioned, a tyre's end-of-life phase makes a small contribution to the overall environmental impact of the entire life-cycle of the tyre and has a decidedly lower impact than those stemming from the use and manufacturing phases. Among the various final disposal options, burial in a landfill is by far the least desirable in terms of environmental compatibility.

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

Since 2003, European Union Directive 1999/31/EC prohibits disposal in landfills of entire end-of-life tyres (ELTs), and of fragmented ELTs since July 2006.

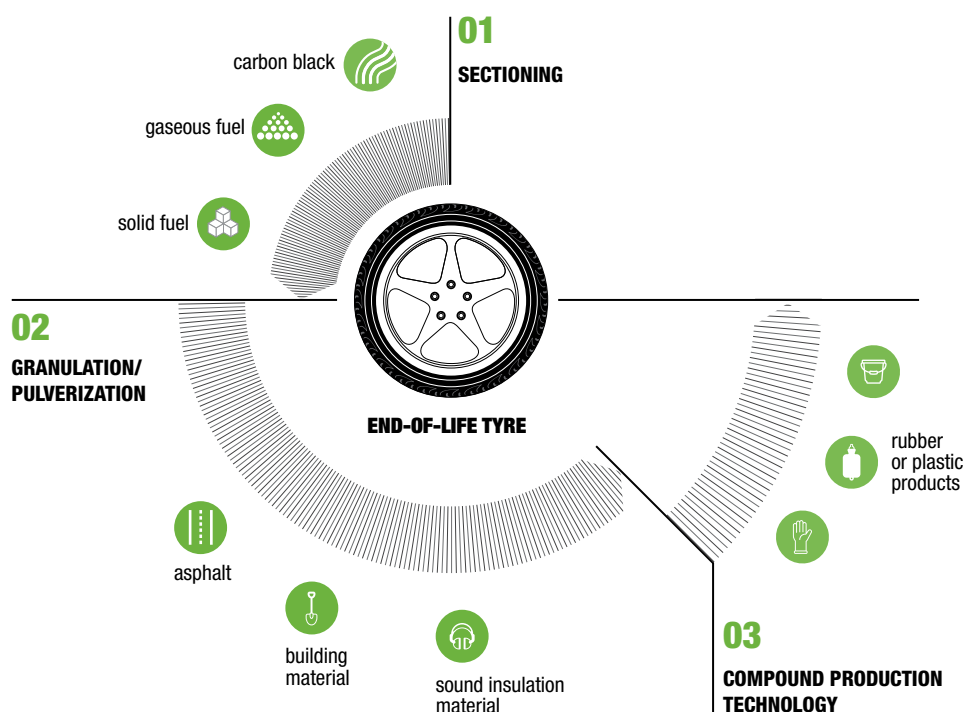
Pirelli has been dedicated for years to research on the management of ELTs, considering the major environmental benefits resulting from their recovery and recycling.

Through cooperation with **Pirelli Labs**, a number of possibilities have been developed for ELTs in terms of recovery of the raw materials that comprise them ("**material recycling**"), and recovery in the form of high-energy fuel ("**energy recovery**"), as a valid **alternative to the use of fossil fuels**.

This can include:

- the use of ELT granules in the production of sound insulation products (described in the section dedicated to Pirelli Labs);
- the production of powder to be used in the tyre production process (described in the section dedicated to Pirelli Labs);
- the use of ELTs to produce CDR-Q, a fuel derived from high quality waste (described in the section dedicated to Pirelli & C. Ambiente S.p.A.).

#### TYRE RECYCLING DIAGRAM



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

Pirelli RE addresses its environmental impact in three main ways:

- monitoring and reducing the environmental impact of company facilities;
- offering eco-innovative solutions to reduce the environmental impact of operating buildings;
- development of designs for new buildings that enhance the local area in terms of attractiveness, competitiveness on a wider scale and eco-sustainability.

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

## ECO-SUSTAINABLE DEVELOPMENT

In Europe, energy consumption (electricity, oil, gas and coal) for buildings represents 41% of total consumption. According to the European Commission, some of the greatest energy savings can be realised in the residential and service sectors, with an estimated potential savings of 27% and 30%, respectively (Action Plan for Energy Efficiency, 2006).

Eco-sustainability is now the future of property development due to several unequivocal drivers: statutory and regulatory changes that will progress from incentives to being mandatory, growing collective awareness for ecology, which is transforming into a major increase in demand for homes with superior “energy quality”, technological evolution that is driving consumers towards a new generation product with a high content of engineering and company reputation on the market, to attract not only private but also institutional investors through an integrated approach and sustainable development on the territory.

A recent Nomisma survey clearly shows that, among the various types of commercial properties, the ones that are withstanding the impact of the economic crisis and remaining more marketable are those that are characterised by higher standards and high energy efficiency. The survey also notes how “the users of business spaces are willing to pay rents that are 10% higher than the market average for a **green building**, since the reduced operating costs amply repays the higher cost of the rent”. Obviously, all of these facts must not remain a marketing exercise, as for many operators, but develop into a detailed and comprehensive programme in an operating and process model that guides all activities and transfers added value to the market, from design culture to the business plan, to commercial activities.

### The Ecobuilding programme

Pirelli RE, precursor in the eco-sustainable building sector, is the first property operator to have launched an integrated programme in 2007 for the application of eco-sustainability criteria to the construction of new buildings (energy efficiency class, bio-architecture, technology) and to management of existing properties (increase in energy performance and living comfort), designing a new, multi-disciplinary approach to design.



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



The combination of solutions adopted by the **Ecobuilding** programme ensure the achievement of high standards of quality, eco-sustainability and energy saving. Significant environmental benefits include the reduction of CO<sub>2</sub> emissions, the lower amount of electricity required to meeting a building's needs and increasing use of renewable energy sources.

Some examples of **Ecobuilding** development projects are illustrated below, and are representative of all the projects that are developed or being realised by Pirelli RE.

#### Headquarter 2 (HQ2) Project

Project features:

- *pre-assessment* to obtain Environmental Certification from the iiSBE ITALIA organisation, which uses the GBC system;
- energy requirements that are fully below legal limits;
- reduction of consumption for lighting equal to about 30% as compared with a traditional building;
- limits on consumption of potable water through the use of rain water for compatible uses;
- materials from renewable sources (natural fibre insulation, linoleum for flooring);
- photo-catalytic wall covering materials to limit the presence of harmful substances;
- rooftop gardens to improve the microclimate and indoor comfort during the summer season;
- guarantee of adequate acoustic comfort conditions;
- photovoltaic panels on the building roof.

#### Winning design in the “Bicocca Centre” competition

Project features:

- residential development measuring 46,500 square metres of gross floor space and 5,000 square metres of commercial space;
- photovoltaic shutters to shade some of the windows on the south façades (which contribute to the production of electricity);
- natural night-time ventilation by means of special openings in the façade;
- centralised solar heating plant combined with gas boilers, sized to cover about 30% of total heating requirements with solar energy: inverter air conditioners for the production of cold water.

#### GERMANY - Hannover - 21<sup>st</sup> century living

Project features:

- a residential project with 135 apartments has been built on a 9083 square metre lot in the Kronsberg quarter of Hannover;
- centralised microclimate Environment.

## POLAND - Szafarnia Project - Danzig

## Project features:

- located in the historic centre of Danzig on the edge of the ship harbour: the choice of building materials and implemented technologies, and the technical design and construction solutions integrate ecological aspects for environmental protection.

## ECO-SUSTAINABLE OPERATION OF PIRELLI REAL ESTATE OFFICES

Focus on the management of environmental impact at its own offices has led Pirelli RE to devote special attention to **energy saving** features.

**District heating** (centralised heating provided by a remote heating plant that produces hot and cold water distributed through underground pipes) has been adopted at the Milan headquarters. This solution is also planned to be implemented at HQ 2, which is currently under construction.

Another example of rational energy use is offered by the **cogeneration plant** located at the Ivrea office centre, where Pirelli RE companies and other companies (Vodafone, Wind, Olivetti, Olivetti MS, etc.) operate.

The tables below show the performance of Pirelli RE's principal facilities in 2008, compared with 2007 consumption figures, measured as part of the Company's **monitoring of environmental impact**.

## ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE OFFICES - TOTAL CONSUMPTION

	Milan HQ		U7 Tower Milan		Rome Office		Naples Office		Total		Main German offices (*)	
	08	07	08	07	08	07	08	07	08 IT	07	08	07
Water (m <sup>3</sup> )	7,741 <sup>(*)</sup>	17,539	2,500 <sup>(*)</sup>	6,083	5,863	6,169	1,882	1,323	17,986	31,114	3,693	-
Electricity (MWh)	1,875 <sup>(*)</sup>	3,320	1,200	1,218	834	847	181	196	4,090	5,581	923	-
Fuel oil (kg)	<sup>(*)</sup>	<sup>(*)</sup>	<sup>(*)</sup>	<sup>(*)</sup>	<sup>(*)</sup>	<sup>(*)</sup>	<sup>(*)</sup>	<sup>(*)</sup>	not appl.	not appl.	not pres.	-
Heat (MWh)	2,650 <sup>(*)</sup>	1,961	438 <sup>(*)</sup>	350	not pres.	not pres.	not pres.	not pres.	3,088	2,311	846	-

<sup>(\*)</sup> The data provide an estimate of average consumption at the Hamburg, Hannover and Kiel facilities, since the allocation of spaces/persons at the various locations was changed in 2008 following acquisition of BBC.

## ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE OFFICES - SPECIFIC CONSUMPTION

	Milan HQ		U7 Tower Milan		Rome Office		Naples Office		Total		Main German offices (*)	
	08	07	08	07	08	07	08	07	08 IT	07	08	07
Water (m <sup>3</sup> )	12	25	10	22	17	17	23	14	13	21	10	-
Electricity (MWh)	3	5	5	4	2	2	2	2	3	4	2	-
Heat (MWh)	4	3	2	1	not pres.	not pres.	not pres.	not pres.	2	2	2	-

<sup>(\*)</sup> The data provide an estimate of average consumption at the Hamburg, Hannover and Kiel facilities, since the allocation of spaces/persons at the various locations was changed in 2008 following acquisition of BBC.

Note: the figures for consumption at the Warsaw office (in 2008) are unavailable due to local methods of supplying and billing utilities.

Changes in trend:

1. Milan HQ: the reduction in water consumption from 2007 is due to a series of conservation measures, such as elimination of the fountain in the entrance area, and modification of a number of situations, such as interruption of the water hook-up for the HQ2 construction site and lower average number of personnel at the Milan HQ.
2. U7 Tower: the lower consumption stems from interruption of the utility hook-up with the water cooling devices installed in leased spaces.
3. Milan HQ: the lower consumption stems from several energy saving measures introduced for lighting (earlier switch off of office and hallway lights), reduced use of the cooling plant during the three summer months as compared with 2007, and interruption of the HQ2 construction site hook-up.
4. District heating plant present.
5. The consumption figures are unknown because heat is provided directly by the building owner, which bills the heating costs as part of the rent.
6. The higher consumption is due to worse weather conditions, with low outdoor temperatures from the beginning of the winter season.

The above is also accompanied by the monitoring of the quantity/type of special waste produced by the main offices of Pirelli RE in 2008. The results are shown in the following table (with the comparative figures for 2007):

#### ENVIRONMENTAL PERFORMANCE OF PIRELLI REAL ESTATE OFFICES - SPECIAL WASTE

	Milan HQ		U7 Tower Milan		Rome Office		Naples Office		Total		Main German offices (*)	
	08	07	08	07	08	07	08	07	08	07	08	07
Non hazardous (Kg)	9,485 <sup>(1)</sup>	2,136	310	7,828	434	517	1,217	1,716	11,446	12,197	N.A.	-
Hazardous (Kg)	888	226	0	73	9,860 <sup>(2)</sup>	-	1,020 <sup>(3)</sup>	1	11,768	300	N.A.	-

(\*) The data provide an estimate of average consumption at the Hamburg, Hannover and Kiel facilities, since the allocation of spaces/persons at the various locations was changed in 2008 following acquisition of BBC.

(1) Milan HQ: the increase of non hazardous special waste is due to the presence of mixed packaging amounting to 5.110 kg as a result of internal displacement and relocation, not present in 2007.

(2) Rome Office: the increase of hazardous special waste is due to the disposal of hardware and outdated equipment as a result of offices reorganization during 2008 (not present the previous year).

(3) Naples office: the increase of hazardous special waste is due to the disposal of greater quantities of hardware and outdated equipment (not present the previous year).

In 2008, **recycling** of paper for the Milan Headquarters and Rome totalled the following amounts: 36,210 kg in Milan and 5,250 kg in Rome.

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

In metropolitan areas, it is becoming increasingly urgent to find effective solutions for the **reduction of air** pollution, especially **particulates** - i.e. all those solid and liquid substances that are suspended in the air.

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

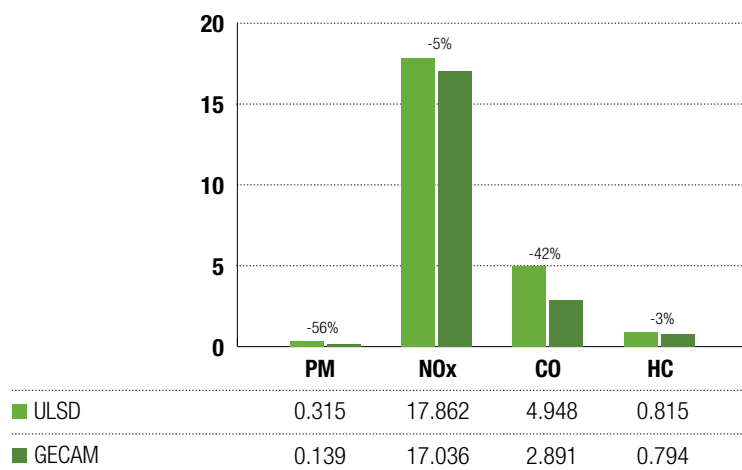
In urban areas, one of the principal sources of particulate are heating plants or combustion in the endothermic engines of vehicles. Direct action on these sources represents the most effective and immediate solution for improving urban air quality. **Pirelli Eco Technology** is focused on providing concrete, sustainable solutions to the problem of reducing particulate emissions. Pirelli Eco Technology offers the following products: **GECAM**, the **white diesel**<sup>™</sup>, “reduced particulate emission” fuel oil, and **Feelpure**<sup>™</sup>, a particulate filtering system.

## GECAM, THE WHITE DIESEL<sup>™</sup>

**GECAM**<sup>™</sup> - patented by the Group - is an emulsion of water (10%) and diesel for vehicle use and heating that **permits reduction of particulate emissions by 50%**. This result was achieved by using emulsified water, which can improve the combustion of diesel and reduce the production of nitrous oxides, one of the principal pollutants typically found in urban areas. **GECAM**<sup>™</sup> has been tested by various national and international research institutes. In the vehicle fuel segment, Eni Tecnologie Laboratories have found reductions of more than 50% in particulate emissions, **5-6% of nitrous oxides and over 30% of carbon monoxide**.

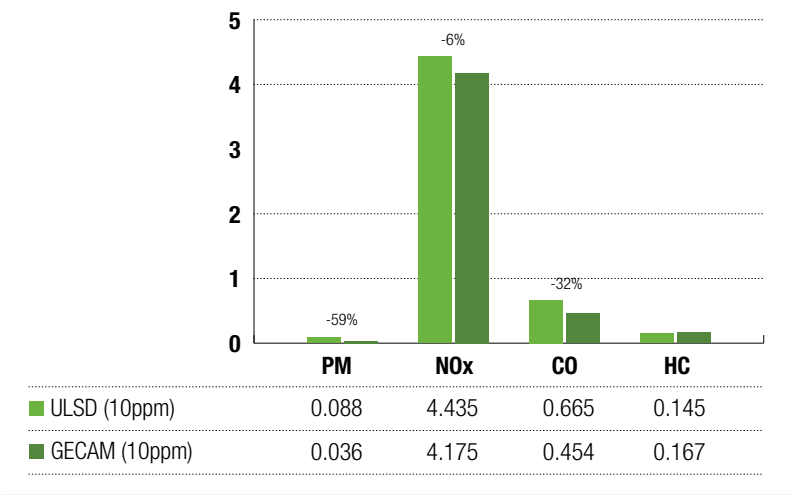


Source: Eni Tecnologie - test conducted on a Euro 2 compliant city bus Engine: IVECO 8360 used on the ATM Milano Line 61 route - ULSD: Ultra Low Sulphur Diesel (in g/km)



The tests conducted at the European Commission Joint Research Centre in Ispra on an **Engine: IVECO-Cursor Euro 3. Cycle: stationary ESC** pursuant to Directive 88/77 EEC -DIR 2001/77EC (ESC stationary cycle), show that the GECAM™ emulsified diesel can significantly reduce particulate and heavy duty vehicle emissions.

Source: JRC in Ispra - test conducted on a IVECO-Cursor Euro 3 Engine on Cycle: stationary ESC (in g/km)



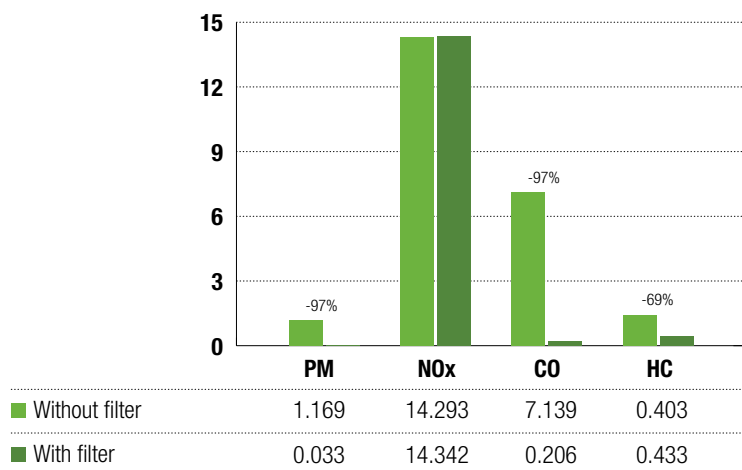
Sales of **GECAM™** in 2008 were concentrated in the public transport, heavy duty transport, waste collection and earth moving segments.

### FEELPURE™

Pirelli has been producing and developing **Feelpure™ filtering systems** since 2004 as mufflers to substitute the original equipment mufflers on diesel engines. The Feelpure™ filtering system **reduces particulate emissions by over 95%** on light commercial vehicles, trucks, buses, construction equipment and boats and ships powered by diesel engines and on all engines rated from EURO 0 to EURO 3. This performance is clearly illustrated in the tests carried out at Eni Tecnologie Laboratories:



Source: Eni Tecnologie - test conducted on a Euro 2 compliant city bus Engine:  
IVECO 8360 used on the ATM Milano Line 61 route (g/km)



The Pirelli Feelpure™ system combines the **particulate filter** (also known as FAP or DPF) with a regeneration technology based on the use of a **specific catalysing additive** (called CAM FBC). This is the most widespread and reliable technology available today.

Feelpure™ is comprised by three components:

1. a **particulate filter** in porous silicon carbide (SiC), fitted in a stainless steel can inside the muffler;
2. an **additive** to be added to ordinary fuel, which permits complete combustion of the carbonaceous particulate previously trapped by the filter (regeneration process);
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 feature.

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

## CERTIFICATIONS AND RECOGNITION

Pirelli operates in compliance with the **most rigorous standards imposed by various countries to limit harmful emissions** and has received the **most rigorous certifications** at the international level. In Italy, Pirelli Eco Technology was the first to win approval, pursuant to Transport Ministry Decree no. 39 of 25 January 2008, for particulate filters for light and heavy duty commercial vehicles.





