

Care.



SUSTAINABILITY REPORT 2010 *Volume 3*

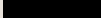
KEY PERFORMANCE INDICATORS 2010 - 2009 - 2008

All reported KPIs cover the pirelli scope of consolidation, unless otherwise indicated




ECONOMIC AREA (in millions of Euro)	2010	2009	2008	ENVIRONMENTAL AREA	2010	2009	2008
Net sales *	4848,4	4067,5	4169,2	Energy consumption [GJ / ton _{pp}]	14,15	15,01	14,13
of which tyre (%)	98,4%	98,2%	98,3%	CO ₂ emissions [ton / ton _{pp}]	1,002	1,050	0,987
Gross Operating Profit *	629,0	452,6	308,9	Water withdrawal [m ³ / ton _{pp}]	16,2	18,3	18,3
Operating Income*	407,8	249,7	102,4	Waste output [kg / ton _{pp}]	140,5	136,2	142,7
% of sales	8,4%	6,1%	2,5%	ISO 14001 certified operating tyre plants	100%	100%	96%
Net income attributable to equity holders	21,7	22,7	(347,5)				
Earnings/(losses) per share	0,044	0,047	(0,065)	SOCIAL AREA	2010	2009	2008
Capital expenditure	433	225	311	Pirelli scope to which SA8000 benchmark standard applies	100%	100%	100%
% of sales	8,9%	5,5%	7,5%	OHSAS 18001 certified operating tyre plants	90%	90%	87%
number of ordinary shares (millions)	475,7	5233,1	5233,1	Accident FI (frequency index)	1,6	1,8	2,2
number of savings shares (millions)	12,3	134,8	134,8	Year-end headcount	29,573	29,570	31,056
Stock market capitalisation **	3010,7	2154,8	1318,1	of whom % women holding managerial positions (Executives + Managers)	17%	17%	17%
Gross global added value	1495,9	1293,3	919,0	Average number of training days per employee	6,3	5,1	5
of which external donations	3,6	3,3	2,6	ISO 9001 certified operating tyre plants	100	100	100
% of gross global added value	0,24%	0,26%	0,28%	Group Whistleblowing Procedure reports of code of conduct violations	1,0	1,0	-
Research and development expenses	150	137	156	Number of vendors subjected to independent sustainability audits	46***	26***	-
% of sales	3,1%	3,4%	3,7%				
ROE of Group	0,19%	-0,93%	-13,35%				
Gearing	0,22	0,21	0,43				
Sales per employee (average)	160	138	148				

* the data do not include the activities belonging to Pirelli & C. Real Estate (now Prelios) and Pirelli Broadband Solutions, discontinued in 2010; the previous periods (2009 and 2008) have been restated on a like-for-like basis.
 ** 46 and 26 values correspond to 50% volume of natural rubber purchased in 2009 + 50% of billings for services acquired in 2009



TARGETS SET IN 2009 SUSTAINABILITY REPORT FOR 2010

Legend:  Under Way  OK

ECONOMICS

Disposal of certain non-core subsidiaries to improve financial flexibility of Pirelli and support growth in core Tyre business (discontinuation of Pirelli & C. Real Estate S.p.A. - now Prelios S.p.A. - and Broadband Solutions S.p.A.)	
Green performance product sales account for 37% of all sales at end of 2010	
Consolidation of new Risk Management System	

INVESTORS AND FINANCIAL COMMUNITY

Financial communication: implementation of Pirelli Equity Story for visibility with analysts and investors, with special focus on sustainability	
Holding "SRI" roadshows	




VENDORS

Implementation of possible remedial plans for vendors audited in 2009	
New independent audits: service providers corresponding to 25% billed in western countries; suppliers of raw materials, natural rubber and services corresponding to 25% of billings in countries of concern. Total: 58 audits	












CUSTOMERS

Focus on information and dialogue - execution of opinion surveys	
Focus on information and dialogue - consolidation of active presence on principal platforms (Facebook, Twitter, Youtube)	
Road Safety training: "Safe&Go" 2010 campaign	
Updating of institutional website with focus on interaction with end customer	

ENVIRONMENT

Mapping of Pirelli activities in areas protected for their biodiversity/World Heritage Sites/UNESCO Biosphere Reserves/Ramsar Convention	
Production of ecological silica from rice husks	
New Technological Centre of Settimo Torinese: double loop air treatment unit; adiabatic cooling unit; high-efficiency heat capture devices; use of thermal solar panels; photovoltaic park generating about 1 MWp; solar cooling	

EMPLOYEES

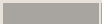
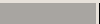





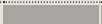
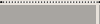
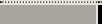




















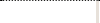

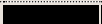
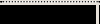
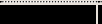

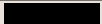
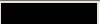




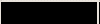






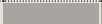
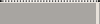
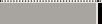


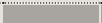
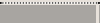
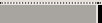

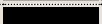
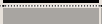
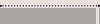
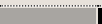

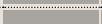
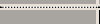
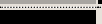
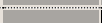
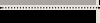


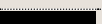






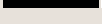



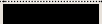
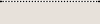
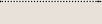



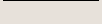


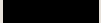


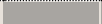
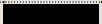
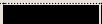
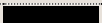
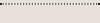


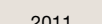
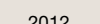
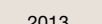


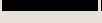
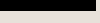
Internal communication campaign targeting all Group employees in their own languages with the new versions of: "The Values and Ethical Code of the Pirelli Group", the "Social Responsibility for Health, Safety and Labour Rights and Environment" Policy, "Quality Policy"	
New Group-wide opinion survey (previous one conducted in 2008)	
Leadership training and development course for all executives and a pool of other key managers, in accordance with the new programme developed by senior management	
Performance Management: creation, development and implementation of new sections dedicated to the employee and to the mapping of his technical competences, in a view of increasing compliance of performance evaluation system with the "Leadership" project	
Lean Manufacturing Programme: the new training programme dedicated to "Operations" and "Quality" professional families will be launched in early 2010. The aim will be to integrate "lean" methods and logic in managerial processes	
Revamping of Career Development Program	
Maintenance safety campaign with the European Occupational Safety and Health Agency EU-OSHA	
Reduction of frequency index FI (Pirelli Tyre Industrial) by 10% against 2009 (2010 industrial frequency index = 1.55)	
Increase in number of total training hours at HSE Campus: >100 hours	
Extension of HSE Campus activities to LATAM plants	
Definition of a new Group standard for maintenance activities	

EXTERNAL COMMUNITY

Partnership with EU-OSHA for new Occupational Health and Safety Campaign	
Renewal of multi-year support for Slatina Hospital through exchange of know-how with Niguarda Hospital in Milan	
Focus on dissemination of business culture through Pirelli Foundation activity	
Initiation of new programmes in favour of the External Community by directly engaging Pirelli employees (active contribution by employee)	