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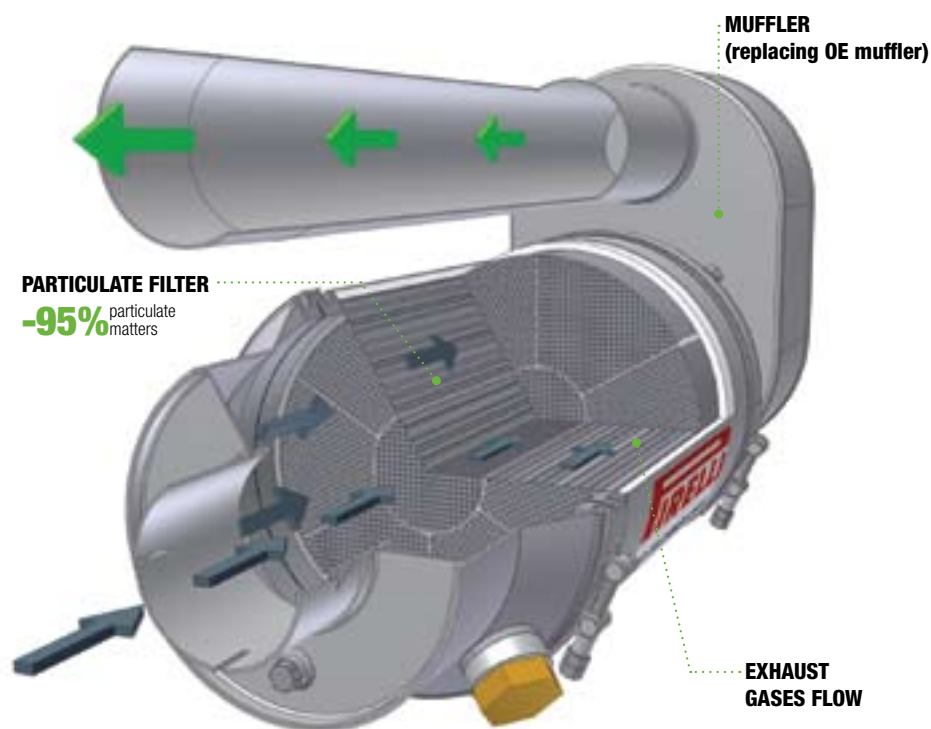
Bumbesti-Jiu, Romania, Pirelli Eco Technology.

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Pirelli filters have also received some of the most important European certifications: they have been tested by the European Joint Research Centre in Ispra, obtained the VERT and BAFU certificates in Switzerland, received RDW approval on the Dutch market and LEC certifications for the Low Emission Zone in London.

Approval in key markets like **Germany** and **China** is expected in the first half of 2009.

### PARTICULATE FILTER - OPERATING DIAGRAM



### AREAS OF ACTIVITY

With its production facilities in the Milan area and the new plant in Romania, Pirelli Eco Technology aims to become one of the leading producers of particulate filters on the market, **both as original equipment (new vehicles) and retrofit systems for vehicles already in use**, with solutions that are applicable to all EURO0-EURO5 diesel engines and all transmission configurations. Pirelli Eco Technology is based in Italy with commercial offices in major European countries.

One of its principal customers in Italy is the GTT consortium, the operator of public transport in Turin and the Region of Piedmont.

The **new production plant** for silicon carbide filters was opened at Bumbesti-Jiu, Gorj County, **Romania** in 2008. When it reaches full operating capacity, it will employ 500 workers and produce about 1100 tonnes annually.

It is expected to receive ISO-TS certification in 2009.

The product line has been expanded and the company has started to expand abroad: in England, where it participated at the presentation of the filters in the Low Emission Zone in London, while it reached an agreement with SITA (SUEZ ENVIRONMENT) in The Netherlands for the supply of about 300 Feelpure systems.

New products with a higher concentration of cells (CPSI) are being developed, which will permit better filtering performance and consolidation of its presence on the most interesting markets.

Pirelli Eco Technology began an experimental project in **Beijing** in 2008 that envisages installation of retrofit filtering systems on certain heavy duty vehicles owned by the city. This project, realised in collaboration with the Ministry of Environment for Protection of Italian Territory and Seas and with the Environmental Protection Bureau of the city of Beijing, is part of a vast Cooperation Programme between Italy and China for environmental protection (begun in 2000) that has realised over 80 projects for the development and experimentation of advanced technological solutions for sustainable development in the Asian country. In preparation for the 2008 Olympic Games in Beijing, the Italian Minister of Environment reinforced cooperation with the City of Beijing and supported the city in the “Green Olympics” programme through numerous projects in the field of mobility and sustainable urban planning and monitoring and control of air and water pollution and environmental education.

In December 2008 Pirelli & C. Eco Technology was elected “**Best Investor of the Year**” in the **Gorj District** of Romania. This was the decision of **Antena 1**, Romania’s top national commercial television broadcaster, which created the prize in 2008 with other organisations.

## 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, and is active in the renewable energy source, environmental clean-up and energy efficiency sectors.

Thanks to its 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.

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

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### CONVERSION OF URBAN SOLID WASTE TO ENERGY

Pirelli & C. Ambiente has been operating for over five years in the field of renewable energy sources, particularly in the conversion of urban solid waste (USW) and biomass 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 solid recovered fuels, which were made official by the European Union in 2007 through a special series of Technical Standards.

At the international level, it is also promoting industrial projects for eco-sustainable management of urban waste.

In 2008 Pirelli & C. Ambiente set up a joint-venture with Acea S.p.A. for the planning, realisation and joint management of initiatives in the waste management sector in the Italian Regions of Lazio, Tuscany, Liguria, Umbria and Campania.

It also operates in the energy efficiency sector through Serenergy, an energy service company (E.S.Co.) that is 50-50 owned with Buzzi Unicem. Serenergy develops projects for saving fossil fuels and electricity through the use of WDF-Q, receiving energy efficiency certificates that it then trades on the market operated by the GME (Italian national grid operator).

Pirelli & C. Ambiente Renewable Energy, which was merged with Pirelli & C. Ambiente S.p.A. in 2008, has developed and patented - in cooperation with Pirelli Labs - a **WDF-Q** (Quality Waste-Derived Fuel), whose uniqueness lies not only in its composition but also in how it is produced and used.

### PIRELLI WDF-Q

Pirelli WDF-Q is obtained by enhancing the dry portion of USW, through a sequence of sorting, chopping, drying and mixing operations with a number of components with high calorific content, such as non-chlorinated plastics from tyre scrap and recycling.

It can be used as a partial replacement for fossil fuels in existing, non-specialist plants, such as cement works and thermoelectric power stations, with significant environmental benefits (lower emissions, particularly CO<sub>2</sub>, NO<sub>x</sub> and SOX<sub>2</sub> from fossil fuels) and economic benefits (lower waste disposal costs) for the population.

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 content, lower concentrations of pollutants and certainty of the biodegradable biomass content.

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

The first of these is its biomass content, recognised in industrialised countries as a renewable energy source, of around 50%. Moreover, this biomass is “non-virgin”, i.e. originating from other production processes, thus avoiding the use of “virgin” biomass, obtained for example from wood harvested in existing forests. Also, since the WDF-Q is used in co-combustion in electric power plants and cement works, its use does not entail the building of new combustion plants, and at the same time reduces the use of fossil fuels. In **Italy**, the integrated system promoted by Pirelli Ambiente has been operating successfully since 2003 in the Province of Cuneo, which is the home of **Idea Granda**, a mixed public-private ownership company that is owned by Pirelli (49%) and the municipal company ACSR (51%). Since this system was implemented, the percentage of energy recovered from local waste has risen to 32%, which is both higher than the average for all of Italy (7%) and, above all, Europe (27%). The quantity of enhanced waste and WDF-Q produced by Idea Granda over the last three years is summarised in the following table.

## MATERIAL

		2008	2007	2006
Incoming dry portion	ton	19,031	19,589	18,464
Non-chlorinated incoming recycled plastic waste	ton	2,452	4,479	3,961
Incoming rubber scrap	ton	2,290	2,263	2,267
Outgoing WDF-Q	ton	18,616	20,913	19,673
Avoided CO <sub>2</sub> emissions	ton	32,500	36,600	34,400

At the Robilante cement works, the use of WDF-Q over the past year has reduced atmospheric emissions of CO<sub>2</sub> by over 32,000 tonnes. Each tonne of WDF-Q used in co-combustion saves 1.75 tonnes of CO<sub>2</sub> and reduces NO<sub>x</sub> by 20%, thus making a significant contribution to achievement of the targets adopted by Italy under the Kyoto Protocol.

The plant operating license of Idea Granda has been renewed until 31 May 2017. It has also increased the annual quantity of the authorised, incoming dry portion to 24,000 tonnes. In order to saturate this volume, it has signed agreements with another two consortia in the Province of Cuneo for supply of the dry portion of USW to be used as WFD-Q in 2009.

Idea Granda has been ISO 9001 and ISO 14001 certified since 2007, which apply to its quality management and environmental management systems, respectively.

## PIRELLI & C AMBIENTE SITE REMEDIATION S.P.A. - ENVIRONMENTAL CLEAN-UP AND ENERGY CERTIFICATION

Pirelli & C. Ambiente Site Remediation S.p.a. has been operating successfully since the 1990's in the remediation, redevelopment and enhancement of brownfield industrial sites. Over the years, the Company has increased 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.

The scope of operations of Pirelli & C Ambiente Site Remediation ranges from the preliminary assessment of environmental liabilities (environmental due diligence) of property assets and/or sites that might require property brokering services, to the development of the necessary engineering activities and management of relations with the relevant authorities, to complete remediation and redevelopment of the areas, while safeguarding the environment and meeting any time constraints or specific requirements of the customer.

In 2008, several major engagements were received from external customers, including TAMOIL, CEMENTIR, VALDADIGE COSTRUZIONI, CAMFIN and BNP PARIBAS.

[www.pirelliambiente.com](http://www.pirelliambiente.com) > Site Remediation



The following table summarises the extent of the work carried out by Pirelli & C. Ambiente Site Remediation S.p.A. between 1998 and 2008:

#### PIRELLI & C. AMBIENTE SITE REMEDIATION ACTIVITIES

Total surface area redeveloped or undergoing redevelopment	approximately 3,400,000 m <sup>2</sup>
Buildings demolished	approximately 4,000,000 m <sup>3</sup>
Environmental due diligence of areas	approximately 6,700,000 m <sup>2</sup>
Environmental due diligence of properties	approximately 7,100,000 m <sup>2</sup>
Large-scale remediation projects through on-site remediation	4
Large-scale remediation projects involving site safety	4
Energy efficiency certification	approximately 1,800,000 m <sup>2</sup>

<sup>1</sup> The data refer to the activity of Pirelli & C. Real Estate Project Management S.p.A. between 1998 and 2005 and the activity of Pirelli & C. Ambiente Site Remediation between 2005 and 2008.

#### ENVIRONMENTAL SOLUTIONS

The Company offers a vast range of environmental solutions, using its specialist technical expertise in soil remediation to satisfy the wide-reaching requirements of the overall process of urban and land development. Ambiente Site Remediation assists building and building services designers by providing ideas for high-quality, highly energy efficient and environmentally friendly solutions.

This support is based on 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**.

Pirelli & C. Ambiente Site Remediation has obtained 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 research solutions designed to improve the building's energy performance. The requirement for this type of certification stems from adoption by Member States of the European Union of Directive 2002/91/EC on the energy performance of buildings, whose principal goal is to promote energy conservation by reducing the energy consumption associated with buildings, which represents almost a third of the European Union's energy needs.

A cooperative project with the University of Genoa is currently under review for the development and testing of innovative materials resulting both from research and from benchmarking of the most recent and advanced solutions available. These involve new generation products characterised by high quality, energy efficiency and eco-sustainability standards.

Pirelli & C. Ambiente Site Remediation will thus expand its commitment in the following areas:

- energy efficiency for legal compliance;
- low environmental impact;

- sustainability of the built environment;
- better air quality due to the absence of harmful emissions;
- more healthful environments through the use of natural materials;
- green areas designed for relaxation and leisure time.

Plans for 2009 call for completing decontamination of the former CAM di Pero oil depot by using biotechnology and continuation of ongoing activities to map and remove asbestos at TAMOIL service stations throughout Italy.

Pirelli & C. Ambiente Site Remediation aims to obtain ISO 14001 environmental certification in 2009.

## 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. Cleantech Capital specialises in solar and wind power, green building, bio-energy and advanced materials, with the aim of increasing renewable energy production and energy efficiency, and thus reducing the use of fossil fuels.

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

Solar Utility makes its operating decisions according to the optimal localisation of plants, resulting from a combination of objective local conditions (the typical sun exposure of southern Italy, orientation, shade, dimensions of roof or land areas) and the rules set out in the Energy Account Decree of February 2007, which regulates government subsidies for photovoltaic energy production. Solar Utility works closely with the firmly established operators in the photovoltaic industry to implement its own capital expenditure programme.

One of the first projects approved by Solar Utility in 2007 was the agreement with the Town of Alessano (Lecce) for the construction and operation of photovoltaic plants on buildings and lands owned by the town. The town will realise major economic savings through this project, due to the significant dimensions of the photovoltaic plants (from 1.1 MW), which will provide an annual output of over 1,600,000 KWh clean electricity (equivalent to the consumption of over 600 families).

In 2008 Solar Utility signed another two agreements with public authorities for the construction of photovoltaic plants in Puglia and Calabria. It also completed construction on photovoltaic plants with an aggregate capacity of 3 MW.

Furthermore effectively into the photovoltaic market, Solar Utility initiated a collaborative project with Pirelli Labs in 2008 to develop innovative plastic materials that can be used to build photovoltaic structures and industrialise a prototype photovoltaic tracker created by exploiting the existing know-how of Pirelli Labs.

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[www.pirelliambiente.com](http://www.pirelliambiente.com) > Solar Utility

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## Pirelli Labs S.p.A.

The Group's "innovation engine" is Pirelli Labs, the advanced research centre serving all Pirelli businesses. It was created in Milan in 2001 with an investment of 135 million Euros.

Pirelli Labs is the hub of Pirelli Group advanced research and innovation expertise and is involved in a large number of research projects. It works with various international universities and research centres, including the **Joint Research Centre at Ispra, CNR, ENEA, University of Milan Bicocca, Milan Polytechnic, Turin Polytechnic**, and other major labs such as **CORIMAV, Consorzio per la ricerca dei materiali avanzati (Consortium for Advanced Materials Research)**. Three-year doctorate degree scholarships have been funded under the auspices of Corimav at the Department of Material Sciences at the University of Milan Bicocca with research topics focused on environmental sustainability and renewable energy.

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

Pirelli Labs cooperates with other Pirelli business units, with short-term and long-term results. Its projects are increasingly focused on **the creation of "green" products using materials, technologies and processes for sustainable development.**

Pirelli Labs has expertise in the following fields:

- solutions for renewable energy
- new materials
- tyre recycling
- solutions for eco-building and energy efficiency
- innovative materials for sustainable development
- materials and solutions for fuel cells
- innovative antenna solutions for telecommunications
- materials for applications in the fashion sector.

### Solutions for renewable energy

In the renewable energy sector, Pirelli Labs is particularly active in developing photovoltaic technologies. Following a carefully planned series of experiments with all major technologies, both conventional and innovative, carried out together with **ENEA, photovoltaic concentration was identified as the most promising solution** for reducing costs (which currently represent the principal limit on penetration of this technology).

Photovoltaic concentration, which is based on systems of specially developed plastic lenses, makes it possible to use up to one thousand times less photovoltaic material than conventional technologies, by using low cost assembly processes borrowed from the automotive industry. Pirelli Labs, working closely with its parent business unit, **Pirelli Ambiente**, is developing innovative solutions to increase efficiency in the conversion of modules and simplifying the assembly process. The aim is to reduce the cost of producing electricity from solar power at costs lower than energy from fossil fuels. Other joint projects with Pirelli Ambiente have Pirelli Labs working on the development of **innovative solar trackers**, to be used both on conventional and concentrated photovoltaic cells that can significantly increase energy yield.

They are characterised by their **low visual impact design, great resistance to high wind and modular development, which facilitates installation.**

### New materials

**Two products developed by Pirelli Labs** set important milestones in 2008:

- **Silerex™** (a registered trademark of Pirelli) is a patented and certified sound insulation material. Comprised of low environmental impact materials (granules of recycled rubber) and a polymer binding agent in water emulsion, it represents an innovative solution for development of sustainable building. A non-exclusive patent and know-how license was recently granted to an Italian firm operating in the sector;
- field trials of **prototype third generation eco-sustainable poles**, initiated in 2007 at the Telecom Italia testing site, concluded successfully by demonstrating that the product is reliable. To exploit this result, contacts are currently being made with external companies that might be interested in acquiring the production technology license.

### Tyre recycling

Available know-how for the recycling of materials enabled **Pirelli Tyre** to reuse industrial scrap through the assessment of technologies, processes and new solutions for using rubber powder. The aim is to reduce the environmental impact of industrial scrap to a minimum and increase their reuse through the recovery of materials and energy.

### Solutions for eco-building and energy efficiency

Cooperative efforts continue with Pirelli RE to conduct research on materials, products and low impact systems that will improve the quality of buildings.

The proposed materials must be recycled and, if possible, recyclable themselves or natural or from renewable sources, and always characterised by **a low impact LCA**. Once they are integrated in the design, they must enhance energy efficiency and liveability. A significant example of a sustainable product is represented by **the Silerex™ sound insulation** described above.

### Innovative materials for sustainable development

Collaboration with **Pirelli Eco Technology** continued in 2008 on the development of ceramic particulate filters for diesel powered cars. A research project was begun in order to identify **an oxidation catalyst** of particulate “free of noble and toxic metals” to be applied on the filter to permit passive regeneration.

Once the optimum composition and its response to thermal aging have been determined, Pirelli will have an effective, proprietary solution that can contribute to reducing urban air pollution.

In regard to raw materials, alternative processes were identified for the production of **silicon carbide**, starting from **biomass resulting from the processing scrap** of agricultural products. Once Pirelli specifications are satisfied, the economics of the process will be assessed in order to prepare a key raw material from a renewable source.

### Materials for application to fuel cells

Pirelli Labs is also active in the sector of **fuel cell energy generation systems**. It has developed a particularly versatile **polymer electrolyte free of halogens** that performs outstandingly in cells fuelled both by hydrogen and direct methanol.

### Innovative antenna solutions for telecommunications

The development of integrated antenna solutions continued for application to broadband access devices using WiFi technology. The spread of the new 802.11n standard, which exploits the MIMO (Multiple Input Multiple Output) technique with the use of two or more antennas, has raised the even more urgent need to integrate the antennas inside the devices themselves. An ADSL modem designed and developed by **Pirelli Broadband Solutions for a European telephone operator** was equipped with a **pair of internal stamped circuitry antennas** with a spatial configuration protected by a **Pirelli patent**. The device will be **produced and sold in 2009**.

A potentially significant solution that is currently being studied calls for an adjustable antenna to be installed in wireless extender devices that make it possible to connect the TV receiver by cable (IPTV) with the ADSL modem without it being necessary to install cables between the different spaces where the modem and receiver are housed.

Thanks to its ability to guide the radiated power in the best directions for making a connection, **the integrated adjustable antenna** inside the wireless extender will make it possible not only to create a smaller, **more attractive** device, but also to **optimise its performance** and reduce the emission of electromagnetic energy in directions that are not useful for communication (**thereby limiting this form of pollution**).

### Materials for applications in the fashion sector

The technical and scientific expertise developed in Pirelli laboratories have also been applied to provide innovative support to PZERO brand products. Activity in the fashion and footwear sectors is focused on identifying and transferring technologies that can lend special properties to the materials used.

Characteristics such as **breathability and water and oil repellency** are essential for outerwear that can be used in most seasons. The aim is to realise these characteristics through **eco-compatible processes** without changing the appearance and consistency



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Milano Bicocca, Italy. Pirelli Labs.

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of fabrics or skins. Joint efforts have been undertaken with major tanning groups, textile companies and research groups in order to consolidate the synergies necessary for industrialisation and application of the processes. In 2009 research is also continuing on active substances that can lend particular effects to skins and fabrics.

## Pirelli Broadband Solutions S.p.A.

Pirelli Broadband Solutions (PBS) was established in 2004 to focus resources in the sector of cutting-edge telecommunication with an extremely high technological content.

Since demerger of the Photonics business unit on 1 April 2008<sup>1</sup>, after it had been set up in the Pirelli Group company PGT Photonics, Pirelli Broadband Solutions has concentrated its activity on solutions for residential and small office broadband access.

The company's products enable residential and small business users to connect to the internet and telecommunication operator service networks via broadband, thereby exploiting a potentially unlimited variety of services. Telephony, video communication, internet TV, e-commerce, e-health, e-government, social networking and telecommuting are some of the principal examples of applications that increasingly allow users to receive utility, business, entertainment, communication, social interaction and learning services without having to move physically, consequently generating environmental benefits due to less travel.

After consolidating management of end-of-life products in Italy and certain European countries (Directive 2002/96/EC - WEEE), the reduction of hazardous substances in products (Directive 2002/95/EC - RoHS) and improvement of the environmental impact of packaging (Directive 2005/20/EC - Packaging), in 2008 Pirelli Broadband Solutions dedicated itself to energy issues and the reduction of pollutants in product batteries (pursuant to Directive 2006/66/EC and the relevant implementing decree, Legislative Decree 188 of 20 November 2008). In the energy area, it continued to work on introduction of the provisions imposed by Directive 2005/32/CE - EuP (Energy using Products) for development of the products that use energy in order to operate.

PBS took the actions required pursuant to European Regulation 1907/2006 - REACH (Registration, Evaluation, Authorization of Chemicals) for registration of the chemical substances used in products, in order to achieve full control. Consistently with the Pirelli Group's commitment to eco-compatible technological development, Pirelli Broadband Solutions ranks **eco-sustainable development as one of the "musts" on its own portfolio roadmap for the three-year period 2009-2011**. More specifically, the roadmaps of the Customer Premises Equipment (CPE) products made by PBS have embarked on two paths of action according to a sequential plan:

— **Reduction of CPE electricity consumption:** to this end, PBS refers to the European Union guidelines that impose lim-

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

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<sup>(1)</sup> In July 2008, an agreement was signed to incorporate PGT Photonics S.p.A. into CyOptics, a private American company, leader in the field of optical components based on indium phosphide.

its on the consumption of broadband network equipment (*Code of Conduct on Energy Consumption of Broadband Equipment*), applying design criteria where possible to reduce consumption by the core device and accessories, such as power adapter units. The electric power consumption reduction policy has a major impact on the reduction of the carbon footprint of ICT technologies and consumer electronics;

- **Use of eco-compatible materials:** beginning in the second half of 2009, PBS will give its own customers the option, for at least three product lines (operators and service providers) of CPE with housings made of 100% biodegradable plastic, i.e. plastic that can be fully recycled. This will make it possible to reuse the same material in a new life cycle without substantial deterioration in its performance.

In line with the Pirelli Group Sustainability Policy and to assist and improve the management of its own 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. Due to company reorganisation, the certification date, originally scheduled for 2008, has been moved back to 2009-2010. However, the project has made it possible to set out and disseminate a **PBS Health, Safety and Environmental Policy**, which is fully in line with the analogous Group Policy and the framework of the essential components of the Health, Safety and Environmental Management System.

In 2008 the programme to expand waste recycling was completed and targeted work was carried out on the plants at the Milan location, resulting in a significant reduction in water consumption. In 2009 additional measures to save energy are being studied, by upgrading the air filtering systems in the clean rooms located at the Milan site. It is estimated that electricity consumption will be reduced by about 5% once this work is completed.

Following the environmental communication programmes carried out in 2008 with a section devoted to sustainability on the website, resources will be dedicated once again in 2009 to promote adequate communication and environmental awareness activities targeting employees, suppliers, customers and external businesses.

#### PIRELLI GROUP ENVIRONMENTAL TARGET FOR 2009-2011

Pirelli will continue to develop cutting-edge products and solutions in the “green economy”, specifically targeting sustainable mobility, environmentally compatible building construction and renewable energy sources.

**The Group has set itself the following goal for the three-year period 2009-2011: raise the “green” component on Group revenues from about 20% at the end of 2008 to about 40% by the end of 2011.**





# Social dimension

## Internal Community

*“Group companies recognise the central importance of human resources in the believe 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 worker’s 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” (excerpt from Article 6 of the Ethical Code - Human Resources).*

For detailed information on the Real Estate Sector, whose sustainability performance is addressed in this report, please consult the Pirelli Real Estate SpA Sustainability Report, which can be found on the website [www.pirellire.com](http://www.pirellire.com).

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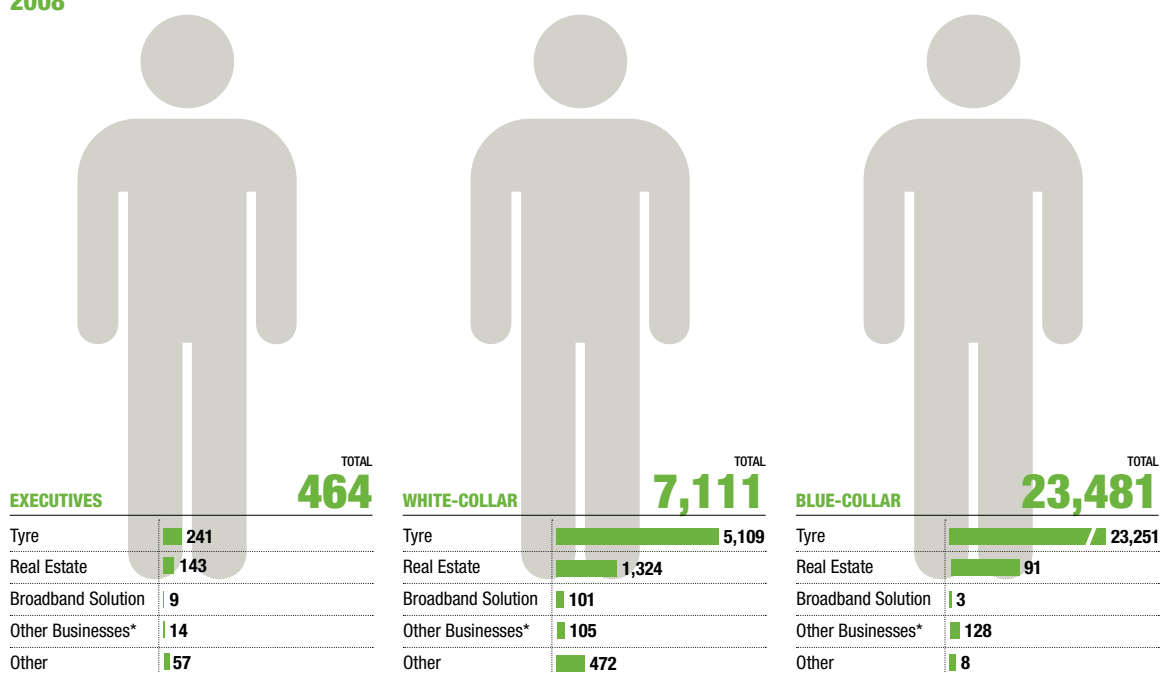
[www.pirelli.com](http://www.pirelli.com) > Sustainability >  
Stakeholders > Human Resources

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## WORKFORCE BREAKDOWN

### 2008



	Tyre	Pre	Pbs	Other *	Other **	TOTAL
<b>2008</b>						
Executives	241	143	9	14	57	464
Impiegati	5,109	1,324	101	105	472	7,111
Blue-collar	23,251	91	3	128	8	23,481
<b>TOTAL</b>	<b>28,601</b>	<b>1,558</b>	<b>113</b>	<b>247</b>	<b>537</b>	<b>31,056</b>

<b>2007</b>						
Executives	250	216	15	16	67	564
White-collar	5,135	1,954	166	66	536	7,857
Blue-collar	21,839	522	15	13	13	22,402
<b>TOTAL</b>	<b>27,224</b>	<b>2,692</b>	<b>196</b>	<b>95</b>	<b>616</b>	<b>30,823</b>

<b>2006</b>						
Executives	210	194	15	9	89	517
White-collar	4,946	1,401	145	41	1,262	7,795
Blue-collar	20,013	269	6	2	15	20,305
<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>DELTA 2008 VS 2007</b>						
Executives	-9	-73	-6	-2	-10	-100
White-collar	-26	-630	-65	39	-64	-746
Blue-collar	1,412	-431	-12	115	-5	1,079
<b>TOTAL</b>	<b>1,377</b>	<b>-1,134</b>	<b>-83</b>	<b>152</b>	<b>-79</b>	<b>233</b>

<b>DELTA 2008 VS 2006</b>						
Executives	31	-51	-6	5	-32	-53
White-collar	163	-77	-44	64	-790	-684
Blue-collar	3,238	-178	-3	126	-7	3,176
<b>TOTAL</b>	<b>3,432</b>	<b>-306</b>	<b>-53</b>	<b>195</b>	<b>-829</b>	<b>2,439</b>

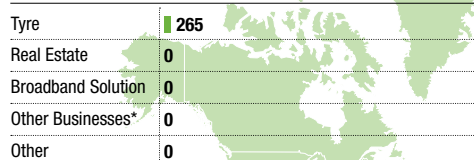
\* OTHER BUSINESSES include the workforce of the companies: Pirelli & C Ambiente S.p.A., Pirelli Eco Technology and PZero Moda

\*\* OTHER includes the workforce of corporate companies and the Service Centres

## WORKFORCE GEOGRAPHICAL BREAKDOWN

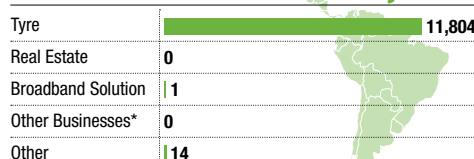
### 2008

#### NORTH AMERICA



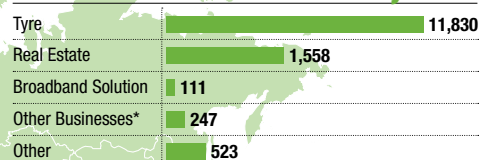
Tyre	265
Real Estate	0
Broadband Solution	0
Other Businesses*	0
Other	0

#### CENTRAL AND SOUTH AMERICA



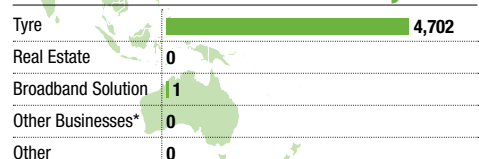
Tyre	11,804
Real Estate	0
Broadband Solution	1
Other Businesses*	0
Other	14

#### EUROPE



Tyre	11,830
Real Estate	1,558
Broadband Solution	111
Other Businesses*	247
Other	523

#### ASIA, AFRICA, OTHER



Tyre	4,702
Real Estate	0
Broadband Solution	1
Other Businesses*	0
Other	0

	Tyre	Pre	Pbs	Other *	Other	TOTAL
<b>2008</b>						
Europe	11,830	1,558	111	247	523	14,269
North America	265	0	0	0	0	265
Central and South America	11,804	0	1	0	14	11,819
Asia, Africa, Other <sup>1</sup>	4,702	0	1	0	0	4,703
<b>TOTAL</b>	<b>28,601</b>	<b>1,558</b>	<b>113</b>	<b>247</b>	<b>537</b>	<b>31,056</b>

<b>2007</b>						
Europe	11,893	2,692	191	95	599	15,470
North America	262	0	3	0	0	265
Central and South America	10,531	0	1	0	16	10,548
Asia, Africa, Other <sup>1</sup>	4,538	0	1	0	1	4,540
<b>TOTAL</b>	<b>27,224</b>	<b>2,692</b>	<b>196</b>	<b>95</b>	<b>616</b>	<b>30,823</b>

<b>2006</b>						
Europe	11,285	1,864	166	52	1,349	14,716
North America	265	0	0	0	0	265
Central and South America	9,786	0	0	0	16	9,802
Asia, Africa, Other <sup>1</sup>	3,833	0	0	0	1	3,834
<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>DELTA 2008 VS 2007</b>						
Europe	-63	-1,134	-80	152	-76	-1,201
North America	3	0	-3	0	0	0
Central and South America	1,273	0	0	0	-2	1,271
Asia, Africa, Other <sup>1</sup>	164	0	0	0	-1	163
<b>TOTAL</b>	<b>1,377</b>	<b>-1,134</b>	<b>-83</b>	<b>152</b>	<b>-79</b>	<b>233</b>

<b>DELTA 2008 VS 2006</b>						
Europe	545	-306	-55	195	-826	-447
North America	0	0	0	0	0	0
Central and South America	2,018	0	1	0	-2	2,017
Asia, Africa, Other <sup>1</sup>	869	0	1	0	-1	869
<b>TOTAL</b>	<b>3,432</b>	<b>-306</b>	<b>-53</b>	<b>195</b>	<b>-829</b>	<b>2,439</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

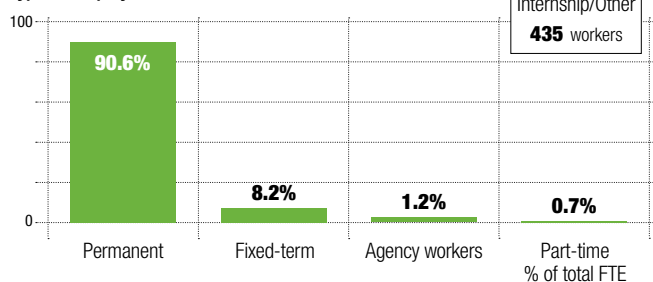


## CHANGES IN GROUP WORKFORCE

The workforce has grown significantly over the past two years, by **+3,986 employees** including +2,196 in 2007 and +1,790 in 2006.

### 2008

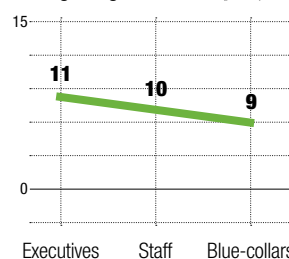
Type of employment contract



New hirings  
**6,740** workers

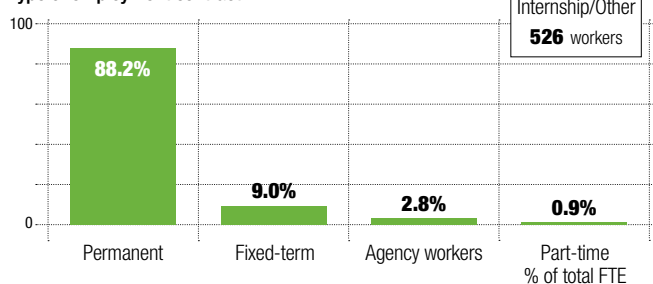
Employees leavings  
**5,899** workers

Average length of service (years)



### 2007

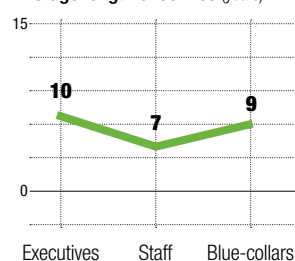
Type of employment contract



New hirings  
**5,630** workers

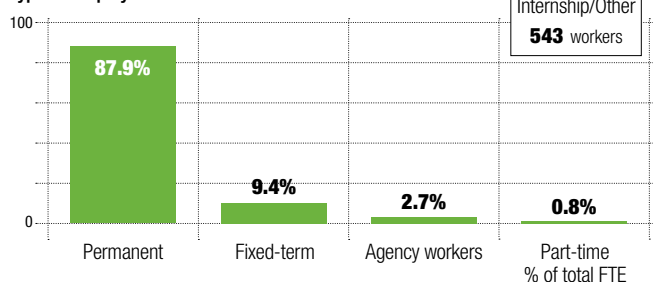
Employees leavings  
**3,504** workers

Average length of service (years)



### 2006

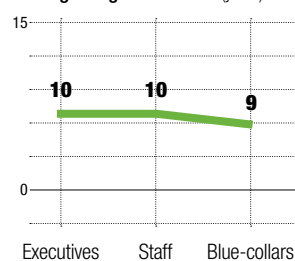
Type of employment contract



New hirings  
**5,016** workers

Employees leavings  
**3,156** workers

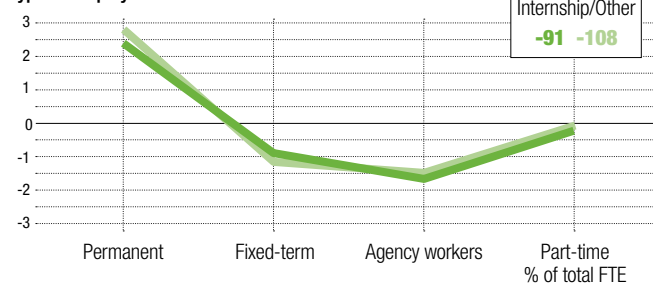
Average length of service (years)



### DELTA

2008 vs 2007    2008 vs 2006

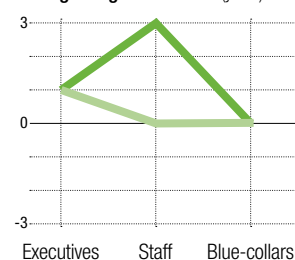
Type of employment contract



New hirings  
**1,110** 1,724

Employees leavings  
**2,395** 2,743

Average length of service (years)



The trend in the Group's workforce over the last year has been characterised by substantial stability at the Group level (+167 employees), while employment levels at the individual businesses changed at different rates. At Pirelli Tyre hiring increased at the new investment centres in China and Romania, with an increase in blue-collar employment in Brazil following change in the work patterns at the Santo André and Gravatai factories and higher production volumes and insourcing of resources from certain supplier firms (particularly in logistics). Other growth took place at Pirelli Eco Technology to start up the new particulate filter plant in Romania. At Pirelli Real Estate, acquisition of the German company Baubecom was completed in 2008, while the facility management business was sold and restructuring of the other Real Estate Group companies began.

In regard to the annual movements of incoming and outgoing personnel, seasonal work should be taken into account. This is a typical phenomenon in the tyre sector that involves using temporary workers to stand in for permanent workers (a total of about 700 persons in Germany and Turkey) to maintain constant production volumes during the summer months.

The Group does not employ anyone under the age of 14.

The Tyre Sector employs 95 young workers between 16 and 18 years of age (52 in Brazil, 35 in Venezuela and 8 in Germany), and 14 young workers between the ages of 14 and 16 on an exceptional basis (12 in Brazil and 2 in Germany), as part of training and induction schemes in compliance with local laws.

## HUMAN RESOURCES POLICIES, ACTIVITIES AND PROJECTS

### Compensation and International Mobility

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

**Salary Review** policies are implemented locally on a country-by-country basis, except for procedures involving Group executives and key resources involved in international mobility schemes, as these categories are centrally coordinated by the parent company in order to ensure uniform application of these policies worldwide.

A new talent management process was introduced in 2008. This process defined a pool of outstanding resources to be dedicated special, centralised attention in terms of growth and development paths and dedicated training plans, and ad hoc compensation programmes in order to promote and retain them.

The full potential of the performance management tool was exploited in 2008. It became the key tool supporting the supervisor-assistant relationship, by clearly defining individual roles and objectives, while encouraging transparent, shared evaluation.

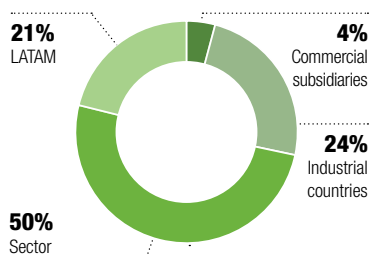
All executives and 60% of managers participate in the **Group's annual inventive scheme (MBO - Management by Objectives)**. This sets clear Group/business/country and individual

economic and financial targets, and pays out bonuses that vary according to assessment and the extent to which these targets are achieved. This process, which is centrally managed in accordance with a common set of rules for the whole Group, is accompanied by other schemes implemented by the principal affiliates.

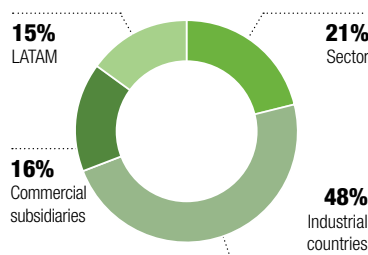
The “**International Mobility Policy**”, of considerable strategic value in the development of leadership within the Business, deserves special attention. About half of current Pirelli management and senior management personnel have had one or more significant work experiences in a foreign country, which represents a strategic value for internationalisation in the development of leadership. Over the past decade, an average of about 250 people, including executives, managers and white-collar employees of different nationalities and cultures have exchanged know-how, developed their professional skills and exploited new managerial opportunities, thereby contributing to the creation of a truly international Group.