Principal 2010 SUSTAINABILITY objectives for 2011, 2012, 2013, 2015

Legend:  In progress  Target year  Maintenance

ECONOMICS	2011	2012	2013	2015
Impact of sales of green performance products against total of group sales >45%				
Adjustment of production activities in rapidly developing economies (RDE), Latin America and mature markets, where each of the three areas will contribute 1/3 to Group profits in 2015				
Technological upgrade of production sites and machinery (in 2015, 60% of production will be realised at sites and plants less than 10 years old).				
Pirelli will invest Euro 1.9 billion over next 5 years, increasing its production capacity and focusing on the premium market segment in rapidly developing economies, according to a "local for local" strategy aimed at improving product mix and efficiency and consolidating leadership in all market segments in Latin America.				
Maintenance of value of investments in research and development over next three years at about 3% of sales, representing one of the highest levels in the sector.				
INVESTORS AND FINANCIAL COMMUNITY	2011	2012	2013	2015
Communication focused on publicising gradual implementation of the new 2011-2013 Business Plan				
Steady increase of roadshows dedicated to Socially Responsible Investors				
VENDORS	2011	2012	2013	2015
Rewriting of sustainability clauses of contract to simplify syntax				
Training for all buyers on management of independent audits of vendors and deployment of remedial plans				
Vendors Portal: development, pilot project in Italy and first extension to other EMEA countries in 2011				
Drafting of Pirelli Manual on management of supply chain				
Definition of new audits according to criteria established by local Pirelli facilities, while retaining central support and after the training mentioned above				
CUSTOMERS	2011	2012	2013	2015
Focus on dialogue with the end customer through web platforms and opinion surveys				
Launch of Engaging the Consumers project. On the basis of detailed analysis of all phases of procurement process, the project aims to identify and select Pirelli consumer targets exactly, on whom "consumer insights driven" plans and marketing activities are to be focused, with all of this serving Group growth strategies.				
Road safety information and training campaigns, according to the programme defined after signing the EU Safety Charter				
ENVIRONMENT	2011	2012	2013	2015
Entire range of tyre products free of highly aromatic oils worldwide				
Extension of Environmental Management System certificate to all activities at New Technological Centre				
Specific energy consumption -15% against 2009 value (by 2015)				
Specific energy consumption -13% against 2009 value (by 2011)				
Specific equivalent CO ₂ emissions -15% against 2009 value (by 2015)				
Specific equivalent CO ₂ emissions -9.5% against 2009 value (by 2011)				
Specific water consumption -35% against 2009 value (by 2015)				
Waste: -5% production, +5% recycling against 2009 values				
Complete substitution by Steel Cord Business Unit of all wood pallets in favour of plastic or metal ones				
Use of solvents in production processes -5% against 2009 value by extending solvent free technologies.				
EMPLOYEES	2011	2012	2013	2015
Focus on employee welfare: mapping and actions				
Analysis of gender differences in Pirelli, in its industrial sector and in the global evolutionary context in order to update the related Management System and then transfer it to the management of all other diversity elements for setting targets about increasing diversities among managers in medium and long term				
Pirelli will commission new independent SA8000® audits to be carried out at production plants in South America, China, Egypt, Turkey and Romania				
New online and paper Employer Branding campaign				
New Settimo Torinese industrial centre: 11 days of training pro capita on average for a total of about 1250 employees				
Pirelli Leadership System: training for local middle management (final involvement of 400 middle managers), similar to training courses held for executives in 2010				
OHSAS 18001 standard: issuance of all certificates with SAS international accreditation beginning in 2011				
Health, Safety and Environment Week - Event held simultaneously at all Pirelli production facilities				
Pirelli Tyre industrial accidents FI (frequency index) reduced about 40% against 2009				
Definition of new Group standard for maintenance activities				
Consolidation of new POWRA (point of work risk assessment) tool for maintenance activities				
OHSAS 18001 certification of Guacara plant (Venezuela) and of Bumbesti (Romania)				
Focusing of monthly "Safety Bulletin," distributed internally, on key safety indicators				
Integration of a Health, Safety and Environment module in the Process Kaizen Engineer training course				
Definition of a Group standard for internal non-monetary rewarding on Health, Safety and Environment issues				
EXTERNAL COMMUNITY	2011	2012	2013	2015
Reinforcement of social and environmental responsibility partnerships with local NGOs and central and local institutional entities, based on dialogue for identification of action priorities				
Continual pro-active approach to dissemination of good sustainability practices at the local and international level (through CSR Europe, World Business Council For Sustainable Development ...)				
Revision of internal procedures for management of philanthropic activities				
Application of Whistleblowing Procedure to external community				

*Many of the images used were produced by the students
of NABA (Nuova Accademia di Belle Arti Milano) at Pirelli's request.*

Graphic design

Leftloft, Milan

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The results' documentation can be found online at **www.pirelli.com**

Pirelli & C. S.p.A. — Milan

Sustainability Report 2010

Volume 3



CONTENTS

ANNUAL FINANCIAL REPORT AT DECEMBER 31, 2010

Volume 1

General information

Directors' report*

Consolidated financial statements

Extraordinary session

REPORT ON CORPORATE GOVERNANCE AND THE STRUCTURE OF SHARE OWNERSHIP**

Volume 2

SUSTAINABILITY REPORT 2010

Volume 3

A note on methodology 9

Pirelli and the creation of sustainable value 16

Strategic model for sustainable growth 19

Stakeholder engagement 19

Sustainability in the organisational structure 20

Operating model for sustainable management and planning 21

Sustainable growth strategy: three-year plan and vision to 2015 22

Sustainable governance 23

Governance tools for long-term development 25

Compliance 29

Group Whistleblowing procedure 29

Stock market indices and ethical finance 30

Principal awards received during the year 32

Economic dimension	38
Added value	39
Significant loans received in 2010	40
Shareholders, investors and the financial community	40
Our customers	42
Our Suppliers	45
Environmental dimension	52
The Pirelli approach to management of environmental issues	53
Eco-sustainability of products	56
Eco-sustainability of processes	72
Social dimension	84
INTERNAL COMMUNITY	85
Pirelli employees around the world	85
Diversity awareness and management	87
Compensation and International Mobility	89
Listening, Employer Branding, Training and Development	90
Internal communication: involving in order to communicate	93
Company Initiatives for the Internal Community	95
Industrial Relations	95
Occupational Health, Safety and Hygiene	98
EXTERNAL COMMUNITY	101
Relations with Institutions and Public Authorities	101
Principal international commitments for Sustainability	103
Company initiatives for the external community	104
Summary tables	116
Assurance Statement	118

* The Annual Report on Corporate Governance and Ownership Structure included in Volume 2 is a specific, integral section of the Directors' Report on Operations.

** This volume is a specific, integral section of the Directors' Report on Operations.

“In order to build a sustainable future, it is necessary to understand the changes in society and know how to innovate. To create value, with profound respect for cultures and diversities”

FILIPPO BETTINI
Head of Sustainability and Risk Governance

A NOTE ON METHODOLOGY

This, the sixth edition of the Pirelli Group Sustainability Report, is a comprehensive expression of the Pirelli corporate culture based on the **integration of the economic choices together with the environmental and social choices, according to the triple bottom line approach**. Therefore, this description of sustainable performance, instead of being published separately, is included in the Pirelli Annual Financial Report, as Volume 3 (Volume 1: Annual Financial Report at december 31, 2010; Volume 2: Report on Corporate Governance and Share Ownership).

In light of this integration, note that:

- the **Chairman's Letter** at the beginning of Volume 1 of the Pirelli Annual Financial Report addresses Group sustainability issues;
- the **scope** of this annual report is the same as the Group's consolidated report;
- this report gives a summary of the **corporate identity, Group structure and operating performance in 2010**, insofar as these topics are discussed in detail in Volume 1, to which reference is made for further information.