#### DISTRIBUTION OF THE EXPATRIATES

##### By origin

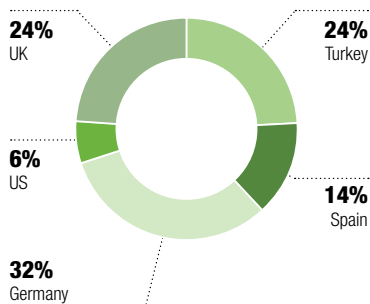


##### By destination country

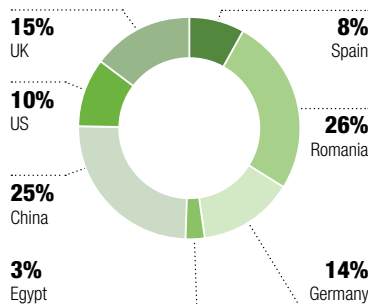


#### BREAKDOWN OF INDUSTRIAL COUNTRIES

##### Origin



##### Destination



Many aspects of the global labour market have imposed a more flexible approach to the international framework that can readily satisfy organisational and individual requirements. With this aim in mind, a thorough audit was carried out in 2008 on processes and practises adopted for international mobility, leading to a proposal for general revision of Group policy. This revision will be fully implemented beginning in 2009.

The new policy will regulate all possible cases of foreign assignments in view of a uniform approach to all the different possible situations. Its principal drivers will be to develop/grow talent resources and transfer technical know-how in support of the start-ups.

International mobility, which is perceived as a real opportunity for development, is also a tool supporting the “Group Equal Opportunities” project. At the end of 2008, the percentage of women out of the total number of personnel transferred abroad was around 15% (just as in 2007).

## Diversity Management

Over the course of 2008, awareness steadily grew in the Pirelli Group of the need to adopt a structured and global approach to equal opportunity, in order to handle it in the broader context of **Diversity Management**.

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[www.pirelli.com](http://www.pirelli.com) > Sustainability > Pirelli and Sustainable Development > Equal Opportunities

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Individuals are focusing more and more on the promotion of diversity and spread of an "inclusive" work culture, one that is based on mutual diversity, especially cultural, in order to increase the entire organisation's possibilities of success and its ability to deal with the challenges arising on the external market.

This inclusive approach has been decisively encouraged by Pirelli's commitment to spreading an “equal opportunities culture.” Since 2005, this commitment has been fully expressed with the “**Group Equal Opportunities Project**” and the “**Group Equal Opportunities Statement**” signed by the Chairman and distributed with the Project objectives to all employees in their local language.

Consequently, Diversity Management takes the form of a business process for progressive change of employees' “common sense” that values diversity as a source of creativity and innovation, which in turn, if managed appropriately, constitutes a resource that can enhance the effectiveness and efficiency of work.

Focusing on individuals of different nationalities can transform into a competitive advantage for businesses that are constantly seeking ideas and useful skills to create process and product innovations. From this point of view, Pirelli has long supported the growth and development of its own managers through international experiences that are designed to develop the creative and managerial potential inherent in multiculturalism and in the context of different professional environments (please refer to the section on international mobility policies).

Specific actions support the exploitation of diversity.

All the **opinion surveys** conducted in 2008 (see the specific section for details) included certain questions on the perception of diversity (sex, religion, race...) in the Company. Analysis of these surveys did not reveal particular criticalities. On the contrary, in the survey carried out at the two plants in Romania, which have a large female population, the results were particularly positive.

To monitor compliance with the equal opportunity principles affirmed by the Group from the **recruiting stage on**, a control mechanism was introduced in Italy in 2008 based on the compilation of an anonymous postcard/questionnaire by every candidate interviewed by the Company.

The feedback received through this new tool has been extremely positive: 98% of the recent university graduate job candidates (data refer to the period February-October 2008) confirmed their adherence with the equal opportunity principles during the hiring process. Positive feedback was also received from the candidates invited to interviews at the Group's Italian companies. The data that have been examined thus far confirm their full adherence with equal opportunity principles in over 90% of the cases (Tyre 90%, PBS-Labs 100%, Corporate 97%).

Adherence with **workplace** equal opportunity principles is monitored locally and centrally through the internal **Equal Opportunities Complaint Procedure**, which is designed to reveal any cases of sexual harassment and/or discrimination that the employee believes he/she has suffered at the Company. This Procedure was never activated in 2008.

The **breakdown of the workforce by gender** at 31 December 2008 shows that almost 20% of managerial positions were held by women (unchanged from 2007), while they held 38% of white-collar positions (unchanged from 2007) and 5% of blue-collar positions (compared with 4% in 2007). Their number as a percentage of the total workforce is in line with the figure reported for 2007. The **substantially equal pay** for men and women was confirmed.

Pirelli took action in numerous areas at the institutional level during 2008. In May 2008 the Group participated in the first Italian **Career Day** dedicated to "Diversity & Work," which was sponsored by Sodalitas and the Anti-discrimination Office. It offered protected and immigrant job seekers to meet with business offering work.

In 2008, just as in 2007, Pirelli participated in the Laboratorio Armonia ("Harmony Workshop"), which is now called the **Diversity Management Observatory**, sponsored by the Research Division of the SDA Bocconi business school. It began with the intention to create know-how for the management of diversity in the corporate world and compare relevant operating practices. Its aim is to provide interpretative models and operating tools to confront and manage gender differences.

In particular, Pirelli promoted participation by its own working mothers in the SDA Bocconi research project on *The Cost of Motherhood*, in order to reveal how much motherhood costs the firm and the mother who works there, both in monetary terms and in terms of its impact on the entire life of the firm and individual. This project was carried out by distributing an anonymous questionnaire to be filled out with feedback by female employees on a voluntary basis.

Pirelli has belonged to the **European Alliance for CSR** since 2007. This initiative is promoted by the European Commission to encourage the spread and exchange of the best sustainability practices amongst businesses.

Thus far, Pirelli has focused its active participation in the Alliance through the **European Workshops for the Alliance**, coordinated in Italy by the Sodalitas Foundation (Pirelli has a seat on its Executive Committee).

Pirelli's participation in the Workshop on Equal Opportunities (set up in 2007) contributed to publication of the toolkit **"Practising Gender Equality in Careers"** which was presented at the CSR Europe General Meeting in Brussels on 19 June 2008.

Since 2008 Pirelli has also participated in the Italian Workshop on **"Managing Multiculturalism at Your Company"** which will produce a management manual in 2009 based on existing best practises for multicultural management. The aim of this Workshop is to show "how" inclusive management and constant attention on the multicultural dimension can translate into a competitive edge for businesses.

## SELECTION, TRAINING & DEVELOPMENT

### Selection

#### Talent Attraction initiatives and Employer Branding

In 2008 the Group's employer branding activity was focused on updating Pirelli's image among young university graduates and consolidation of its orientation practises in a year when actual hiring needs contracted.

In 2008 the **recruitment, hiring and placement** process of young university graduates was revised. The first part of this change involved changing the service provider of the Assessment Centres, which resulted in greater perceived quality of the service (since it was not directly connected with the world of agency work, unlike its predecessor) and streamlining of the assessment process itself. One of the first results was an increase in the percentage of candidates who passed the evaluation process and an increase in the percentage of interns who were hired.

Secondly, the Group introduced specific tools at Corporate level to quickly, constantly and anonymously record the feedback given by candidates participating in the hiring process. The Equal Opportunities postcards represented one of these tools. They were handed out to candidates at the end of the job interviews to measure their perception of how fairly the interview was conducted, and the questionnaires delivered at the end of the Assessment Centre for assessment of the university graduate job candidates, in which the candidates themselves expressed their opinion on the quality of the service.

Finally, a new company policy for placement of recent university graduates was introduced and presented clearly during the selection process beginning in 2008. Implementation of this policy is constantly monitored at the corporate level, particularly in regard to the activation of new internships to be offered only when a real possibility of future placement exists.

At the **academic level**, the Company guarantees its presence through channels and tools that had already been consolidated over the years (Career Days, Career Books, presentations by Pirelli managers at major Italian universities, orientation meetings for young university students, visits to Group facilities by student delegations from foreign universities, etc.).

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

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In 2008 Pirelli participated at 11 Career Days organised by leading Italian universities. One of these national events was “Diversity & Work,” which targeted foreign or otherwise qualified candidates, and the 1<sup>st</sup> Career Day for candidates holding or working on a PhD.

In 2008 Pirelli centrally coordinated organisation of Career Days for the first time in China (at the Tongji University in Shanghai), in Romania (at the University of Craiova), and in Egypt (Alexandria) at the beginning of 2009.

The principal orientation projects that were started and/or continued in 2008 included:

- **POLITONG:** a cooperative project between the Milan Polytechnic and Turin Polytechnic and Tongji University in Shanghai began 2007 and continued in 2008, with targeted actions involving our managers in Italy and in China. After attending alternate years studying at the participating Italian and Chinese universities, the Italian and Chinese students participating in the POLITONG project received a specialised degree recognised both in Italy and in China.
- **Global Management Challenge:** once again in 2008, Pirelli took part in the biggest international business strategy tournament, based on a business game, by supporting nine teams of students (compared with three in 2007), including two Chinese teams, two Romanian teams, two Brazilian teams and three Italian teams.

Aside from the usual cooperative programmes between Pirelli and leading national and international university centres, the first financing project for academic research in materials at Jinan University in Shandong Province, China was launched in 2008.

In addition to orientation and other activities at universities, the Pirelli Group has expanded and organised its presence at certain technical high schools in Italy in order to provide students with professional orientation. It is expected that these cooperative efforts will continue in 2009, by reinforcing and consolidating the Group's local network.

As part of the project to relaunch and update the company's image to attract young graduate talent, in 2008 Pirelli modified the image of the highchair (“Seggiolone”) that had been introduced in 2007. It used it at foreign job fairs and interviews, the new stand set up for Career Days and Job Meetings, in the banners used at various selection sites and the Group's partner university locations, and especially by making it the principal image of the new Pirelli HR brochure, which is distributed in Italy and at all foreign affiliates.

### Performance Management Process

**The PMT-Performance Management Tool** is the online tool for measuring performance. It was launched at the Group level in 2007, the year when it was used online by Italy, Turkey, Brazil, Argentina and Venezuela. As planned, in 2008 its use was extended to Spain, Germany, UK, Romania and Egypt. Assessment is based on the objectives, agreed with managers, to be achieved during the year; the level of expertise as measured by the skills of the respective professional family and the training/development received to achieve objectives. Performance targets were assigned to 3,968 employees in 2008. This number represents 96% of the population involved through the online management performance tool, comprised by the employees in the countries linked with SAP HR. In those countries that do not operate on SAP HR, the process was carried out by using an equivalent paper tool.

### Principal Group Training and Development Projects

The most important training and development projects conducted at the Group level for the principal professional categories are listed below:

- **Training in Romania:** a “crash training” course was started towards the end of 2008 at the Slatina plant. It involved 850 persons in various areas and subjects (HSE, Quality, 5S, HR, Tyre Technology, etc.). In particular, the PMS (Pirelli Manufacturing System) training programme offered nine days of training in the classroom and factory, for a total of 18,900 hours of training provided by 28 instructors from Pirelli plants worldwide. The topics addressed were safety and quality, to involve and engage the personal responsibility of each worker in the process of improving production, according to the new model adopted by Pirelli Tyre and gradually introduced at factories starting from last March.
- **“Best Seller” project for the Italian Sales Force:** training sessions were held in 2008 as part of the project dedicated to the Italian Tyre Sales Force in order to make Pirelli’s selling proposition more convincing through the use of new, different approaches to customers. The techniques used were highly innovative insofar as they involved a minimal amount of time in the classroom and sales activity sessions held “in the field” that were not related to the participants’ usual working environments and responsibilities.
- **Fostering ACF Skills:** the training programme for the Administration, Control and Finance professional family was concluded in November 2008. “Fostering Administration, Control, Finance Skills” was launched in 2006 and was created and managed in association with the SDA Bocconi business school. Its main aims are to enhance specific “technical” expertise and managerial skills, and increase the sense of belonging within the Administration, Finance & Control professional family. It involved about 200 participants for a total of about five man-days of training.

- **Turin Industrial Centre:** planning for the professional re-training plan for employees at the Turin Centre plants was completed. The first training module on safety was held in 2008, involving all employees (both blue-collar and white-collar). In 2009-2010 the technical and behavioural models envisaged in the plan will be offered. The training courses were offered in coordination with the scheduled completion of infrastructure at the new Turin Industrial Centre.
- **Organisational Model - Italy:** following amendments to the reference statute, the Group began a training course for Italian employees on the new Organisational Model in 2008, targeting Italian employees. Online training involved all employees, while 359 persons participated in classroom training, including executives, managers, white-collar employees, top management and/or employees “at risk” of the criminal offences envisaged in Legislative Decree 231.
- **Italy Catalogue 2008:** 2008 was marked by a large number of editions and participants (681, for a total of 109 classroom days) in catalogue training provided at the Piero Pirelli Institute. The “Talents in Action Plan” was introduced for newly hired university graduates hired by the Company as apprentices, involving a structured two-year training programme. The new changes in 2008 are the invitations to courses according to the guidelines set out in the Performance Management Tool. This process, which was adopted in November 2008, guaranteed a high number of participants.
- **Career Development Programme:** this is an international programme designed to support growth and development of talented Company employees. It is divided into skills assessment/development modules (Development Centres) and training modules (training seminars on “Understanding Business Complexity”, “Managing a Growing Complexity” and “Developing Managerial Excellence”).

The following tables illustrate the number of training and development programmes and participants described above:

#### LOCAL DEVELOPMENT CENTRES

Country	2008		2007	
	No. editions	No. participants	No. editions	No. participants
Italy	2	28	3	38
Germany	1	12	1	12
Spain	1	7	1	8
Romania	2	22	1	8
UK	1	5	1	13
Turkey	2	24	2	20
Brazil	2	24	2	24
Argentina	1	14	1	16
China	1	18	-	-
	<b>13</b>	<b>154</b>	<b>12</b>	<b>139</b>

## GROUP DEVELOPMENT CENTERS

Company/Country	No. participants in 2008 - 6 editions	No. participants in 2007 - 6 editions
Pirelli Tyre Italia	40	38
Pirelli & C. + S.I. + PBS + Ambiente + Labs	9	18
Egypt	5	3
England	4	2
Germany	8	11
Austria + Switzerland	2	-
Spain	4	3
France	3	-
Turkey + Greece	7	3
Poland + Romania	1	1
China + Singapore	5	1
Japan	1	-
Argentina	5	3
Brazil + Cord	13	7
USA + North America	3	-
	<b>110</b>	<b>90</b>

## TRAINING SEMINARS

Understanding Business Complexity - UBC																
	Italy	Germany	Spain	Turkey	Brazil	UK	China	Egypt	France	Argentina	USA	Venezuela	Mexico	Romania	Comm. Units	TOT
2008	27	7	2	12	7						1			7		63
2007	18	8	2	5	16	2	5	1	1							58
2006	10	2	1	1	2	2				1						19

Managing a Growing Complexity - MGC																	
	Italy	Germany	Spain	Turkey	Brazil	UK	China	Egypt	France	Argentina	USA	Australia	Hungary	Romania	Singapore	Middle East	TOT
2008	16	6	1	3	4	1	1	4	2	1	2						41
2007	27	8			4	2	4	3						1	1		50
2006	12	3		1	1	1		2									20

Developing Managerial Excellence - DME															
	Italy	Germany	Japan	Turkey	Brazil	UK	China	Greece	France	Russia	Canada	Venezuela	Romania		TOT
2008	13	3			1	3									20
2007	10	4		1		2	2		1		1		1		22
2006	13	1	1		2			1							18

## Sustainability Training

The communication campaign to raise employee awareness of Sustainability issues that began in 2007 continued in 2008 with specific classroom training activities involving blue-collar and white-collar employees. The participating countries were the United States, Germany, Turkey, Romania, Egypt and Switzerland.

Completion of the training modules in the remaining countries where the Group has a presence is scheduled for 2009.

Training activities, which were led by local managers supported by CSR Referents, focused on the concept of sustainability, the internal and external competitive advantage stemming from being a CSR Company that integrates it in its growth strategy, review of all corporate policies, from the Ethical Code to the HSE&CSR Policy and Global Compact as a model for sustainability formally adopted by the Group. The analysis of stakeholders, the Company's approach to human rights and the environment completed the training, which was offered to employees on an interactive basis. They were reminded of the importance of full operating collaboration to maintain Pirelli's high sustainability profile.

The contents of the presentations, which offered a uniform basis for training in the various countries, were defined by the corporate departments in view of disseminating business sustainability in a uniform way. Local managers were contacted in advance and their comments were obviously taken into consideration.

Training activities also included a post-training questionnaire so that the training experience could be tracked.

### Summary figures for training days

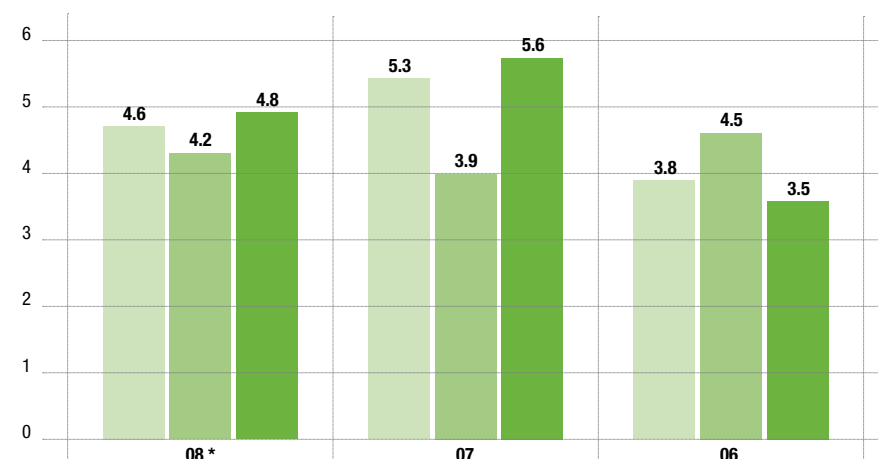
The table below shows the average number of training days per person worldwide at the Pirelli Group.

The increase per person in 2008 measured on the staff population stems from the greater investment made in managerial and technical and professional training.

In 2007, training resource were focused instead on the operating population following the work necessary to support and create the professional skills of blue-collar workers at the new start-up factories in China and Romania.

### TRAINING DAYS PER PERSON

TOT WC BC



\* including Pirelli Real Estate (Total man-days 2008 Pirelli Real Estate alone: 1.16)

For the years 2006-2007 the graph illustrates the data for training days in relation to Group employees, excluding Pirelli Real Estate from the scope of measurement.

From 2008 the figure also includes Real Estate, and thus the entire Group.

### Main objectives for 2009

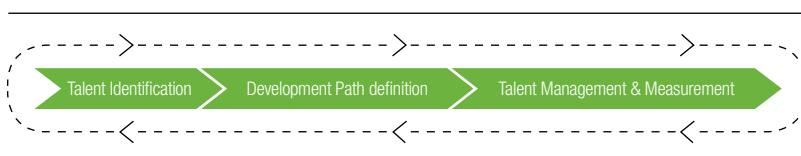
Consistently with business priorities and the results of opinion surveys conducted in 2008 (as mentioned herein), the following activities will be carried out in 2009:

1. integration of the Performance Management Tool with other processes for tracking and enhancing the know-how of persons (CV and skill mapping by professional family online);
2. new centralised management of the pool of critical know-how by corporate HR departments that, just as for management of talented employees, will ensure implementation of the process for management of critical know-how at the international level.
3. new training portal: release of a new platform for the management of training services is scheduled for the first half of 2009, which will make it possible to expand the scope of use of the previous portal by also introducing interactive services and knowledge sharing at the same time;
4. international leadership programme for executives, in view of developing, disseminating and consolidating a style aimed at realising high personal performance and initiative, motivation and commitment in one's own organisation;
5. continuity of international development and training programmes for growing resources;
6. training programme for management at factories in all countries to support the introduction of Lean Manufacturing and PMS methods (see the section dedicated to these programmes elsewhere in this report);
7. more intense Internal Communication plan targeting executives and managers to facilitate their activities during the current phase.



## TALENT RETENTION TOOLS

The following flow chart illustrates the implemented dynamic process:



The new Talent Management & Retention process was implemented in 2008, which aims to reinforce attentive, individualised management of staff considered to have managerial talent and/or high value for the Company.

The first step involved identification of a pool of talented young people in the Group - about 250 individuals (3% of the total) through meetings with business unit/department heads and top management.

Personalised, challenging professional growth paths were then defined for the short term (1-2 years). The semi-annual monitoring of the talent pool was implemented according to a specific set of KPIs that permit assessments of their performance, the results they achieve and the degree of implementation of the development plan.

Finally, specific meetings were defined and held at the sector and country levels, in order to track individual progress on growth and development paths by the members of the talent pool. Opportunities for the Group's young talents and/or Strategic Resources to meet top management were also organised.

The new process introduces intense centralised coordination by corporate HR departments in the management of talents worldwide, guaranteeing implementation of the process. Both the decision-making process for development actions and their short and medium-term monitoring will be guaranteed through the Talent Development Committees at the central and country business unit levels.

## INNOVATION MANAGEMENT TOOLS

The Pirelli Group has always been on the cutting edge of process and product innovation. In the area of human resources, projects to promote innovation amongst employees have also been pursued over the years.



Two major projects were launched in the industrial and commercial sectors during 2008 to stimulate the search for innovative ideas and solutions in different ways at all levels to improve the performance of the Company and/or its individual departments and/or the products and services that it develops.

— **COMMERCIAL SECTOR** - In September 2008 a competition named “**Marketing Innovation Challenge**” was launched in

the Sales&Marketing departments of all countries in order to select and develop the best proposals for innovative strategies to approach new international markets and new procedures for managing relations with customers, partners and stakeholders. All the proposals were collected at the end of 2008, and the best will be chosen in the first few months of 2009. The winning projects will be allocated a large budget for implementation; their effectiveness will be directly monitored in 2009 by the Commercial Department.

- INDUSTRIAL SECTOR: “**Passion in Operation**” is the slogan accompanying introduction of the new production model in the Pirelli world (**PMS - Pirelli Manufacturing System**), which aims to standardise the approach to both continuous improvement and quality through the sharing of a common language and standard methods. Twenty factories worldwide have joined the PMS programme since its inception in 2008.

The Pirelli Manufacturing System is focused on safety, quality, people and costs. Action taken under the PMS is based on the philosophy of continuous improvement, which pursues efficiency through the principles and tools of Lean Manufacturing, including “5S activation groups” (5S= *Seiri, Seiton, Seiso, Seiketsu and Shitsuke* - Japanese words that can be translated as select, organise, shine, standardise and support), kaizen activities and mapping the value flow.

It aims to eliminate waste, maintain a clean environment and stimulate the daily pursuit of efficiency and quality.

The particularly active and “energising” methods used to involve all those who work in the areas implementing the “5S” facilitate and promote the generation of new ideas and improvement actions.

## INTERNAL COMMUNICATION

During 2008, the internal community at the Pirelli Group was the object of numerous communication initiatives at both global and national levels, while varying widely in terms of duration, scope of action and channels used. The following paragraphs illustrate highlights of the principal areas in which Internal Communication and Human Resources took actions with useful, interesting and engaging actions, in step with the most modern formats but especially capable to reinforce the employee’s perception as an active member of the business community, where individual contributions create value for everyone.

### Opinion Survey 2008

The second Group Opinion Survey was conducted in 2008, and involved executives, managers and white-collar employees (the previous opinion survey was conducted in 2005).

Participation in the survey, which involved the distribution of an online questionnaire translated in 10 languages that was distributed to a target of 5,971 persons, was very high (78%).

Some of the most positive results showed that respondents had a strong sense of belonging to the Group, high levels of knowledge and skills involving Company products/services, a good level of operating efficiency and a satisfying quality of internal relations amongst colleagues/departments.

Instead, those highlighting the need for improvements are related to reconciling the demands of personal life and work, performance management and feedback by management to the various levels of the Company and the need to further increase spending on training and career development support measures.

The survey results were returned to the managers of the individual business units/departments (in Italy) and local HR managers in September and October 2008. The HR managers were also involved in a specific workshop held in October to interpret the survey results in the individual countries, discuss them and guide the definition of specific action plans at both the local and Group level to be implemented in 2009.

At the end of 2007-beginning of 2008, a study was carried out on the climate of the population of the two plants in Settimo Torinese. A large number of employees participated, as illustrated in the following table:

	<b>Settimo Veicoli Plant</b>	<b>Settimo Vettura Plant</b>	<b>Total (1,114)</b>
Staff	93%	88%	91%
Blue-collar	65%	57%	62%
Total (1,114)	72%	64%	69%

On the whole, the survey produced satisfying results.

In particular, in comparison with the Turin population as a whole, the survey showed that perception of Company products, image and equal opportunities are the key components that generate the Company's identity.

Minimal differences were detected amongst car and vehicle plants, but they were restricted to limited areas, particularly safety and the environment, relations with co-workers, corporate communication and management style.

During 2008, the Group also conducted two additional surveys targeted at the blue-collar population, particularly at the Rome (USA) and Slatina (Romania) plants. The response rate for these new surveys was also very high (80.9% at Slatina, 100% in Rome).

### The "Pirelli is a CSR Company" campaign

After being launched in all countries in 2007, the campaign to improve employee awareness about corporate social responsibility issues was completed in July 2008 with communication of the actions that the Company had taken in response to the feedback it had received.

The "Pirelli è una CSR Company" ("Pirelli is a CSR Company") campaign used an informational brochure and postcard (in local

language) to explain the meaning of sustainability and its integration in Company operations to employees, asking them to express their opinion on what they thought were the most important aspects of CSR and suggest any improvements.



Pirelli Group. CSR campaign.

Over the following months, each country developed its own local action plan on the basis of the feedback received. These action plans were communicated to everyone through a local information campaign. A poster with the opinions expressed in percentage terms by the employees at each location was put up in the main corridors of all affiliates, while a series of messages published on the Group Intranet explained the reasons for the actions to be taken, in view of promoting general consensus on a project that involved the entire internal community on socially relevant issues.

### Pirelli Corporate Press

The project to reorganise the corporate press was implemented in 2008. This project was planned in 2007 to overhaul internal information activity by adopting an immediate style capable of appealing to employees by providing useful, interesting and engaging content. Implementation of this project began with the three historic magazines published by the Group in Italy - *Pirelli Flash*, *Fatti&Notizie* and *Pirelli World*. The first issues of the new generation of these publications came out in February, at the same time as the launch of the new Intranet portal, where the Company house organs are available in digital format in a special area found on the home page.

*Pirelli Flash*, a monthly news magazine for Italian blue-collar workers that had traditionally been composed and printed by Corporate Internal Communications in Milan and distributed at the Arese, Bollate, Figline Valdarno and Settimo Torinese plants, was made directly accessible to factory managers once it moved to the Intranet, so that they could independently manage, print and distribute it, consequently reducing the time and cost of centralised printing and distribution.



Pirelli Group. Corporate Press.

*Fatti&Notizie*, a news periodical targeting all Pirelli employees in Italy, underwent radical changes. The magazine has abandoned the old top-down approach to communication and has employees speak through interviews and reports about working life on the factory floor or in the office, complete with specific photo reports. This approach to communication reinforces content by making it more concrete and topical, thereby encouraging the reader's process of identification and involvement. Extensive positive feedback has confirmed the magazine's enhanced appeal. In particular, the formula of factory reporting, which focused in 2008 on the Bollate and Settimo Torinese factories, generated tangible effects of cohesion in the productive environment at a particularly delicate time in internal relations.

### Employees have become the protagonists of internal communication

With the new column *Entra in redazione*, the new *Fatti&Notizie* reports stories by readers, beginning with their experience in motor sports. The invitation *Sei mai stato a una gara di Superbike?*



(Have you ever been to a superbike rally?) that initiated this format was accepted by various enthusiasts, with the most interesting piece later being selected and published in the magazine. Another important characteristic of the new publishing project was the reinforced synergy between the magazine and other internal communication events: *Fatti&Notizie* is linked with the Intranet (icons point to the portal for more detailed information on a specific topic) and with numerous events such as open day, competitions, mood surveys, etc.

The magazine is no longer mailed to employees' homes, but is provided to them instead at specific distribution points at the workplace, consequently reducing distribution time and costs.

*Pirelli World*, an English language magazine targeted at the Group's management around the world, is published in Milan and distributed to associates and affiliates. It underwent a major graphic and editorial restyling to reinforce its external image. A collaborative process supports production of the main articles, with various Company departments contributing specialised pieces that are occasionally complemented by the contributions of external experts. For example, the last issue of the year, which came out after the United States presidential election, focused on the United States and contained an exclusive interview with Nigel Gault, an economist who is an expert on IHS Global Insight, addressing America after Obama's victory. The previous issue focused on the Group's history in Latin America, and publishing a scenario report on Brazil by ISPI, the ("Istituto per gli Studi di Politica Internazionale" - Institute for International Political Studies).

Phase 2 of the corporate press overhaul project began in the second half of the year, in order to transfer the Group's principal identifying traits to the approximately 30 publications put out by affiliates and branches worldwide. *Pirelli News*, the German monthly, standardised its image according to the new guidelines of the corporate publications. The Chinese monthly *Pirelli Voice* is instead undergoing integration of local content with pieces that reinforce corporate identity, responding to the need expressed by the company's CEO. In Romania, *Stiri* is a new monthly magazine that further enriches the wealth of information, communication and collaboration by Pirelli corporate communication around the world.

Aside from the development of global and national publications, 2008 also witnessed the creation of new tools of information by individual practise communities, first and foremost the newsletter "PMS - Pirelli Manufacturing System," which was rolled out to support the introduction of the new Pirelli production system at all production sites. This monthly bulletin, which is sent via e-mail to the various heads and managers at Pirelli Tyre plants around the world and available online over the Intranet, reports on the projects implemented at individual factories to promote the exchange and sharing of achieved targets and results.



## Intranet

The new Pirelli Group Intranet went online on 4 February 2008. It was the result of a complex overhaul of the old portal that engaged an interdepartmental project team (Internal Communication, Human Resources and Information Systems) over the course of six months. Available in Italian and English, accessible by 17,000 users in 34 countries, it is the only Intranet that is shared by all employees at all Group companies worldwide. It has two objectives: to create a public place where everyone's information and tools are available to everyone; reinforce individuals' sense of empowerment, by inviting them to "speak up" and "express their own opinion".

In the area dedicated to news, which is updated daily, the activities and know-how of individual companies are shared with everyone, thereby encouraging the exchange of information and technology amongst businesses and departments. This exchange is enhanced by the possibility each employee has to make his own comments, which immediately enter the public domain, contributing to the Company's knowledge base.

Corporate news that can be commented on, cooperate networks, interviews and a direct line with the editorial office: from being users of content, employees also become its producer, stimulating constant refinement of site formats in step with the needs of the internal community. The home page of the Intranet also hosts a section dedicated to the individual countries where the Company has a production plant. News of local interest is published in this section - Arab, Chinese, Romanian, Spanish, Portuguese, Turkish, etc. - accessible to everyone through the selection features.

Eight thousand individual visitors a week, 500,000 visits a month and constantly increasing time online: in 10 months the Intranet has become the principal tool of internal communication, as affirmed by 81% of the employees interviewed during the Opinion Survey conducted last July. The implementation of additional functions for employees was planned for 2009, and will use Web 2.0 technology for new forms of cooperation benefiting innovation inside the Company.

## COMPANY INITIATIVES FOR THE INTERNAL COMMUNITY

The Company's initiatives for the Internal Community vary from country to country, to respond to the specific needs that are typical of the various social contexts in which the affiliates operate.

Some of the most common initiatives taken at Company affiliates include:

- subsidised holidays for employees' children;
- scholarships and support for the education of employees' children;
- company social and sports clubs;
- preventive medicine through scheduled, specialised medical examinations;
- awareness and vaccination campaigns;
- agreements with retailers and health care providers for Company employee discounts.

Details on certain important initiatives undertaken in 2008 are described below.

## FOCUS ON ITALY

Once again, Pirelli has included a specific focus on one of its geographical areas of operations.

In 2006 the focus was on South America, in 2007 on Romania, and in 2008 the choice has fallen on Italy.

Details on certain important initiatives undertaken in 2008 are described below.

## Company discounts

Over 200 commercial establishments in Italy offer Pirelli employees discounts, even major ones, on the purchase of goods and services. These range from clothing to electronics, books to gyms: the discounts range from a minimum of 15% to a maximum of 60%.

This benefit for the business community is the result of screening by the Internal Communication Department to select retail offers in the local areas near Group facilities in response to employee request and consistently with the ethical requirements that characterise Pirelli relations with the external community.

The list of participating organisations is available online, on the Group's Intranet home page. This list is a guide that users can search directly. Constantly updated, it offers employees the possibility of carrying out searches according to merchandise and geographical criteria.

The list is provided to blue-collar workers on factory bulletin boards, which periodically announce the organisations participating in the Company discount campaign. Not just commercial establishments. The discount agreements include one with three theatres belonging to the "Torino spettacoli" association, which is particularly appreciated by Pirelli blue-collar workers at Settimo Torinese, who are the target of an off-line communication campaign.

## Open Day

Open house at the Bicocca (Milan) and at Settimo Veicoli Industriali (Turin) for employees and their families who were invited to spend a Saturday afternoon at the Company under different circumstances than their daily work routine. Entertainment for children and adults was offered, from handcraft workshops for younger children to cabaret for older children, as well as original informational and educational programmes designed to improve general awareness of Pirelli's history and identity.

In 2008 the traditional formula of the Open Day was effectively overhauled in Italy, not only in terms of the originality and wealth of activities offered but also in terms of its synergies with other internal communication programmes and with events and celebrations with ties to local communities, where the Group has deep roots.



Settimo Torinese, Italy. Pirelli Day 2008.

A photo exhibit on the 100th anniversary of the Bicocca area attracted over 1,000 participants to the Milan Open Day on 24 May, where they were able to “revisit” their workplace in evolution from the early 1900’s to today. This represents a reason for pride for most people, enhanced by the possibility of visiting the most secret Pirelli research sites, which are normally inaccessible.

At Settimo Torinese, the photo exhibit “Places and Faces in a Factory undergoing Transformation” chose factory workers and machines as the factory’s star players. This factory was opened to about 2,000 visitors on the 11 October Open Day, even while production was underway. A tram carried the visitors through the mini-factories of the historic industrial vehicle tyre production plant, guided by the voice of the plant foremen who participated directly in the event. A concert by the Italian pop star Enrico Ruggeri was offered at the end of the afternoon, open also to the citizens of Settimo Torinese, to celebrate the 50th anniversary of the official birth of the town together.

### Cultural activities in the factory

The factory as a place for encounter with culture: this concept is deeply rooted in the history of Pirelli, revived in 2008 with a series of initiatives to stimulate the cultural training of employees, and particularly blue-collar workers.

At Settimo Torinese, the “+ Libri” campaign increased the holdings of the Pirelli Settimo Vettura Cultural Centre library by 1,200 titles in 2008. Magazines, novels and children’s books purchased by the Company can be checked out for reading at home, including publications in foreign languages (Arabic, Romanian, etc.) to promote the integration of non-Italian workers. A full-fledged Italian cultural centre was opened in June, at the Pirelli Tyre factory in Slatina, Romania. Its library is already active and stocked with hundreds of classics of our literature, as well as Italian language grammar books for foreigners. The cinema to be opened in the factory is currently being organised, and will also be open to the local community in future.

From literature to cinema and theatre: at the Settimo Vettura plant in Italy, the area that is normally used as a parking lot was transformed into an open-air theatre for a weekend in June. Moni Ovadia and Marco Paolini, two of Italy’s most important authors and actors today, staged their socially progressive plays *Il compagno Rabinovich* and *Miserabili - Io e Margareth Thatcher*. This programme was appreciated by employees, almost all of whom attended the performances and even expressed their positive reactions on the Intranet.

### Competitions

For the launch of the new Cinturato P4 and P6 tyre, Internal Communications sponsored a competition in January 2008 that was open to all Group employees, entitled “Un viaggio ma, secondo me...” (“A trip but, in my opinion...”). The competition asked participants to creatively interpret the concept of the new product, but it especially solicited the involvement of individual employees

in a more far-reaching project of great importance to the Company. Many entries were submitted to the competition secretariat office, including short stories, poems and films by white-collar and blue-collar employees. A specially designated jury selected the best works, which were rewarded by top management at the Bicocca Open Day and then published on the Group Intranet.

### Communication campaigns in support of training activities

Training is of fundamental importance to the development of human resources at the Pirelli Group. In order to realise maximum efficiency, special attention was dedicated to communicating these activities in 2008.

This included the “We Work Safely” (“Lavoriamo in Sicurezza”) programme, a project to provide information and training on job safety at the Italian plants of Pirelli Tyre. An educational kit with intuitive graphics and a summary booklet of key themes and concepts was prepared for use by those attending the courses, while reports and interviews about the results of the programme were published in the Italian corporate magazines.



Pirelli Group: “We Work Safely” campaign.

### Melanoma prevention campaign

With the slogan “We care about your skin,” the **Fondo Assistenza Sanitaria (FAS - “Health Assistance Fund”)**, in collaboration with the Health, Safety and Environment Department of Pirelli & C. SpA, launched a “**Skin Cancer Prevention Campaign**” at the end of 2007, commissioning the IDE - Istituto Dermatologico Europeo (European Dermatological Institute), a prestigious institute specialising in the diagnosis and cure of skin diseases.

The campaign objective was to raise the awareness of FAS members, i.e. Pirelli employees in the Province of Milan and their families, about the importance of early diagnosis of skin melanoma, by offering a clinical/dermoscopic screening of pigmented skin moles.



The campaign began with the delivery of a brochure to each employee on melanoma and other important tumor pathologies, complete with instructions on registration procedures.

About **5,500 people were contacted** during the campaign, including 3,066 employees at the Milano Bicocca, Bollate and Arese plants who were enrolled with the FAS at 1 October 2007, 1,658 family members, including 691 retirees and relatives.

The programme began on 4 October 2007 at the Bollate infirmary, continued between November 2007 and July 2008 at the Bicocca general outpatients clinic, with biweekly examinations during the first phase, and one day dedicated to the workers at Arese.

The screening was carried out on **806 employees** and instructions were given for exeresis histological analysis of all pigmented lesions that raised doubts/suspicion during clinical and/or dermoscopic examination.

## INDUSTRIAL RELATIONS

Pirelli 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 are managed locally by each affiliate in accordance with the laws, national and/or company-level collective bargaining agreements, and prevailing customs and practises in each country. At this level, these activities are supported by the Central Departments, which coordinate activities and ensure that the aforementioned principles are observed throughout the Group.

In 2008, industrial relations activities achieved significant results in negotiations, with the renewal of collective bargaining agreements at various plants in Turkey, Germany and all the production sites located in Brazil (Santo André, Campinas, Sumaré, Feira de Santana and Gravataí), where negotiations are carried out at the factory level. This includes the role played in renewal of the Rubber and Plastic National Collective Bargaining Agreement in Italy.

In 2008 the Company implemented a series of structural changes that reduced the overall number of the Group's permanent employees in Western Europe. These changes stem from organisational and productive streamlining activities focused on containing costs and implemented from the second half of 2008.

Conversion of the factory at Manresa, Spain was the most important part of this process.

A letter sent by the CEO of Pirelli Tyre S.p.A. on 25 February 2009 announced the decision to halt production of tyres at that plant at the end of 2009, with its simultaneous conversion for new business activities in 2010.



That letter manifests the Company's interest in remaining in Catalonia. Pirelli intends to start up new activities in the services, particulate filter and photovoltaic fields in that region. These activities will employ about 100 employees at the current factory, in addition to the 250 employees who will continue operating the Group's logistic and commercial activities. The redundant employees will receive the jobless benefits agreed on with trade unions and local authorities in order to limit the negative impact on the community.