The report has been drawn up according to the **Sustainability Reporting Guidelines** issued by the **Global Reporting Initiative (GRI)**, and the principles of **completeness, materiality and responsiveness** set out in **Standard AA1000**. The analysis of sustainable performance is based on a set of **Key Performance Indicators (KPIs)**, developed in accordance with the GRI indicators (updated to the G3 standard) and the principles of the **Global Compact** (which Pirelli adopted in 2004) 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 **Social 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 2010** in relation to the contents of the 2009 report, with an **overview of trends** during the **past three years**. **Achievement of the qualitative and/or quantitative targets set for 2010 has been reported both inside the front cover and in the sections** dedicated to the specific **stakeholders** to which the targets refer, **as well as the new 2011 and/or multi-year targets**.

The **Summary Tables** found at the end of the report illustrate the topics discussed in the text in reference to the specific GRI (G3) performance indicators, as well as to the Global Compact principles.

This report includes **Assurance Statement by an independent third party**.

Finally, it is **published** – in Italian and English – in the Sustainability and Investor Relations sections of the website **www.pirelli.com**.

For further explanations and information on what is reported here, please refer to the **Contacts** published in the section of the website mentioned above. From that section, site visitors can access the **Sustainability Channel**, which is the interactive channel of communication between Pirelli and the web community interested in sustainability news and events regarding the Group. Through the Sustainability Channel interested users may also comment on the news.













PIRELLI AND THE CREATION OF SUSTAINABLE VALUE

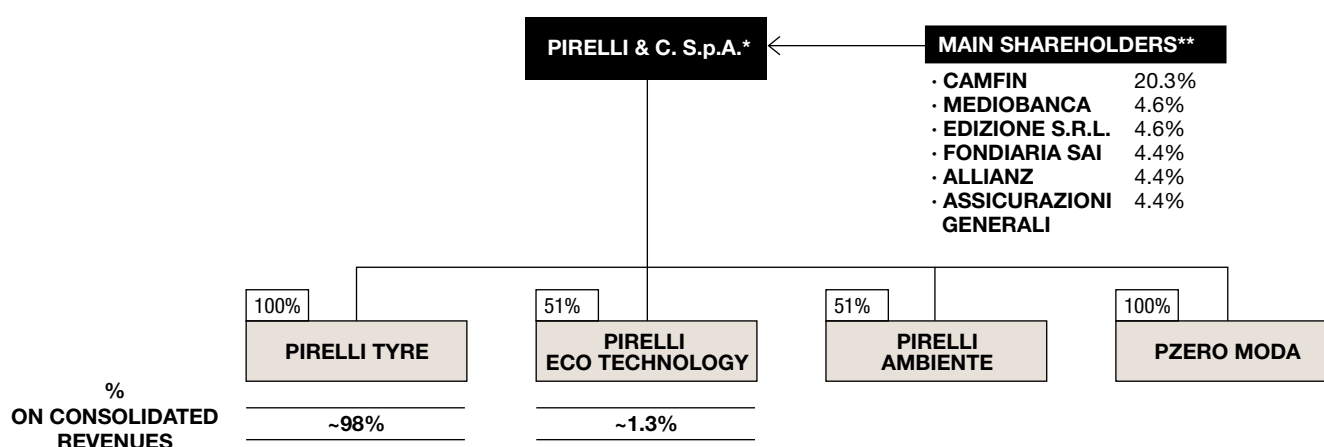
**The adopted approach
allows the creation
of sustainable value
over time, from which
the company derives
both tangible and
intangible benefits**

The world's fifth biggest tyre maker as measured by its turnover, the Pirelli Group is a leader in the high-end and high technology content segments. In business for over 140 years (having been founded in Milan in 1872), Pirelli now operates in 20 industrial areas on four continents and sells its products in over 160 countries. It boasts a long industrial tradition, which has always been based on innovation, product quality and a strong brand. That strength has been supported since 2002 by the PZero fashion and high tech project and has just been further reinforced by Pirelli's recent designation

as exclusive supplier to Formula 1 for the three-year period 2011-2013.

While it has always been focused on research and development, Pirelli also implements a green performance strategy that dedicates constant, increasing attention to high quality, low environmental impact products, services and technology. Group efforts in these areas are supported by the activities of Pirelli Ambiente, which operates in the energy and environmental segments, and Pirelli Eco Technology, which focuses on emission control technologies.

PIRELLI CORPORATE STRUCTURE AS AT 31/12/2010



(*) The individual businesses rely on the support of Pirelli Labs (100% Pirelli & C.), the Pirelli centre for technological excellence and driver of innovation.

(**) The indicated percentages of investment represent only the portion granted to the "Shareholders' Agreement" at December 31, 2010. Camfin has announced that it directly or indirectly owned another 5.9% of the ordinary capital of Pirelli & C. Spa.

The process of transforming the Pirelli Group into a **pure tyre company** was completed in 2010. This transformation was undertaken in accordance with the 2009-2011 Business Plan and completed in 2010 with the **spin-off of Pirelli & C. Real Estate and disposal of non-strategic assets, including Pirelli Broadband Solutions and Oclaro** (formerly Avanex). Conclusion of this process, together with **realisation of the 2011 targets a year earlier** than scheduled in the 2009-2011 Business Plan, resulted in the **new business plan for 2011-2013 with vision to 2015**. That new plan was presented on November 4, 2010 and is extensively discussed in this report.

Pirelli Group **research and development** activities are key to the pursuit of its growth strategy, which not only allows continuous product and process innovation but also assessment of new business opportunities.

Group R&D costs totalled **Euro 146 million in 2010**, with a **3.1% ratio to sales**. Research and development activities are mainly concentrated in Pirelli Tyre, within which the Group has a research centre in Italy and eight application centres worldwide, and is staffed by over 1,000 employees – 60% of whom are from countries other than Italy.

The value of investments in research activity is expected to remain **at about 3% of sales over the next three years**, one of the **highest levels in the industry**. All of these factors will help lift the **number of patents** held by the Group (currently **over 4,500**), guarantee its ability to reduce the time needed to **update its line of premium products** approved as original equipment to less than four years, and **fully eliminate highly aromatic oils from its entire tyre line worldwide by 2013**.

SALES BY GEOGRAPHICAL AREA

Net sales in 2010 totalled Euro 4,848.4 million, up 19.1% from Euro 4,067.5 million in 2009. The percentage

breakdown of activities shows that **98.4% of sales were generated by the tyre business** (98.1% in 2009).

The following table shows the geographical breakdown of Group sales over the last three years:

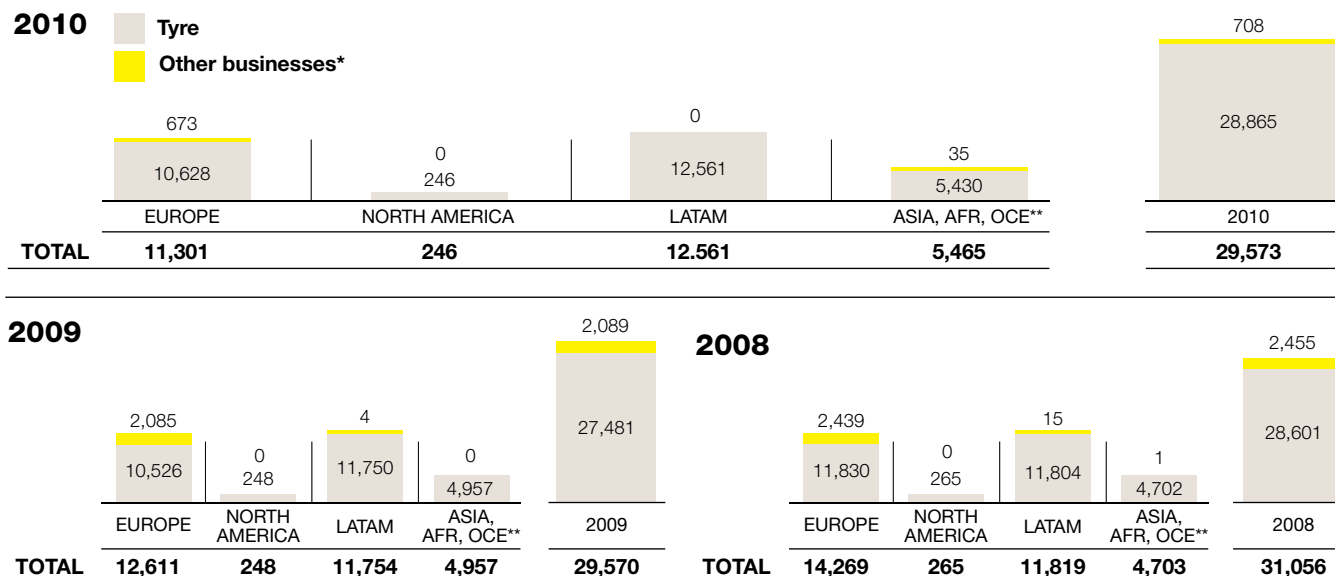
Sales* (in thousands of Euro)						
	2010	%	2009	%	2008	%
Europe:						
- Italy	485,450	10.00%	443,103	10.89%	447,766	10.74%
- Rest of Europe	1,503,531	31.00%	1,326,326	32.60%	1,457,669	34.95%
NAFTA	477,394	9.85%	361,454	8.89%	332,009	7.96%
Central and South America	1,632,044	33.66%	1,296,285	31.87%	1,279,444	30.69%
Asia/Pacific	286,922	5.93%	231,237	5.69%	648,020	15.54%
Middle East/Africa	463,077	9.55%	409,056	10.06%	4,243	0.10%
TOTAL	4,848,418	100.00%	4,067,461	100.00%	4,169,151	100.00%

(*) Net sales in 2010 do not include the operations discontinued during the year that belonged to *Pirelli & C. Real Estate S.p.A. (now Prelios S.p.A.)* and *Broadband Solutions S.p.A.* The previous periods (2009 and 2008) were consequently restated on a comparable basis.

The **headcount at December 31, 2010** was **29,573** (29,570 in 2009 and 31,056 in 2008). It reflects the dis-

tribution of production activity at plants located on **four continents**, as illustrated in the following table:

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES



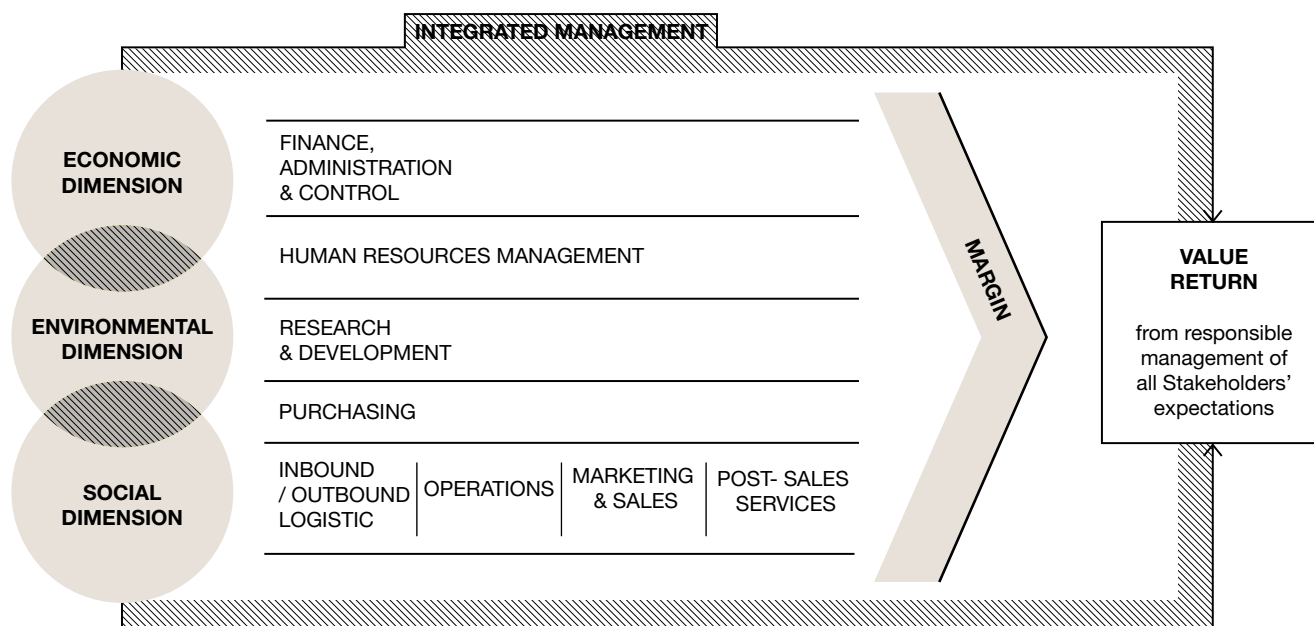
(*) includes Corporate, P.Ambiente, P.Zero, P.Eco Technology; for 2008 and 2009 it also includes the Real Estate and Broadband Solutions businesses that were discontinued in 2010, whose employees were no longer on the Group payroll at December 31, 2010.

(**) Includes Turkey

For a complete snapshot of Pirelli operating performance in 2010, please see Volume 1 (Annual Financial Report at december 31, 2010).

STRATEGIC MODEL FOR SUSTAINABLE GROWTH

PIRELLI OPERATING APPROACH TO GENERATION OF SUSTAINABLE VALUE



As shown in the info graphic above, responsible management at Pirelli **flows through the entire value chain**. Every operating unit has economic, social and environmental responsibility for its own activity, while cooperating constantly with the other units and stakeholders, in implementation of Group strategic guidelines.

The adopted approach makes it possible to **create sustainable value** over time, from which the company benefits from a **tangible and intangible return on value**.

to business;

- competitors, because a competitive but fair competition generates improved customer services as well as market qualification;
- the environment, institutions, governmental and non-governmental bodies, and the communities around the world where the Group has permanent operations, through the awareness of its own global responsibilities as a corporate global citizen.