Cost cutting and production curtailment measures have been implemented and are currently underway in Italy, Great Britain and Germany.

At the international level, a very important agreement was signed by Pirelli and Russian Technologies on 6 November 2008 to build a new production plant in the Russian region of Samara. This project is part of the policy of investments made by the Group over the past year, which are moving ahead in 2009 in spite of the global economic crisis, as also confirmed by the continued work on the new Industrial Centre project at Settimo Torinese.

Given the need to reduce costs in Italy in response to the global economic and financial crisis, the Group began three distinct procedures in October 2008 to reduce employment at the Milano Bicocca and Cinisello Balsamo sites for Pirelli Tyre S.p.A. and Milano Bicocca for Pirelli & C. S.p.A. and Pirelli Sistemi Informativi S.r.l. During the negotiations initiated with trade unions, these companies entered into specific agreements governing the procedures to manage the job redundancies in the least traumatic way possible. As a result of these labour agreements, the redundancies were reduced from the initially announced figure of 130 to 114 workers, including 96 at Pirelli Tyre S.p.A., 8 at Pirelli & C S.p.A. and 10 at Pirelli Sistemi Informativi S.r.l..

To counter the effects of the crisis, which has severely impacted the real estate sector, industrial relation activities at Pirelli Real Estate not only involved reorganised and streamlined its staff, but also implemented structural measures resulting from acquisitions and disposals of business branches. Both initiatives were accompanied by major information and consulting activities with workers and their labour representatives.

In particular, on 23 December 2008 Pirelli RE and Intesa Sanpaolo sold to Manutencoop FM their respective equity investments in Pirelli RE Integrated Facility Management BV ("P.R.E.I.F.M. BV"), a 50-50 joint venture in facility and project management. This process, underway for some time, is aimed at higher growth and internationalisation of the Group's facility management activities, including through the sale of shareholdings and integration with other players in the sector. Afterwards, disposal of the entire equity investment in the facility management activities was positively assessed in the context of the process of refocusing Pirelli RE operations at the international level, changes in the real estate sector and current difficulties afflicting financial markets. When the sale was finalised, the company had about 1,200 employees.

As part of the restructuring processes that affected executives and staff, professional reassignment policies were adopted consistently with the Company's sustainable approach to business, through framework agreements with major international companies for outplacement plans.

### 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 operating performance, financial-economic forecasts, investments made and planned, research progress, etc. The agreement establishing the EWC also allows for the possibility of holding other extraordinary meetings to fulfil its obligations to provide information and consult with its delegates in view of transnational events involving significant changes to the corporate structure: new openings, restructuring or closure of sites and major changes in the organisation of work. EWC delegates are provided with the IT tools that they need to perform their duties and a connection with the corporate Intranet system, for the real time communication of official Company press releases.

In accordance with the founding agreement, the European Works Council was promptly informed about activities/programmes to contain the costs planned and agreed to with local trade unions. At their annual meeting, EWC members and the Industrial Relations Department dealt with the issue of the global economic crisis and its impact on Europe.

The Committee currently has 14 members. The countries entitled to representation on it are Italy, Germany, Spain, France, Romania and the UK.

### Compliance with legal and contractual obligations governing overtime and time off

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 requirements are often the subject of agreements with trade unions and individual workers, in line with the regulatory context of each country.

There are no restrictions on 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 2008, as in previous years, the level of disputes remained low, generating a very small number of labour and social security lawsuits. In Brazil, the level of labour-related lawsuits is traditionally high, representing about 90% of the lawsuits currently pending against the whole Group. This continues to be a various widespread phenomenon, which also affects other multinationals operating in

that country, due to local legal customs. Labour lawsuits are generally initiated when an employment agreement is terminated, and they usually involve the interpretation of regulatory, legal and contractual issues that have long been controversial.

The Company reconfirms its commitment to settle these disputes in Brazil through conciliation procedures.

### Unionisation levels and industrial action

The Group's unionisation levels cannot be calculated precisely, as this information is not available in all countries. However, it is estimated that about half the Group's employees are trade union members. The percentage of employees covered by collective bargaining agreements in 2008 remained largely unchanged from previous years. This percentage is essentially the result of the historical and cultural differences from one country to another.

Individual contracts continue to be held by about 10% of the employee population, including executives worldwide, except for Italy, managers in the UK, the "Non Tarif" in Germany, the "Excluidos" in Spain, "Senior" and "Esecutivi" in Brazil.

The overall conflict rate recorded in 2008 was slightly higher than in previous years. This increase is connected with the effects of the severe global economic crisis and is limited to the areas where the market suffered the greatest downturns. Industrial actions during the year were concentrated mainly in Italy, Spain and Argentina. In Italy, they occurred during renewal of the collective bargaining agreement and due to measures to contain fixed costs and to reorganise, which began to be implemented in the last quarter of 2008 and continue today. The industrial action at the Manresa production plant in Spain stemmed from political and economic demands connected with the factory restructuring project, while industrial action in Argentina took place during renewal of the collective bargaining agreement. All of 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 2008, with the majority of affiliates providing supplemental pension schemes for their employees. The Group maintains the policy adopted in previous years, involving the abandonment of defined benefit plans in favour of defined contribution plans.

Defined benefit plans are in place in the UK (covering employees who were hired before a certain date, while those hired later participate in a defined contribution plan), in the USA (these plans were closed a number of years ago to active employees in favour of defined contribution plans; (since then, they only apply to retired employees but are not tied to wage increases) and in the Tyre Sector in Germany (this scheme was closed to new hires in 1982). Other defined benefit plans exist at Pirelli Real Estate in Germany and in the Tyre Sector in Holland, but they represent a relatively insignificant liability for the Group.

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

## OCCUPATIONAL HEALTH, SAFETY AND HYGIENE

*“Group companies shall safeguard health and safety in the workplace and consider respect for worker’s 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 text of the Ethical Code and Policy, which have been distributed to all Group workers in their respective languages, is available in the “Sustainability” section of [www.pirelli.com](http://www.pirelli.com).

The various topics discussed below have been divided under “Pirelli Tyre”, “Pirelli Real Estate” and “The Group’s Other Sectors/Companies”, reflecting the varied nature of Group businesses. For detailed information on the Real Estate Sector, whose performance is consolidated in this report, please consult the Pirelli Real Estate S.p.A. Sustainability Report, which can be found in the Sustainability section of the website [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).

Following implementation of the system at the new plant in Yanzhou, China, 21 of the 24 operating units were certified under this standard. In 2009 implementation of the system at the Slatina Tyres and Milano Bicocca (which includes the research, development and testing activities carried out at it in addition to CMP and Next Mirs) sites was planned.

The Safety Management System implemented at 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 occupational 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 worldwide for machines, installations and work environments as those in force at its European facilities, which are regulated by specific EU directives.  
This decision has resulted in the installation of machines and equipment in emerging countries with safety features that are not required under local law but rather in compliance with European standards.
- **Training activities**  
The Pirelli Group has always recognised that training of personnel is one of the keys to achieving success in its own business. Specific training courses on HS problems continued in 2008.

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

Partly in connection with the gradual implementation of the Consolidated Safety Act (“Testo Unico Sicurezza”), a series of activities were undertaken in 2008 to implement and monitor the new statutory obligations. A document summarising all the changes with respect to previous law has been published on the Company Intranet and is accessible to all employees.

The extraordinary campaign begun in 2007 to raise the awareness of safety officers continued in 2008, with particular focus on the Group companies whose operations involve high levels of risk (information, training, written designation - assignment of responsibility - of the appointed safety officers, even if not required). 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 presence in the workplace.

### Prevention and Protection Service

A dedicated, centralised department supervises all Pirelli RE companies. The Prevention and Protection Service continued to provide assistance, information and “proactive control” for the Company’s operating units in 2008.

The Company believes that the best results over time are achieved by increasingly promoting a culture of safety and prevention at the workplace and by raising the awareness of the personnel involved:

- safety managers
- safety officers
- workers

The vast, interdisciplinary laws that are applicable, supported by available tools and sector business procedures or operating rules must increasingly become a part of daily habits so that concrete and effective programmes can be implemented for:

- prevention and protection;
- compliance with constantly changing sector laws and regulations;

- effective involvement of resources at all levels - worker, safety officer, safety managers, employers, and the Prevention and Protection Service;
- real protection of operating personnel.

#### Legislative Decree 231 Internal Control Scheme

At the end of 2008 Pirelli RE amended its Organisational Model pursuant to Legislative Decree 231/2001 with a specific chapter dedicated to safety. The same measure will be taken at Pirelli RE companies in 2009. The model provides a useful reference tool for proper compliance with statutory obligations and promotion of prevention and worker protection activities.

#### Safety at construction sites (large construction/special maintenance sites)

A control and monitoring system, using specific indicators, for the safety of individual construction sites and compliance with applicable safety laws was set up.

#### Prevention of undeclared work and social security evasion by contractors/subcontractors

A procedure for identifying and monitoring on-site workers and trades people was established and regular audits of social security compliance of the businesses operating at construction sites are performed.

#### Projects undertaken in 2008 and main objectives for 2009

The various projects implemented in 2008 include:

- **revision of the system for internal communication of safety issues;**
- 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 medical officer to bring health surveillance into line as much as possible with the actual health risks faced by individual employees.

The following projects are the objectives for 2009:

- implementation of the internal control programme and reporting of safety indicators to the supervisory body;
- adoption of organisation and management models defined pursuant to Article 30 of Legislative Decree 81/08 and applied to the individual companies of the Pirelli RE Group;
- implementation of a first level control system under the supervision of the Prevention and Protection Service Manager (workplaces) and the site manager (construction sites);



- implementation of a second level control system under the supervision of the Group Safety manager to monitor the performance of the Prevention and Protection Service Manager;
- implementation of a second level control system focusing on construction sites (as activated by the various customers).

## Other Group Sectors / Companies

### Pirelli Broadband Solutions

The company is implementing an Integrated Safety and Environment Management System (ISO 14001 / OHSAS 18001), which is scheduled for the certification audit in 2009.

### Pirelli Labs

Activities in 2008 focused mainly on training according to the typical risks of research activities.

### Pirelli Eco Technology

The company, which was set up in March 2008 to make particulate filters, rapidly expanded its production activity and capacity. Risk assessments of the new machinery, production processes and management processes were consequently undertaken. The company implemented an integrated Quality and Environment management system, in order to lay the basis for subsequent extension to the Safety Management system in accordance with Group policy.

Just as has been done at the Group's operating units, a Safety Management System is being developed at Pirelli & C Ambiente and other companies that was inspired by the Group Safety, Environment and Social Responsibility Policy.

As previously indicated in regard to Pirelli Real Estate, the Occupational Health and Safety System was not formally certified, but it was decided to promote a local development of management systems that might be better suited to the peculiar nature of each site, according to the characteristics and type of activity performed.

At the organisational level, a system of delegations of authority, including spending authority, has been put in place together with local structures to support local safety management.

## MEASUREMENT OF HEALTH & SAFETY PERFORMANCE

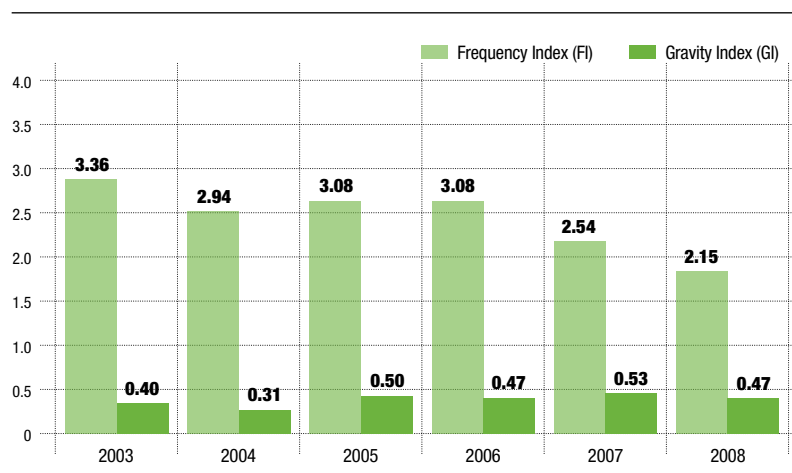
### Pirelli Tyre S.p.A.

The number of injuries fell significantly once again in 2008, with consequent improvement in the parameters that measure this phenomenon. When compared with 2007, the Frequency Index (FI), i.e. the number of injuries, fell by 15.5% in 2008, and the Gravity Index (GI) fell by 12%.

To better understand these data, it should be kept in mind that the GI was calculated by considering all calendar days between the injured person's work interruption and his or her return to the factory as "lost," i.e. the actual days necessary for complete rehabilitation.

The calculation of the aforementioned indices did not include "in itinere" injuries, which are discussed later in this report.

The following graph provides details on this phenomenon:

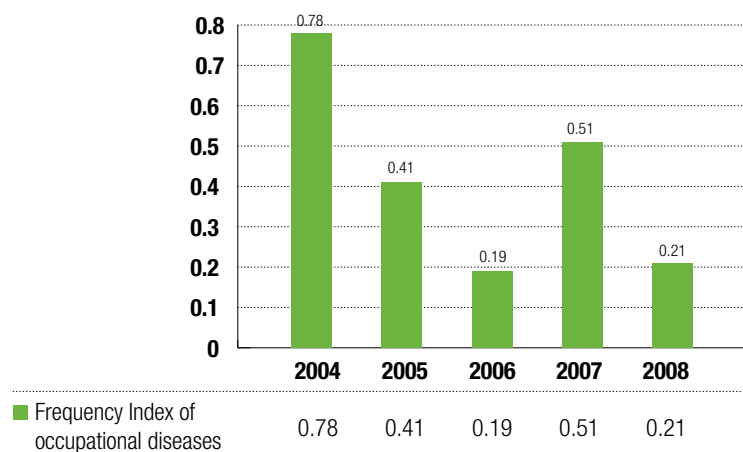


$$FI = \text{Frequency Index} = \frac{\text{Total number of injuries with work interruption} \times 100,000}{\text{Total hours actually worked}}$$

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

Specifically in regard to employee health, the 2008 frequency index of new cases of occupational disease was 0.21, down 58% from the previous year. Consequently, the 2008 parameter returned to the Company's historic levels, in line with the 2006 frequency index of 0.19.

The anomalous increase in the frequency index for occupational diseases in 2007 from 2006 (+0.51) was mainly due to updating of documentation at the Guacara factory in Venezuela. Among other things, this update entailed reporting new cases of disease. Net of the effect of updating records, the 2008 parameter thus returned to the historic trend.



Shifting the focus to injuries occurring at the Tyre Sector's non-production units (commercial offices), it was decided to refine the procedure used to collect data. This measure has been included among the targets for operating improvement in 2009.

### 2009 Targets

The **quantitative** target assigned for 2009 in regard to the frequency of injuries is a 10% reduction compared with consolidated 2008 figures.

The principal focus of **qualitative** targets continues to be a reduction in workplace injuries through the implementation of specific initiatives extended to all countries worldwide.

In particular:

- technical improvement programmes,
- organisational improvement programmes
- programmes for improvement of safe behaviour
- participatory and communication programmes

All operating units will consequently be committed to thoroughly revising their approach to safety, whose cornerstone is based on the involvement of the entire organisation (white-collar workers, blue-collar workers and contractors) in order to privilege focus on organisational and individual behaviour. This approach also aims to complement prevention in all business processes by prompting participation and awareness.

The Pirelli HSE Campus (as illustrated later in this report) was set up to support this programme for cultural change.

Over the last several years, Pirelli RE has taken numerous measures to reduce accidents.

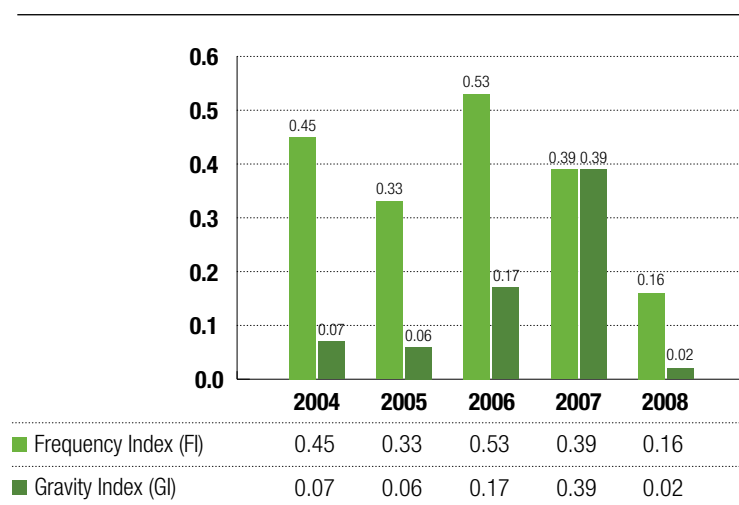
In particular:

- raising the awareness of Facility management personnel (prevention campaign targeting operating employees);
- issuance of a “safe driving” manual, conceived to prevent motor vehicle accidents (in itinere and not);
- semi-annual analysis of injuries, classification and analysis of individual cases;
- on-site inspection (in all cases) by the Prevention and Protection Service of the place where an accident occurred.

The number of accidents decreased markedly in 2007 and 2008, particularly in comparison with 2006.

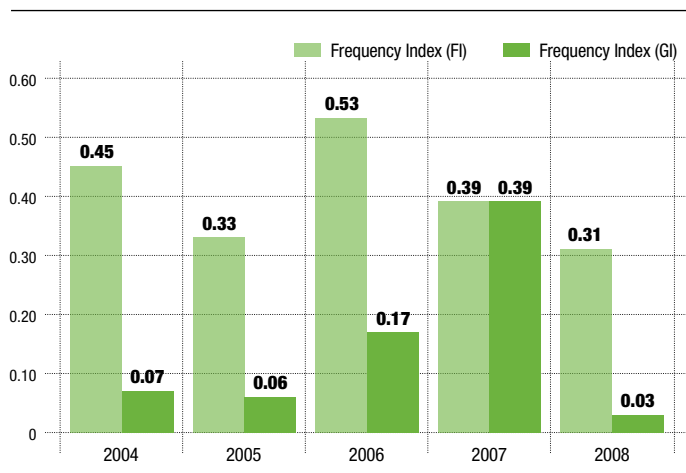
Observing the injury indices for 2008 at the companies belonging to **Pirelli Real Estate S.p.A.** (and thus Italy plus the foreign locations), the frequency index was **FI = 0.16** and the gravity index was **GI = 0.02**.

The following graph provides more details:



If the analysis is limited instead to **the Italian locations only** (in order to read the trend in comparison with previous years), the 2008 frequency index was **FI = 0.31** and the gravity index was **GI = 0.03**.

The following graph provides more details:



In 2008 there were nine *in itinere* injuries, compared with eleven such injuries in 2007.

The decrease in the number of injuries confirmed that the measures taken by Pirelli Real Estate to realise improvements were appropriate.

#### Other Group Sectors / Companies

- Pirelli Broadband Solution - no injuries at work and none *in itinere*;
- Pirelli Labs - no injuries at work and non *in itinere*;
- Pirelli Eco Technology - one injury at work causing less than three days of absence from work, and one *in itinere* injury;
- Pirelli & C. (aggregated with Pirelli Ambiente) - two injuries at work causing eight days of missed work.

#### *In itinere* injuries at the Group

Information on *in itinere* injuries (i.e. occurring during work trips or while travelling to reach the workplace): at the Group level, the total number of these injuries was **143**, corresponding to **4.6** accidents every one thousand workers (3.8 in 2007 and 4.5 in 2006).

#### Fatal accidents at the Group

No Pirelli employee or employee of outside contractors working at the Group's operating sites suffered a fatal accident in 2008.

## AWARENESS RAISING AND TRAINING

### Pirelli Tyre S.p.A.

Training activity in 2008 was focused on spreading the “safety culture” as the essential starting point from which individual employees at all levels of responsibility can - and therefore must - make a commitment to learning the adopted rules, models and safe work procedures.

The training activity carried out at the Italian operating units, “Working Safely”, is an example of the adopted training approach. This programme engaged the participation of all blue-collar workers in numerous training sessions.

At the same time, the safety training programme continued for new hires and anyone else who, in various capacities (agency work, internships, etc.), started working at Pirelli.