STAKEHOLDER ENGAGEMENT

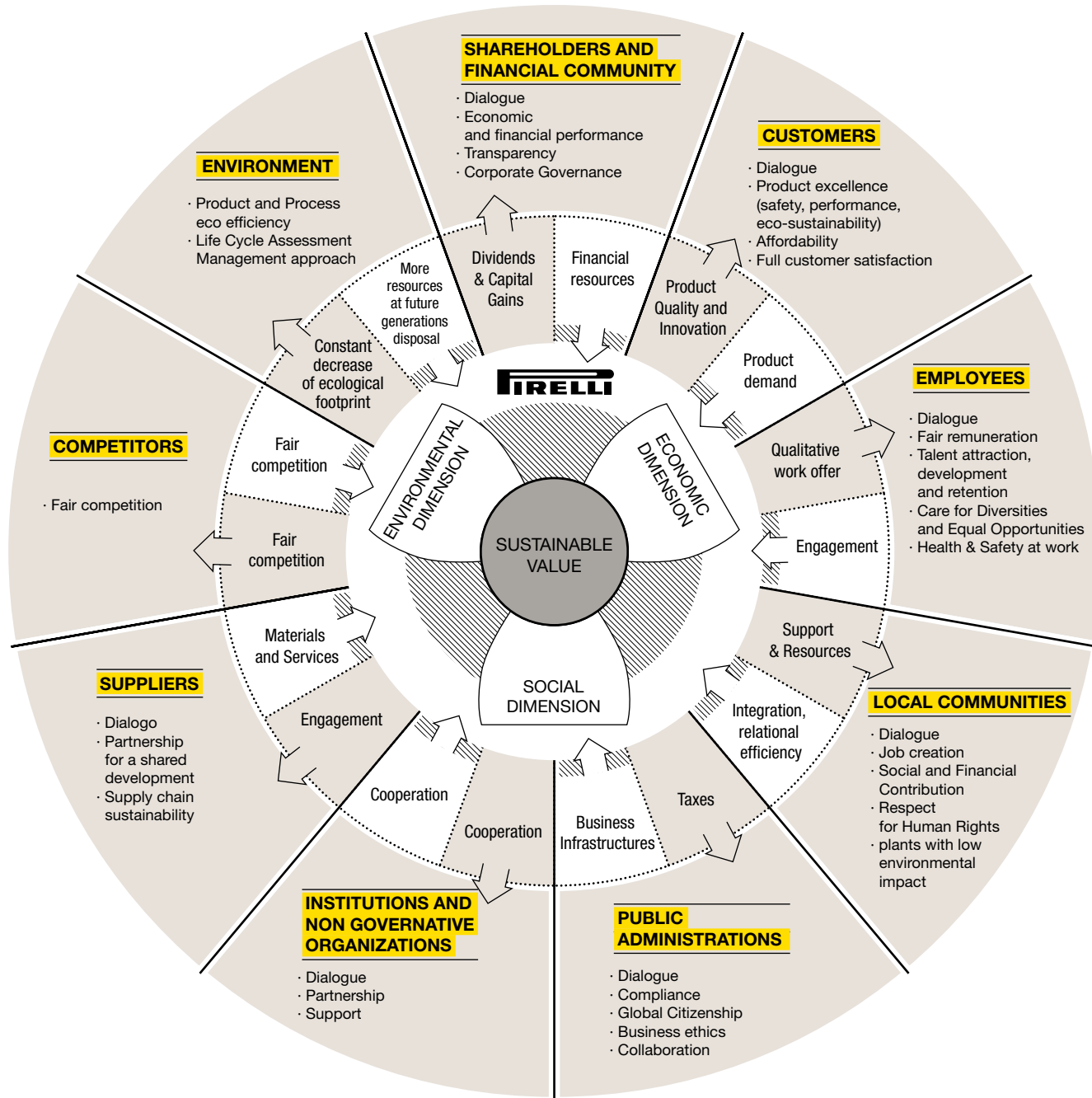
More than ever, Pirelli is absolutely convinced that its business is inextricably linked to its capacity to **create value** while satisfying the **expectations of all its stakeholders**:

- shareholders, investors and the financial community;
- customers, since our way of doing business is based on customer satisfaction;
- employees, who are the repository of Group know-how and drive its development;
- suppliers, with which sharing a responsible approach

The Pirelli identity is historically based on a plurality of values that have always been pursued and protected. 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**.

The following graphic illustrates the principal **areas of value creation and return** linked to the specific stakeholders:

PIRELLI STAKEHOLDER ENGAGEMENT MODEL: MAXIMIZATION OF THE VALUE FLOW FROM THE COMPANY TO STAKEHOLDERS AND VICEVERSA



SUSTAINABILITY IN THE ORGANISATIONAL STRUCTURE

An advanced sustainability governance system allows the Group to effectively manage the economic, social and environmental impact of its processes, products and

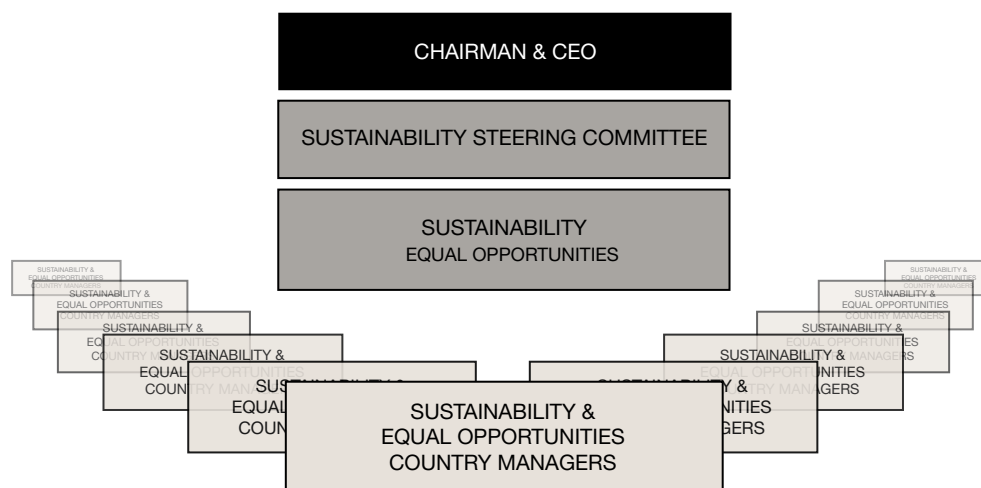
services, with a constant focus on innovation, with the awareness of the role of a multinational group in a global context and in view of comprehensive risk prevention.

The organisational basis of this governance is represented by the **Sustainability Steering Committee**, which is also responsible for **equal opportunity** issues and policy. This body, which was formed by the Chairman at the beginning of 2004 and chaired personally by him, is re-

sponsible for **setting policy and guiding the advancement of sustainability** throughout the company. Then, the organisational structure is made up of a **Group Sustainability and Risk Governance Department**, which reports directly to the **Group General Counsel**.

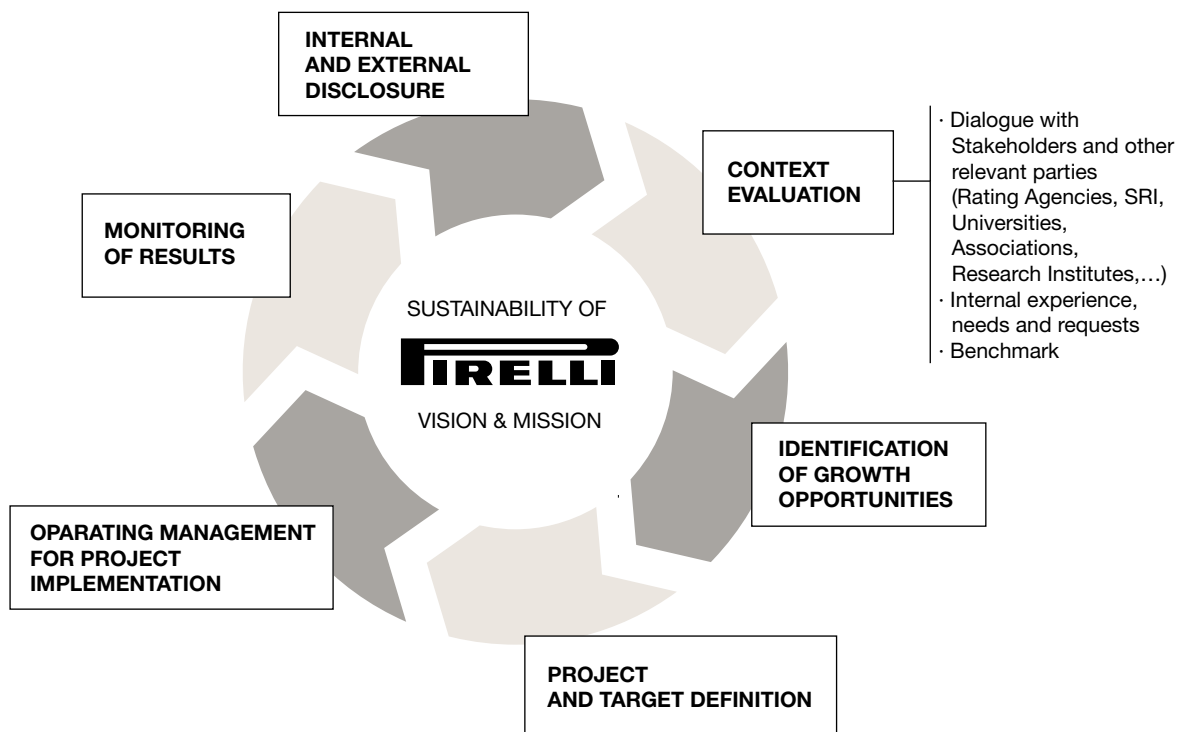
The SRG Department is centrally comprised by the **Group Sustainability and Equal Opportunities Officer** and locally by the **Sustainability and Equal Opportunities Country Managers**, covering all Group affiliates.

SUSTAINABILITY ORGANISATIONAL STRUCTURE



OPERATING MODEL FOR SUSTAINABLE MANAGEMENT AND PLANNING

The info graphic illustrates the operating steps focused on continuous improvement of sustainable performance:



SUSTAINABLE GROWTH STRATEGY: THREE-YEAR PLAN AND VISION TO 2015

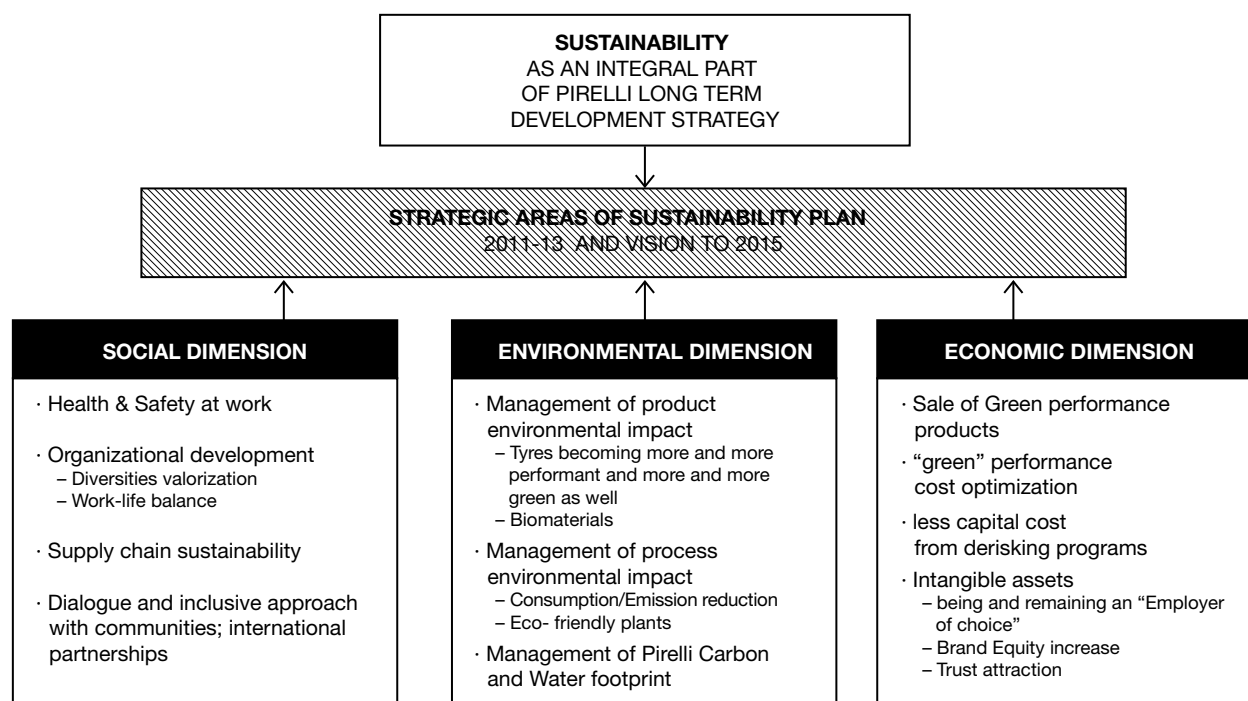
Pirelli presented the new **Group industrial plan for 2011-2013**, with **vision to 2015**, to the financial community in Milan **on November 4th, 2010**.

Pirelli will invest Euro 1.9 billion over the **next five years**, increasing its production capacity and focusing on the **premium market** segment in rapidly developing economies. It will do so in accordance with the **local for local** strategy to improve product mix and efficiency and consolidate its **leadership** in all market

segments in Latin America.

As stated by the Chairman of Pirelli & C. S.p.A., Marco Tronchetti Provera, *"In a world that is changing fast and in which new areas of growth are emerging, we have developed a plan which puts the company in the best possible position to compete. In 2015, 60% of production will be in plants less than ten years old. These actions will allow us to offer products which are constantly being renewed, always more tailored to the specific needs of customers, with reduced environmental impact and greater competitiveness."*

An ambitious plan, of which sustainability strategies are a core element: on November 4th, indeed, also the new Sustainability Plan for the years 2011-2013 with vision to 2015 was presented to the market.



Pirelli will use more and **more raw materials having a low environmental impact** in its production system, and it will use processes that will **reduce water consumption 35% and energy consumption 15% by 2015, with a 15% reduction in CO₂ emissions from their 2009 levels**. The new **Settimo Torinese technological centre** will be fully operational by 2011, in support of Group energy policy. This new tyre plant aims at sustainable excellence in economic, social and environmental terms, will become the showcase of Group operations and technology, and will set the standard for other Pirelli production plants.

As far as **products** are concerned, Pirelli will continue pursuing its green performance strategy. It expects that

the percentage of **green performance products sales** will rise **from 37% of the total at the end of 2010 to more than 45% by the end of 2013**.

As regards **compounds**, Pirelli is actively developing and using a series of new, increasingly **ecological materials**. Research and development will enable the Group to **eliminate highly aromatic oils from its entire product line of tyres worldwide by 2013**.

Finally, as for **raw materials from renewable sources**, Pirelli has continued research activities leading to the production of **ecological silica derived from food processing scraps (rice husks)**.

In the area of **social** responsibility, existing workplace **health and safety** plans will be further improved through constant review of accident prevention and training programmes at company plants. **Human resources** policies will aim at improving management of **diversity**. **Audits** will continue to be conducted by independent outsourcers on **economic, social and environmental responsibility in the supply chain**. As regards the **relationships with local and international communities**, cooperation with governmental and non-governmental authorities will be reinforced to take joint initiatives targeting sustainable development.