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 various positions. Experience gained through risk analysis reviews and from past injuries was also shared.

Workers at all production plants were given training on how to handle emergencies.

The “**Pirelli HSE Campus**” initiative was launched at the beginning of 2009. It offers a catalogue of courses and seminars given at Group operating units by qualified Company personnel. This programme targets managers in order to provide them with skills and knowledge about the best operating practises. The topics listed in the catalogue include ergonomics, risk assessment, behavioural analysis and management systems.

#### Exchange of experiences by factories

An ad hoc information system collects all information about the injuries occurring in Pirelli Tyre factories (accident analysis, adopted corrective measures, etc.) and, if the dynamics of a particularly event are significant, all sites are informed and urged to:

- carry out an internal audit as to whether conditions similar to those that caused the injury exist at their plant;
- define any corrective measures.

This information system is used to collect the solutions adopted by the various sites and share those that are considered the best.

Another information system provides all production units with the “Best of Best”, i.e. the best practises applied, which also include actions for occupational safety improvements. This process is integrated in the Pirelli Manufacturing System (PMS).



## Safety information

Distribution of informational pamphlets to all Group employees according to their position and degree of risk was completed in 2008. Furthermore, the "Safety" section on the Company Intranet was put online. Accessible to all employees, it contains over 60 prevention and protection information tools. Some of them are particularly innovative and are geared specifically to blue-collar workers, safety officers and project managers.

The site is organised as follows:

- **information and training:** it contains risk fact sheets for all job positions at the Pirelli RE Group, work in brownfield areas, coordination of work on buildings, installations and construction sites. It also contains a guide to safe driving;
- **work procedures;**
- **safety on the job;**
- **safety at construction sites;**
- **management and safety of properties** (it also contains an operational fire prevention manual for Property Managers);
- **operating standards for Pirelli RE technical staff** (analysis of various, specific job risk situations and the hazards of drinking alcoholic beverages on the job);
- **work equipment fact sheets** (buyer's guide, safety hazards, prevention and protection measures, user instructions, IPDs for the use of equipment);
- **technical pamphlets** (including one on asbestos risks, which was prepared in-house so that it most accurately reflect actual operating conditions at the Group);
- **safety news:** a list of statutory changes in the field of safety, accident prevention, occupational hygiene and property management.

In 2008 the number of information tools rose from about 100 to about 120 (from 60 to 100 between 2007 and 2008). Each one is fully up-to-date in accordance with the regulatory provisions introduced by the Consolidated Safety Law.

The construction site safety management and control system was also thoroughly revised. It envisages **first and second level controls to protect all affected persons**, particularly for the workers employed by the various contractors.

## Safety training

In 2007, training requirements, including those for new hires (mainly blue-collar workers), were revised following a thorough reorganisation. Human Resources initiated a specific survey of the training provided for this purpose. The effects of these initiatives took form in 2008.

As part of the profound reorganisation underway throughout the Pirelli RE Group and the entry into force of the Consolidated Safety Law in the last quarter of 2008, a new training plan was prepared for implementation in 2009.

This plan calls for:

- a self-paced seminar (offered over the corporate Intranet) addressing the new Consolidated Safety Law that targets all employees;
- specific training sessions targeting safety managers;
- specific training sessions targeting safety officers, when named and designated, addressing their job activities;
- specific training sessions targeting the Fond Managers;
- in-service training sessions on first-aid and fire prevention.

The “Safety” section of the Pirelli RE Intranet also contains the **Catalogue of safety courses**.

### Other Group Sectors / Companies

Safety is also a key part of employee training programmes at other Group sectors / companies.

In 2008, training offered at these companies addressed, among other topics, safe working practises in laboratories and during experiments, with a special focus on training and information campaigns for new recruits and external personnel.

### HEALTH & SAFETY INVESTMENTS AND EXPENDITURE

In 2008, the most significant health and safety investments were made at **Pirelli Tyre**, and totalled 11.3 million Euro.

Investments focused on improvements to plant and machinery and, more generally, the overall work environment (e.g. improvement of microclimate and lighting conditions, layout changes to improve operating ergonomics, measures to ensure the healthfulness of infrastructure, etc.). All these activities, for which investments were necessary, were constantly monitored by local and central HSE departments.

These investments were complemented by safety related expenses that are essentially attributable to environmental monitoring (i.e. sampling and analysis, consultancy studies, etc.), the purchase of personal protection equipment (e.g. injury prevention boots, gloves, safety goggles, 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

Pirelli has operated infirmaries for decades in its production plants, with nurses and doctors available to provide all employees with medical care during working hours. These facilities provide first aid care, advice on health problems unrelated to work and health supervision for workers exposed to specific hazards.

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

## GROUP FLU PREVENTION CAMPAIGN

Once again in 2008, Pirelli offered all its employees the opportunity to be inoculated with the seasonal flu vaccine free of charge. The anti-flu campaign was given further impetus through wide-reaching information tools for all organisational levels (targeting employees located in the southern hemisphere during the spring and employees in the northern hemisphere during autumn). Several thousand people took part in this initiative.

## GROUP "NO SMOKING COMPANY" POLICY

In June 2003 a letter sent by top management to all the Group's Chief Executive Officers announced the Company's decision to become a "No Smoking Company", to safeguard the health of both smokers and non-smokers. This decision is consistent with Pirelli's policy to protect the health of its employees in all countries where the Group operates.

Specific training/information initiatives on the damage caused by cigarette smoke were also implemented through the distribution of leaflets, conferences on nicotine addiction and publication of questionnaires on the Intranet.

Enforcement of the no smoking policy also led to reports of 55 violations 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).*

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

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In 2008, relations with institutions were maintained at the national, European Union and international levels, with a focus on where the Pirelli Group has a presence. This activity was characterised by a series of initiatives to build lasting and stable relations that have always been based on maximum transparency and collaboration. The principal objective is to constantly provide information to the Group's various institutional stakeholders regarding presentation of the Group and its different companies, especially in regard to its industrialisation projects inside and outside Italy. Preventive and cooperative attention to the requests and demands made by institutional bodies, coupled with punctual monitoring of relations, makes it possible to prevent any criticalities from arising and to undertake projects that are supported by those institutions.

In Italy, Pirelli operates in a system where numerous institutional bodies have a voice. At the parliamentary level, the Group monitors all legislative activity of interest to it, concentrating particu-

larly on the work of the standing committees in the Chamber of Deputies and Senate responsible for matters affecting its business, and occasionally appearing at individual committee hearings in support of the parliamentary information gathering process that precedes the drafting of bills.

At the governmental level, the Group cultivates ongoing relations with the Prime Minister's Office and the Ministers of Economic Development, Transport, Environment, Labour and Foreign Affairs. The issues that received the most attention during meetings with Ministers were the Group's projects on road safety, reducing the energy impact of the transport sector, employment in areas hit by the economic crisis, incentives for businesses committed to re-industrialisation and other forms of financing for investment projects and scientific, technological and socio-economic research.

The Pirelli Group also considers its relationship with European institutions to be fundamental in defining the principles, general objectives and strategic policies of European Union policies. In this view, the Group monitors legislative activity and actively participates in the decision-making process.

The Group relies on the customary tools of information for the daily management of its institutional relations; it frequently participates with its own contributions at working or institutional meetings on public policy issues, focused on specific targets and offering complete, transparent information on these topics. Its objective is to establish a permanent dialogue.

At the local level, the Group maintains constant relations with various entities, including the Milan and Rome municipal governments, with which it collaborates on various socio-cultural projects.

At the international level, continuous contact is maintained with institutional and diplomatic representatives in the various countries where the Pirelli Group's presence is already consolidated or in those where new installations are being planned.

In view of the new industrial installation to be opened in Russia, a visit by the Italian Minister of Economic Development and the Russian Federation Minister of Industry and Trade was organised at Pirelli Group headquarters in Milano-Bicocca. The Group also collaborated on setting up the Italo-Egyptian Business Council on logistics realised by the Italian Foreign Trade Institute and the Italian and Egyptian Ministries of Transport, where a major bilateral agreement between the two countries was signed.

## 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).

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

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

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The awareness of its role in promoting the civil and cultural progress of communities where it operates has been a cornerstone of Pirelli's business culture for over 130 years. This commitment is not only consistent with the principles expressed in the Ethical Code and Group Social Responsibility Policy, but also forms an important part of Pirelli's strategy of maintaining its role as an international company that is one of the most integrated within the communities where it operates.

This is why the Group organises and backs the protection of human rights and improvements in the living conditions of local communities, from health to education, from art to sport, working with both public and private institutions, local authorities, associations and bodies that are chosen on the basis of criteria designed to ensure their quality.

**In 2008, Pirelli made a major commitment to social initiatives in support of needy communities and respect of basic human rights, first and foremost education, healthcare and work.**

**Following is a list of the principal initiatives undertaken in the various countries where the Group operates:**

### Argentina

Present in this country with a production plant since 1950, Pirelli Argentina has distinguished itself over time by its commitment to the local community, which was focused on healthcare in 2008. Pirelli paid for maintenance work in the paediatric ward at the **Malvinas Hospital** - from painting of walls to installation of air conditioners - to which it also donated new equipment essential for neonatal care.

### Brazil

Once again in 2008 numerous social and humanitarian activities were sponsored on behalf of the local population in Brazil, where Pirelli has had a presence for over eighty years.

In the **city of Santo André**, home to the historic Pirelli industrial vehicle tyre manufacturing plant, Pirelli supports the **"Guri"** project, set up in 1995 by the Culture Secretariat of the State of São Paulo for **social integration of young people through music**. About 48,000 young people between the ages of 8 and 18 participate in this programme, which is based on the ability of music to promote socialisation with an orchestra and chorus format. Pirelli has financed the **Santo André** unit since 2004, which attracts 200 young participants for every session. In the city of Santo André, Pirelli supports **"Cata Preta"** the suburban childcare centre that hosts 80 poor children between 2 and 6 years old from the local area, offering them nursery school education and paediatric care.

In the city of **Campinas**, home to a car and SUV tyre manufacturing plant, Pirelli supports three educational programmes for youngsters. The first - **"Love life without drugs"** - involves 31 schools,



focusing on reinforcing young people's personal and social identity to discourage narcotics use. The second - **"Os Seareiros"** - is a scholastic education and healthcare assistance project for about 120 children between 6 and 15 years old at the Nucleo Madre Maria. The third programme supports **AMIC Association Friends of the Child of Campinas**, the association that assists 4,500 families in suburban Campinas by receiving about 1,500 children every day and handing out an average of 3,000 food baskets every month.

In the **city of Salvador**, Bahia State, Pirelli has supported the remodelling of the **Casa José de Petitinga**, which has been active for over forty years in favour of the indigent population in the historic Pelourinho neighbourhood. The Casa provides needy people with **food, medicine, clothing and medical, psychological and dental care**, as well as promote educational and social and cultural entertainment projects promoting the neighbourhood's growth.

At **Feira de Santana**, which is also located in Bahia State, Pirelli has signed an agreement with the Ministry of Sport and FAMFS - Fundação de Amparo ao Menor de Feira de Santana - for monthly donations of rubber scrap to build athletic tracks for children and youths in various regions of the country. The rubber scrap comes from the Pirelli plant (car, SUV and industrial vehicles) located in the city since 1976.



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Santo André, Brazil. "Guri" project.

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In the city of **Gravataí**, Rio Grande do Sul State, which is home to the Pirelli motorcycle and industrial vehicle tyre manufacturing plant, Pirelli finances the “**Peteca**” project, which supports children and poor children after school.

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

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In **Amazonia**, the “**Xapuri**” project continues to operate. It was founded by Pirelli in 1998 in collaboration with the local government to recover the rubber harvesting culture amongst the Seringueiros. After the project in the Acre region, where Pirelli now supports 3,200 families with the purchase of natural rubber that they produce independently, this activity is now at risk in other states in the Brazilian federation.

The “**Forest Guardians**” project promotes the sustainable development of Seringueiros communities. Pirelli is particularly committed to setting up schools for rubber harvesters and buying rubber in the town of Santarém, Pará, in collaboration with local and federal institutions. Here the Company supports the Cajoiero school for needy children between 3 and 10 years old who live on the banks of the Tapajós River. One of the priorities of this school, operated by volunteers, is to promote local culture according to a method that respects the learning pace of every single child.

## China

Pirelli China has recently become a part of the Group's regional productive activities, but it already maintains active relations with local populations. Social responsibility projects tied to the business are underway in this huge Asian country, such as research on ecological tyres in collaboration with the University of Shandong and the agreement with the Beijing City Government to equip city buses with particulate filters, but also include social programmes. Unfortunately, one of these is connected with the earthquake that struck Sichuan Province in May 2008. On that occasion, Pirelli Tyre China was one of the first companies to offer aid to the local population.

In the scholastic and academic sphere, the Company continues to actively participate - together with the Milan Polytechnic and Turin Polytechnic - in the **Politong** project, which was initialised in 2006 by the Chinese Ministry of Education and the Italian Public Education Ministry, which will promote cooperation between the two countries at the university level.

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

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## Egypt

In 2008, the solidarity initiatives of Pirelli Egypt focused on aiding orphaned children through the donation of hardware and software and basic necessities at the various orphanages in the region.

## Romania

In its first year of activity, the **three-year programme of medical cooperation** between the Niguarda Ca' Granda Hospital of Milan and the Slatina Hospital, which was signed in December 2007 and financed by the Pirelli Group for the professional training and continuing education of Romanian healthcare professionals, offered a total of 300 hours of training to 25 physicians and nurses. Training activity was concentrated mainly in the Emergency Medicine, Emergency Surgery, Intensive Care, Resuscitation and Emergency Gynaecology Wards at Niguarda. Several medical directors from the Milan hospital also held continuing education courses in Slatina on the use of new technologies and procedures for first aid. In addition to financing this training activity, the Group donated modern medical equipment to the Romanian hospital for diagnosis and emergency care, including an echograph and an electrocardiograph.

The three-year training programme will involve around 70 doctors and nurses from the Slatina Hospital, who will take part in theoretical and practical courses on emergency medicine, emergency surgery, intensive care, resuscitation, gynaecology and hospital epidemiology.

For the younger members of the community, Pirelli, in association with FC Internazionale and the Associazione Comunità 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 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 the children. FC Internazionale, on the other hand, has been given the task of engaging youngsters by providing them with top-flight sporting and training through its Intercampus.

Inter Campus is backed by the Mayor of Slatina and the Ministry for Youth Affairs, supported by the local physical education high school, and leading public and private voluntary associations.

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

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## Venezuela

Present in this country with a manufacturing plant since 1990, the Company supports the local community by providing materials that are useful in various social projects. The **Pirelli Baseball School**, for example, is attended by over 300 children and teenagers: it fields a total of 25 teams that the Group supported in 2008 by donating the necessary uniforms and equipment, while the famous Tampa Bay Rays baseball team has held three training sessions with them.

Over the past year, nine schools received donations of furniture and equipment from Pirelli for classrooms and offices, while the Company donated shoes and portable PCs to more than 180 children in collaboration with Calzados Russo and Notebooks Caribbean.

Active academic support for youngsters is also provided through the **"Scholarship a Talent"** programme. For the next three years,

six students enrolled in the School of Engineering at Unitec, the technical university in the Araguaita-Guacara area, will study electrical, mechanical and industrial engineering with economic support from Pirelli, which chose the school on the basis of its excellent educational programme.

## FOCUS ON ITALY

Once again, Pirelli has included a specific focus on one of its geographical areas of operations: in 2006 the focus was on South America, in 2007 on Romania, and in 2008 the choice has fallen on Italy.

Details on certain important initiatives undertaken in 2008 are described below.

### Solidarity

Created by the Milan Istituto dei Ciechi (Institute for the Blind) in partnership with Pirelli, ***Dialogo nel Buio*** is a walk-through exhibit installed in a space with absolutely no light, so that people with normal vision can enter the world of the blind and experience the problems and extraordinary abilities that the condition of being “challenged” causes one to develop. Pirelli has collaborated with the Institute since the programme began in 2005, with excellent results in terms of interest expressed by the public and schools.

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

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The Group also has special relationships with some of the most important Italian non-governmental organisations (NGO). Pirelli is one of the founding members of **Emergency**, a neutral, non-political and independent humanitarian association created to provide free, top-quality medical care to the civilian victims of war, landmines and poverty worldwide.

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

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Pirelli also provides institutional support to **Children in Crisis** Italy, an Italian association that is part of the international network Children in Crisis founded by the Duchess of York in 1993: active in 13 countries around the world, it works to improve the condition of children who are victims of conflict, poverty, disease or other grave problems.

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

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In the field of solidarity, the Group also provides support to the association **Sempre insieme per la Pace**, which is committed to providing humanitarian aid at the international level.

Pirelli also provides support for children locally in the Milan area, through its contribution to the activities of associations like the **Fondazione Boccafogli**, dedicated to the recovery of juvenile delinquents by encouraging their artistic and expressive potential, or the **Centro ausiliario per i problemi minorili**, which seeks to ameliorate the condition of troubled youths, or the Milan institution **Fondazione Asilo Mariuccia**, which is dedicated to abandoned children.

In the medical field, Pirelli provides support to the **Fondazione Benedetta d'Intino**, which provides assistance for the treatment of autism and perceptive disorders in children, the **Fondazione Giancarla Vollaro** and the **Associazione Marco Semenza**, which operate in the cancer research field, and the **Centro Dino Ferrari**, which focuses on the study of neuromuscular and neuro-degenerative diseases.

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

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### Support for art and culture

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. The Group has longstanding and prestigious partnerships in the art world. Since late 2007, it is party to an agreement with the **Triennale di Milano** to design and develop joint projects in the field of **industrial design**. Its objective is to revive the relationship between business culture and design culture, image in architecture, city planning, visual arts, graphics, design and communication. This is a strategic alliance between two of the most important historic institutions in Milan, joined by a bond that stretches back to the 1950's with the collaboration - as well as friendship and personal esteem - between the then Chairman Alberto Pirelli and Gio Ponti, the leading character in the history of the Triennale and who was commissioned to design the Pirelli Skyscraper.

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

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In the ambit of this renewed partnership, the exhibition *Un viaggio, ma...* opened on 17 January 2008, having been conceived by Pirelli to launch the new Cinturato. To celebrate the new product and describe its complexity in terms of technological, communication, art and customs, Pirelli commissioned 15 contemporary artists and designers to freely interpret the Cinturato saga by using different media, from graphics to 3D animation, illustrations to photography, to site specific installations. They include speculative posters by Airstudio/Giacomo Spazio; graphic interpretations by Headscollective and Alessandro Busseni; the big tree by Leftloft and the Piovra Cinturata by Alberto Bettinetti; the tapestries by Elena Giavaldi; the visionary wall painting by Simone Tosca; the over-sized note pad by Marco Bruzzone, where everyone can leave a "trace of travel"; the natural sized tyre mace of liquorice by the food designer Ciboh (made with the generous support of the Amarelli company), the animated micro-narrative by Andrea Linke that recounts the journey with the view of a giant; the solitary adventures of a tyre recounted in a humorous vein by Graziano Mannu; the interactive landscape of the installation by Claudio Sinatti; the photographs taken by Luca Gabino on the Vizzola d'Adda test track transformed into what seems to be a space centre; and, finally, the photo story of travel over time by Carlo Furgeri Gilbert. These 15 works were flanked by materials from the advertising campaigns between 1954 and 1972, as illustrated by original sketches, films and products. Many of them, never shown in public before, were created by major designers such as Bob Noorda, Pino Tovaglia, Franco Grignani, Ugo Mulas, Antonio Boggeri and Alan Fletcher: icons of style and linguis-

tic innovation that in those years transmitted the unmistakable “Pirelli Style” to Italy and the world. The most famous of these might be the image with the oblique, stylised tyre tread mark of the Cinturato, created by Bob Noorda in 1962.

This exhibition, which was open to the public for a month, confirmed the Group's interest, today as in the past, to the most advanced forms of linguistic and communication research: this attitude is fundamental for it to remain a model of industry not only in Italy, but worldwide, capable of melding innovation, research, creativity and quality.