Keen focus on the **quality of corporate governance** is key to sound and long-lasting development. In turn, corporate governance is based first and foremost on the central role played by the Board of Directors in defining strategic policy and supervising management, an effective risk management system and a top management remuneration policy that is closely linked to the creation of long-term value. The new system and analysis of risk factors, including opportunities, are an integral part of the strategic planning process. They allow undertaking recov-

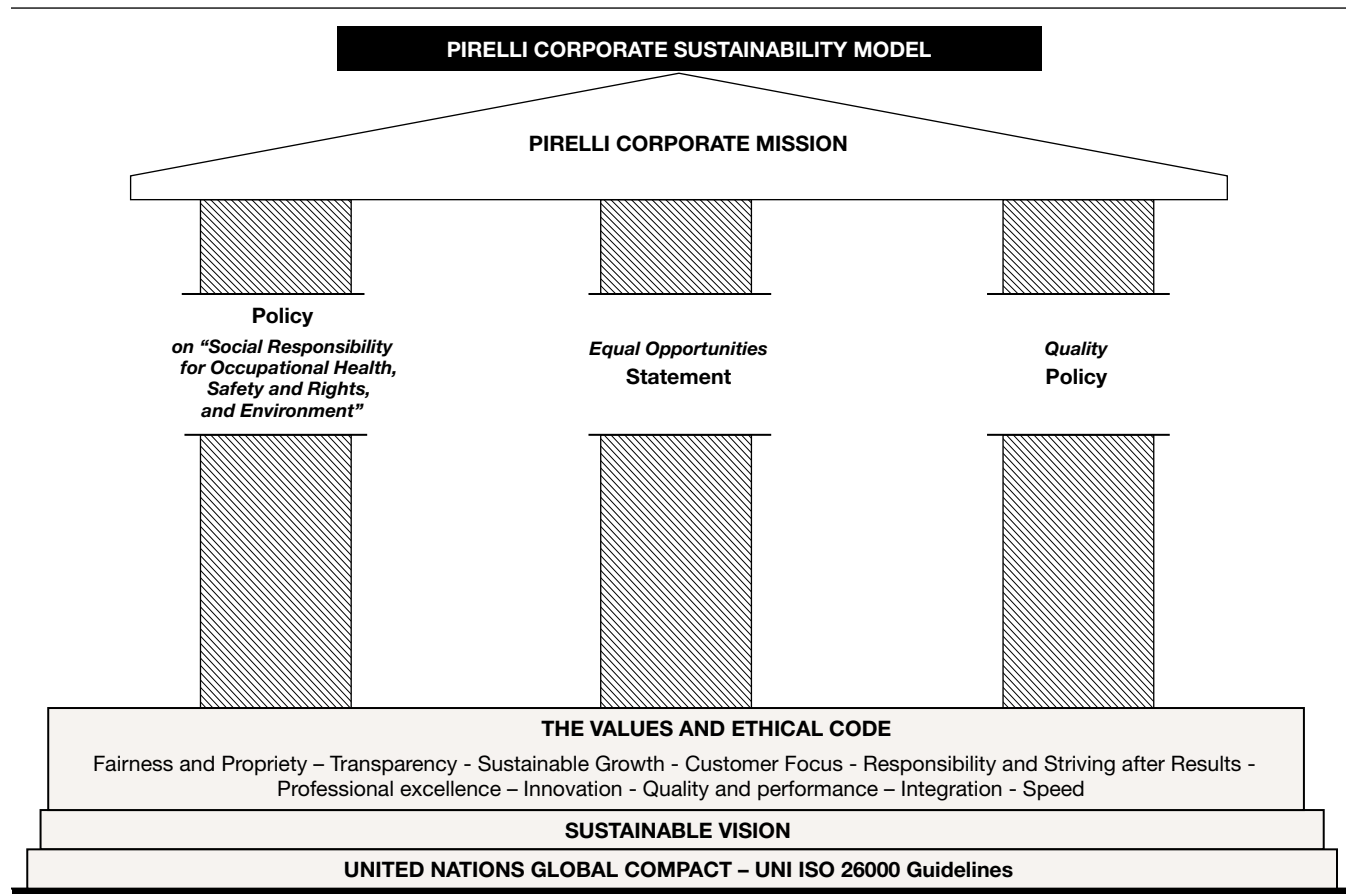
ery and mitigation plans, which transform **risk management into a value-creation driver**.

Major benefits are expected from **integration of the Business Plan and Sustainability Plan**, from the **intangible ones** of being an “employer of choice” and a company with growing brand equity, a reliable company for all stakeholders, to the **tangible ones** that are based on competitive advantage and sales of environmentally sustainable products, on cost improvements and on lower capital costs that can result from responsible, careful risk management.

SUSTAINABLE GOVERNANCE

For Pirelli, sustainable governance means integrating sustainability with the various aspects and ambits of company management. Thus, sustainability represents the adopted management model and translates into the mapping, control and sustainable management of all economic, social and environmental risks and opportunities connected with corporate activity.

THE PRINCIPLES UNDERLYING OUR SUSTAINABILITY SYSTEM



The **Pirelli Sustainability Model** is inspired by the **United Nations Global Compact**, of which Pirelli has been an active member since 2004 and by the recently issued **ISO 26000 guidelines**.

The compliance of the Pirelli Sustainability System with ISO 26000 Guidelines has been verified by third party, as stated in the Assurance Letter at the end of this report.

The resulting vision permeates the Group Sustainability documents: its **Values and Ethical Code**, its **Quality Policy**, its **Social Responsibility Policy for Occupational Health, Safety and Rights**, and **Environment**, and its **Equal Opportunities Statement**.

The adopted Model embraces the entire value chain to preserve and develop Group assets.

UNITED NATIONS GLOBAL COMPACT



In October 2004, in a letter addressed to the Secretary General, Kofi Annan, Pirelli Group formally declared its **adhesion to the United Nations Global Compact** and its **commitment** to observe and support its **Ten Principles** in the areas of human rights, labour standards, the environment and the fight against corruption.

The letter of adhesion to the Global Compact is published in the Sustainability section at www.pirelli.com.

THE VALUES AND ETHICAL CODE OF THE PIRELLI GROUP

The document outlines **Pirelli's sustainable approach to business, by imposing strict, uniform guidelines** for professional practices that everyone working for or with the company must obey.

Approved by the Board of Directors of Pirelli & C. S.p.A. in 2003, the Ethical Code was amended in 2009 to bring it in line with the evolution of the Group's sustainability strategy and to satisfy new market and corporate governance requirements. The amended version was then approved by the Board of Directors of Pirelli & C. S.p.A. Within the ambit of their own functions and responsibilities, the directors, statutory auditors, executives and employees of the Pirelli Group, as well as everyone else working on behalf or in favour of the Pirelli Group, or having business relationships with it (the "**Addressees of the Code**"), either inside or outside Italy, must comply with the principles and obligations set out in the Code. More specifically, the Code:

- illustrates the values on which Pirelli's own business activities are based, i.e. fidelity, fairness, transparency, sustainable growth, customer focus, responsibility

and results-oriented effort, professional excellence, innovation, quality and performance, integration and promptness;

- indicates the principles of conduct on which Pirelli bases its own business activity in internal and external relations;
- identifies the stakeholders with which Pirelli interacts, describing the sustainable approach that characterises their relationship with each one of them;
- envisages appropriate penalties for violation of the Code.

The Group's Whistleblowing procedure is a key tool for enforcing compliance with the Code, and is the subject of a special section elsewhere in this chapter.

The Values and Ethical Code and the *Whistleblowing Procedure* have been distributed to all Pirelli employees in local language versions.

Suppliers too are formally required to comply with the values and business approach set out in the Code. This is why the document has been published in the sustainability section of the Pirelli institutional website not only in the languages spoken by its employees but also in those that are most representative of the panel of suppliers.