The Group's partnership with the Triennale di Milano was further reinforced in 2008 with Pirelli's participation in the **Rete dei Giacimenti del Design Italiano (“Network of Italian Design Deposits”)**, formed under the auspices of the **Museo del Design** at the Triennale, of which Pirelli is an institutional sponsor.

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

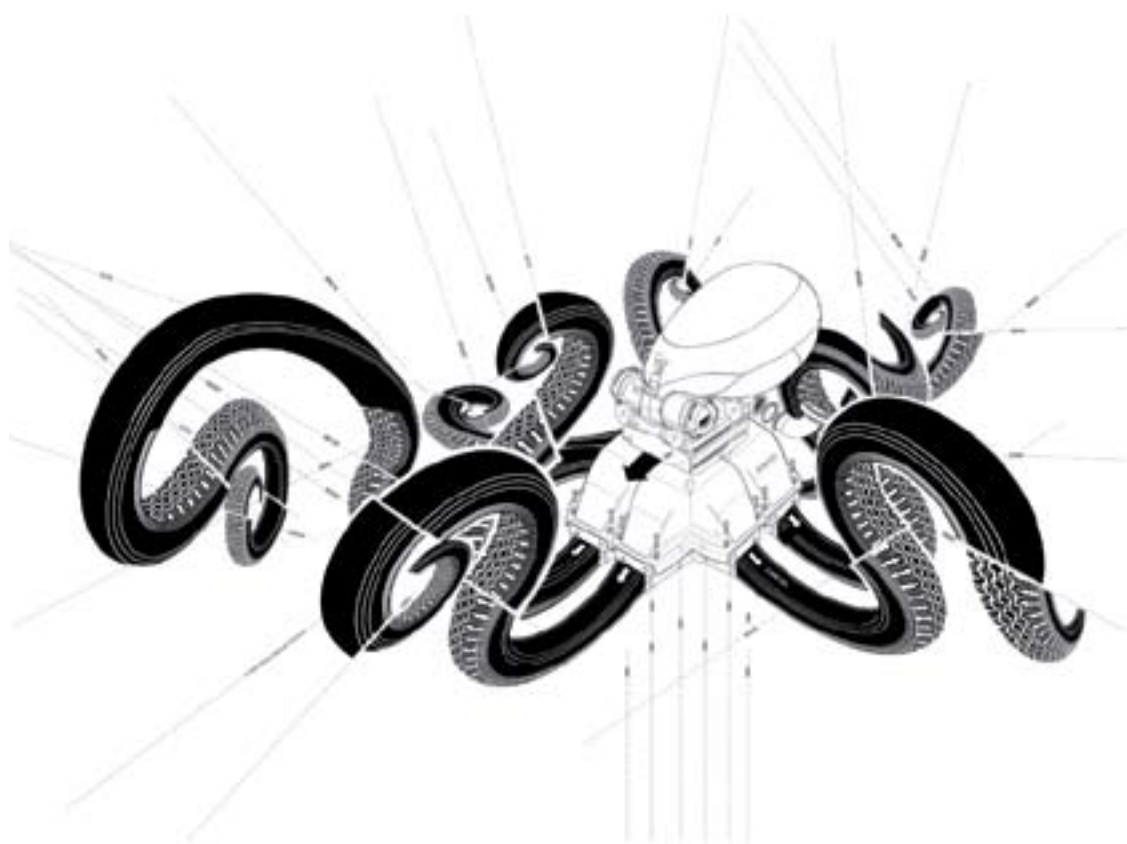
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Since 2007 Pirelli has been party to an agreement with the **Solomon R. Guggenheim Foundation of Venice**, which has enabled the Company to joint the small number of partner-companies belonging to the Intrapresae group and that, among other benefits, provides for free entry to all Pirelli employees and their families at the prestigious Palazzo Venier dei Leoni museum.

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

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A. Bettinetti, “P\_iovra,” January 2008.

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A decade ago Pirelli signed an agreement to provide corporate support to the **Brera Art Gallery**, the oldest art collection in Milan and one of the most important in Europe, which is celebrating its bicentennial in 2009. The Group is providing institutional support to the gallery's activity, and in particular restoration of the 16<sup>th</sup> century paintings from the Veneto Region exhibited in Room XIV. After the *Pala Pesaro* by Giovanni Gerolamo Savoldo, the Company's support also made it possible to build an innovative apparatus - designed by the architect Sottsass - that enables gallery visitors to view the paintings while they are being restored.

Pirelli has long been a member of the **FAI - Fondo per l'Ambiente Italiano** (National Trust for Italy), with which it has collaborated on various initiatives, including the organisation of art history courses for the public. During the 2007-2008 season, Pirelli and FAI were involved - with the patronage of the Ministry of Cultural Affairs, the Region of Lombardy, and the Province and City of Milan - in a new edition of *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 Asian art through the contemporary period. The agreement has been renewed for the 2008-2010 period with Pirelli's support for the new series of lessons on *Regge italiane. Arte, storia, potere* (Italian Palaces: Art, History, Power). The course will be held over a period of two years and will address the theme of the relationship between artistic heritage and systems of power, for a total of 54 lessons given by professors from various Italian universities. The first less, held on 29 September at the University of Milan, attracted a capacity audience.

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

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### Promotion of theatre and music

In 2008 Pirelli renewed its historic ties with the **Teatro Franco Parenti**, a theatre founded in 1996, when the Group decided to participate in the creation of the **Fondazione Pier Lombardo**. This foundation was established to support the growth of one of the most active, firmly rooted theatres in Milanese cultural life. Particularly committed to young artistic voices, in 2008 Pirelli sponsored the review *Racconto italiano* ("An Italian Story"), a journey through contemporary Italy in the form of plays, readings and debates, which are made accessible to everyone with an admission charge of 5 Euro. For two months, actors, playwrights and young writers traded places on stage of the Franco Parenti Theatre, stimulating the public to participate actively in thinking about the most topical and contradictory issues confronted by society today. The interest and participation of Pirelli employees in the theatre's activity has steadily grown over the last several months, thanks in part to the awareness campaign that targeted them. Pirelli's support for the Franco Parenti Theatre will be renewed in 2009.

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

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By joining the Group of Supporters, Pirelli also renewed its corporate support for the **Piccolo Teatro di Milano**, the first permanent publicly funded theatre in Italy. Giovanni Pirelli participated in its creation in 1947 as a founding member.

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

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During the year, participation on the **Progetto Galileo** (“Galileo Project”) continued. This initiative by the Piccolo Teatro in collaboration with the Silvio Tronchetti Provera Foundation is aimed at using the theatre stage to encourage young people to study scientific disciplines. Launched in November 2007 with a performance of *The Life of Galileo* by Bertolt Brecht before over 900 students from Milan middle and high schools, the project has developed with the **Performing Galileo** competition, an invitation to reinterpret the play with using the language and technology of multimedia youth culture. All received works were published on the website [www.performinggalileo.net](http://www.performinggalileo.net), created by the Milan Polytechnic, the initiative’s third partner. The best works, which were selected by a special jury, were rewarded at a ceremony held on 5 May at the Piccolo di Milano, in the presence of the city’s leading cultural authorities. The success of *Performing Galileo 2008* has prompted the organisation of a second edition of the competition, to be held in 2009.

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

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In October, the review **Teatro Scienza 2008** (“Science Theatre 2008”) was sponsored by Pirelli. This event was dedicated to contemporary investigations into the relationship between the stage and scientific culture. Educational institutions, from elementary schools to universities, were directly involved with performance lessons, educational workshops, meetings, performances and the online competition “Attori del sapere” (“Actors of Knowledge”).

Moving from theatre to music, in 2008 Pirelli once again supported **MITO SettembreMusica**, an international music festival created in 2007 between Turin and Milan. A packed programme of classical, contemporary, jazz, rock, pop and ethnic music concerts entertained the two cities during the month of September, with internationally famous orchestras and artists, such as the Royal Concertgebouw Orchestra, Philip Glass, Lou Reed and others. The events attracted large public turnout, thanks to the generally free admission to events.

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

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### School, education and research

In June 2008 Pirelli joined the foundation that operates the **Scuola Materna G.B. Pirelli nursery school in Varenna**, in the Province of Lecco. This initiative aims to recognise the merit of a nursery school operating in the birthplace of the Group’s founder.

The first two scholarships for final year students at the **Liceo Classico Giosuè Carducci classical high school in Milan** were awarded in December. Dedicated to the memory of Leopoldo and Giovanni Pirelli, they were established in 2007 by the association of former students of the high school with the Group’s support. The scholarships are worth 10 thousand Euro each and are awarded to needy students on the basis of merit. The “Giovanni Pirelli” scholarship is reserved for those undertaking humanistic studies, while the “Leopoldo Pirelli” scholarship is dedicated to those opting for scientific studies.

In April 2008 Pirelli and the **Milan Polytechnic** jointly announced the creation of a new professor's chair: "Chemical Foundations of Rubber and Compound Technology". This chair was the result of an agreement between the Group and the university, which also provides for scholarship funding of five doctorates over the course of ten years. Innovative materials and the application of nanotechnologies to the development of new generation tyres are being studied at the G. Natta Department of Chemistry, Materials and Chemical Engineering.

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

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Joint research on tyres continued in 2008 within the framework of the five-year agreement made by Pirelli and the **Turin Polytechnic** in 2007, which was officially signed on 22 February 2008 at a ceremony held in the head office of the Region of Piedmont in Turin. As part of development of the **New Industrial Centre at Settimo Torinese**, one of the most modern and efficient tyre manufacturing plants in the world, the agreement calls for researchers at Pirelli and the Turin Polytechnic to collaborate on three cutting-edge technology projects in the tyre industry, first and foremost the "smart" Cyber Tyre. The programme kicked off on 29 May with a meeting between the two pools of researchers at the Pirelli general headquarters at Bicocca Milano. Francesco Profumo, President of the Turin Polytechnic, attended the event. The Group is also contributing to a professor's chair in Mechanical Engineering. All innovations resulting from this cooperative project will be developed at the New Industrial Centre.

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

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Pirelli's collaboration with the academic world also involves the **University of Milan - Bicocca**. Once again in 2008, Pirelli funded three research doctorates in the School of Science, through the Corimav (Consorzio ricerca materiali avanzati - advanced materials research consortium). Two of the scholarships are dedicated to the study of photovoltaic applications and the third to particulate filter technologies. Pirelli Labs researchers will work alongside university professors in specialised courses, seminars and tutoring. They will also provide students with an industrial perspective, which is necessary to work in the competitive technological society.

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

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The relationship with universities and the scientific world also underlies Pirelli's partnership with the **Silvio Tronchetti Provera Foundation**, whose mission is to promote research and the nurturing of talents in economics, science, technology and management through funding, awards, scholarships, and contributions to university and scientific institutions. This activity takes place either directly or in association with other parties, including a partnership with three universities: the Milan Polytechnic, the Luigi Bocconi Business University and the University of Milan - Bicocca, whose presidents sit on the Foundations board. In association with the Umberto Veronesi Foundation and the Giorgio Cini Foundation, over the past four years the Silvio Tronchetti Provera Foundation has promoted the **Conference on the Future of Science**, a three-day programme of presentations and discussions by world-famous scientists and researchers, including many Nobel Prize winners. After the Relationship between Scientific Knowledge and Human Life (2005), Evolution (2006), Environment (2007), the theme of the 2008 Conference, held in Venice from 24 to 27 September, was *Food and Water for Life*.

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

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

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## Bicocca Hangar

A key part of the Group's relationship with the local area and community is the Hangar Bicocca. It is a dynamic place for the production, documentation, exhibition, promotion and dissemination of contemporary art whose mission is to explore and experiment with multidisciplinary approach to all visual and performing arts - and the other fields of contemporary knowledge. The Bicocca Hangar project originated with the opening to contemporary art of a vast industrial installation that once belonged to the Ansaldo Group and dedicated to the production of coils for the electric motors of trains.

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

The first step towards a new use of the building was direct involvement by internationally famous artists interested in taking up the challenge of a specific project that dialogues with a visually powerful space. The first installation was realised by Anselm Kiefer in September 2004, who executed the monumental permanent work *I Sette Palazzi Celesti*; and then other installations were created by Mark Wallinger and Marina Abramovic. The principal group shows hosted by the Bicocca Hangar in 2006 were *Start@Hangar*, followed in 2007 by *Collateral*, *Quando l'Arte guarda il Cinema*, *Not Afraid of the Dark* and *Urban Manners*. The exhibitions organised in 2008 were: a solo show by the young Italian artist Daniele Puppi entitled *Fatica 16*, *Antarctica*, a solo show by the Anglo-Argentine duo Lucy+Jorge Orta and the big retrospective *It is difficult* by Alfredo Jaar that was organised in collaboration with the Province of Milan. That show recently closed and was accompanied by the public project for Milan created by the artist.

Bicocca Hangar was transformed into a foundation in 2008, as a non-profit organisation subject to private law, and its current founding members are Pirelli RE, the Milan Chamber of Commerce and the Region of Lombardy. The MBA Group and AON Insurance Brokers have also joined as participating members. Among the various cultural communication initiatives sponsored by Pirelli RE are *Great Architects: A journey in the mind of...*, a series of DVDs created in collaboration with the magazine *Interni*: a journey through contemporary architectural culture, where the protagonists recount their design project and personal way of working.

## Sport

For over a century, Pirelli has been involved not only in automobile and motorcycle racing but also other disciplines (cycling, athletics and tennis), testifying to its wide-ranging commitment to the most varied aspects of sport.

The Group's commitment to **soccer** is known the world over through its sponsorship of F.C. Internazionale in Italy and other top-class teams including Palmeiras in Brazil, Peñarol in Uruguay, Velez Sarsfield in Argentina, and Basel in Switzerland. However, its commitment goes beyond professional soccer. Pirelli is involved in the promotion of sports culture, which means the promotion of responsible and ethical social interaction amongst young people.

This is the spirit behind the project **“Leoni di Potrero - Calcio per tutti”** (Protrero Lions - 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 participate in the development of young students, by fostering positive values such as friendship, loyalty, fidelity, respect and tolerance. This represents a way to teach the concept of integration to children from different social classes, working to prevent negative situations like isolation and loneliness.

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

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## 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.

### REPORTING ELEMENTS

		Reporting Elements	Page
Strategy and Analysis		1.1	10-11, 164, 210
		1.2	216-249
Organisational Profile		2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10	8, 13-160, 191-202, 252-254
Report Parameters	Report Profile	3.1, 3.2, 3.3, 3.4	165
	Report Scope and Boundary	3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11	165
	GRI Content Index	3.12	306
	Assurance	3.13	308
Governance, Commitments and Engagements	Corporate Governance	4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10	84-160, 170-174
	Commitments to External Initiatives	4.11, 4.12, 4.13	186, 292-305
	Stakeholder Engagement	4.14, 4.15, 4.16, 4.17	167, 187, 192, 203-204, 208, 213-215, 257-259, 263-264, 267-269, 272-277

### KEY PERFORMANCE INDICATORS

Area	Aspects	Indicators	Page
Economic	Economic Performance	EC1, EC3	185-186, 378 on
	Indirect Economic Impacts	EC8	186
Environmental	Materials	EN1	206
	Energy-Water	EN3, EN4, EN5, EN6, EN7, EN8	219-229, 232-233
	Biodiversity	EN11, EN12, EN13, EN14	215-216
	Emissions, Effluents and Waste	EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24, EN25	219-229, 232-233
	Products and Services	EN26	216, 224-232, 234-248
	Compliance	EN28	215-216
	Transports	EN29	224
Labor Practices and Decent Work	Overall	EN30	222
	Employment	LA1, LA2, LA3	252-255
	Labor/Management Relations	LA4, LA5	277-281
	Occupational Health and Safety	LA7, LA8, LA9	281-292
	Training and Education	LA10, LA11, LA12	259-267, 282-284
	Diversity and Equal opportunities	LA13, LA14	170, 177, 257-259
	Investment and Procurement Practices	HR2, HR3	173, 203-208, 263-264, 268-269
Human Rights	Non-Discrimination	HR4	170, 257-259
	Freedom of Association and Collective Bargaining	HR5	277-278
	Child Labor	HR6	255
	Forced and Compulsory Labor	HR7	169-170, 279
	Community	S01	177-180, 213-215, 292-305
Company	Corruption	S02, S03	171-173, 292-293
	Public Policy	S05, S06	186
Product Responsibility	Customer Health and Safety	PR1	177-178, 196-202
	Product and Service Labeling	PR5	180-183, 192-193

## THE GLOBAL COMPACT PRINCIPLES AND GRI INDICATORS

Global Compact issues areas	Global Compact Principles	Directly relevant GRI Indicators	Indirectly relevant GRI Indicators
Human Rights	<i>Principle 1 - Business should support and respect the protection of internationally proclaimed human rights.</i>	HR1-9	LA4, LA13-14, SO1
	<i>Principle 2 - Business should ensure that they are not complicit in human rights abuses.</i>	HR1-2, HR8	
Labor Standards	<i>Principle 3 - Business should uphold the freedom of association and the effective recognition of the right to collective bargaining.</i>	HR5, LA4-5	
	<i>Principle 4 - Business should uphold the elimination of all forms of forced compulsory labor.</i>	HR7	HR1-3
	<i>Principle 5 - Business should uphold the effective abolition of child labor.</i>	HR6	HR1-3
	<i>Principle 6 - Business should uphold the elimination of discrimination in respect of employment and occupation.</i>	HR4, LA2, LA13, LA14	HR1-2, EC5, EC7, LA3
Environment	<i>Principle 7 - Business should support a precautionary approach to environmental challenges.</i>	Profile disclosure 4.11	EC2
	<i>Principle 8 - Business should undertake initiatives to promote greater environmental responsibility.</i>	EN2, EN 5-7, EN10, EN13-14, EN18, EN21-22, EN26-27, EN30	EC2, EN1, EN3-4, EN8-9, EN11-12, EN15-17, EN19-20, EN23-25, EN28-29, PR3-4
	<i>Principle 9 - Business should encourage the development and diffusion of environmental friendly technologies.</i>	EN2, EN5-7, EN10, EN18,	EN26-27
Anti-Corruption	<i>Principle 10 - Business should work against all forms of corruption, including extortion and bribery.</i>	SO2-4	SO5-6



# Assurance Letter



## ASSURANCE LETTER

### ASSURANCE STATEMENT OF PIRELLI & C. S.p.A. 2008 SUSTAINABILITY REPORT

SGS Italia S.p.A. received the mandate to verify the Pirelli & C. S.p.A. 2008 Sustainability Report.

The information contained in the Sustainability Report is the exclusive responsibility of Pirelli & C. S.p.A.. SGS Italia S.p.A. was not involved in the preparation of the Sustainability Report in any way or in the collection and processing of the data contained therein.

The verification methodology adopted is in line with the SGS SRA Sustainability Report Assurance service requirements, based on the Sustainability Reporting Guidelines of the Global Reporting Initiative and in compliance with the Accountability 1000 (AA1000 Assurance Standard) principles. The audit activity for this Report was performed by reviewing the objective findings, such as examining documents, verifying records and interviewing Pirelli & C. S.p.A. personnel, and is referred to Level 1 of above-mentioned SRA protocol and concerned the assessment of the completeness and accuracy of the data and information included in the Report, as well as the application of materiality, completeness and sustainability context principles, in accordance with the recommendations set out in the GRI Guidelines.

The verification activities concerning the economic and financial data considered the procedures in place to collect and process the data corresponding to the Pirelli & C. S.p.A. 2008 Consolidated Financial Statements, already subject to the professional opinion expressed by the Auditing Company. Sample audits were performed with reference to the environmental and social data, with particular reference to the Company's international standing, to establish an adequate level of confidence concerning the reliability of the process to collect, manage and consolidate the information originating from the different organisations within the group.

We confirm the reliability and the accuracy of the information contained in the Pirelli & C. S.p.A. 2008 Sustainability Report, on the basis of the audit procedures performed. The 2008 Sustainability Report represents a significant summary of the activities engaged in by the Group, in addition to representing a key communication tool with the Stakeholders.

The audit team appreciated and confirms the Pirelli & C. S.p.A. commitment, reflecting the Top Management's intention to pursue the on-going improvement of the sustainability process as integrated choice in the strategies of growth and vision of the group.

Milan, 7th April 2009

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