PIRELLI GROUP POLICY ON SOCIAL RESPONSIBILITY FOR OCCUPATIONAL HEALTH, SAFETY AND RIGHTS, AND ENVIRONMENT

The Policy affirms Pirelli's formal acceptance of the *Universal Declaration of Human Rights*, the *International Labour Organisation Declaration on Fundamental Principles and Rights at Work*, the *Rio Declaration on Environment and Development* and the *United Nations Convention against Corruption*, from which the principles of the Global Compact are derived.

The commitments affirmed in the Policy are inspired by the cited documents, and thus the United Nations Global Compact – of which Pirelli has been an active member since 2004 – and the contents of the SA8000® international standard. The company officially adopted this standard in 2004 as the benchmark tool for management of social responsibility.

Suppliers are also formally required to comply with the principles and commitments stated in the Policy, just as they must comply with the Pirelli business approach and the values set out in the Ethical Code.

The Policy, which was issued in 2004 and officially revised by the Chairman in 2009, has been distributed to all employees in their local language. It has also been

published in the Sustainability section of the Pirelli institutional website, not only in the languages spoken by employees but also in those that are most representative of the panel of suppliers.

PIRELLI GROUP EQUAL OPPORTUNITIES STATEMENT

The Equal Opportunities Statement sets out the proactive approach taken by Pirelli to equal opportunities in the workplace and career development, while also clearly illustrating the Group's valorisation approach to management of diversity. It lists the commitments made by Pirelli in this area, as set out in *The Values and Ethical Code*, in *The Pirelli Group Policy on "Social Responsibility for Occupational Health, Safety and Rights, and Environment"* and – a priori – the United Nations Global Compact and the SA8000® Standard.

The Statement, which was issued by the Chairman in 2006, has been distributed to all employees in their local language and published in the Sustainability section of the Pirelli institutional website, available to the External Community.

For more details on the management of diversity and equal opportunities at the company, please see the section dedicated to these topics in the Social Dimension chapter of this report.

PIRELLI GROUP QUALITY POLICY

The *Quality Policy* reflects the full integration of sustainability in the Group's management strategy. Quality is a core value in Pirelli operations, pervading all of its functions and processes. Its scope of application ranges from continuous innovation of products, services, processes and systems to protection of the integrity, health and wellness of Group employees, environmental protection throughout the entire product life cycle, and strategic collaboration with suppliers.

"Corporate quality" essentially corresponds to a focus on the demands and interests of stakeholders, ethics, innovation, excellence and safety for sustainable competitiveness. Specific emphasis is given to employees involvement and the key role that they play in promoting a sustainable quality culture.

The Policy, which was officially revised by the Chairman in 2009, has been distributed to all employees in their local language. It has also been published in the *Sustainability* section of the Pirelli institutional website, not only in the languages spoken by employees but also in those that are most representative of the panel of suppliers.

GOVERNANCE TOOLS FOR LONG-TERM DEVELOPMENT

CORPORATE GOVERNANCE

Pirelli has adopted a traditional management and control system. The key features of the Pirelli corporate governance system are: (i) the central role of the Board of Directors, in its capacity as the supreme body in charge of company management; (ii) the central role played by independent directors, who hold a majority of the seats on the Board of Directors; (iii) a consolidated policy of disclosing corporate decisions and the processes that led to their being taken, as well as an effective internal control system; (iv) an innovative system of pro-active risk management; (v) a management incentive system tied to medium and long-term goals; (vi) rigorous rules governing potential conflicts of interest and firm rules of conduct for related party transactions.

Pirelli & C. has adhered to the Corporate Governance Code of listed companies ever since it was first published by *Borsa Italiana* (Italian Stock Exchange). The company subsequently affirmed its adherence to the new March 2006 version of the Corporate Governance Code.

The other key features of the Pirelli governance system include:

- a high level of transparency, with descriptions of semi-annual updates and additions to the corporate governance system to reflect changes from what is illustrated in the Annual Report;
- membership on the Board of Directors of a large number of independent directors, holding more than 50% of Board seats and representing about 90% of all non-executive directors;
- the important role given to non-controlling interests, who elect 20% of the Board of Directors when lists are submitted (currently 4 out of 20);
- the establishment of Board committees comprised exclusively 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;
- periodic meetings of the independent directors and work meetings of directors with top management in order to improve their familiarity with the company's actual operating conditions and facilitate their contribution to management, and to improve the effectiveness of their respective positions;
- the Board of Directors' consolidated practice of reviewing its own performance, with the aid of an expert consulting firm;
- a new system for management and governance of managerial risks;

- establishment of the Group Compliance department;
- the control resulting from the Group *Whistleblowing Procedure*.

Consistently with the provisions governing the traditional management and control system that has been adopted, the Board of Directors is in charge of managing the company. The Board plays a key role in its strategic guidance, as well as in supervision of all business activity, with the authority for overall management policy making and direct action in a series of decisions that are necessary or useful for pursuing the corporate purpose. The Board is responsible for taking key economic or strategic decisions or those having a structural impact on management, i.e. decisions supporting supervision of the Group and its policy.

The Board of Directors relies on the support of its own internal committees to perform its duties. These standing committees are comprised of independent directors having investigative, policy making and/or consultative duties. The Board is also supported by managerial committees whose members are drawn from Group senior management to implement the directives and policies issued by the Board and delegated bodies.

Pursuant to the Bylaws, the Board of Directors has no less than seven and no more than twenty-three members, who serve for a term of three financial years (or a shorter term that might be set by the General Meeting when they are elected), and they may be re-elected. The Board of Directors in office at December 31, 2010 is comprised of 19 directors and was elected by the Shareholders' Meeting on April 29, 2008 for three financial years, expiring on the date of the General Meeting called to approve the annual report at December 31, 2010. Consequently, the next General Meeting called to approve the 2010 Annual Financial Report will elect a new Board of Directors. More information in this regard can be found in the Directors' Report to the General Meeting published on the company website. The Board of Directors is comprised of two directors with executive authority: the Chairman (who is also delegated specific duties) Marco Tronchetti Provera and the Deputy Chairman Alberto Pirelli, seven non-executive directors and ten independent directors (of whom X are elected by non-controlling interests).

For some time now, the absolute majority of seats on the Board of Directors have been held by independent directors.

The Board of Directors defines the independence of its directors on the basis of their not having relations with the company and/or with its principal shareholders and managers that might influence their judgement. When it evaluated their independence, the Board of Directors referred to the requirements recommended by the Corporate Governance Code issued by Borsa Italiana, which the company has adopted. For a more detailed description of the requirements necessary for determining the

independence of directors, reference is made to the *Report on Corporate Governance and Shareholdings*.

In **advance** of the deadlines (which will come into force next year) mandated in the Corporate Governance Code and even more recently in the Consolidated Law on Finance, the company has decided to adopt a **General Remuneration Policy**, to be submitted to shareholders for a vote at the next General Meeting. The Policy contains guidelines for defining the compensation of executive directors and management in general, aimed at attracting, motivating and keeping the human resources who have the professional qualifications for profitably pursuing Group objectives.

The Policy is defined in such a way as to align management interests with those of shareholders, with the primary objective of creating sustainable value over the medium/long-term through a strong link between compensation, on the one hand, and individual and Group performance on the other.

Definition of the Policy is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors play a key role.

The Policy was approved by the Board of Directors at its meeting on March 8, 2011 and submitted to the General Meeting for approval of the 2010 Annual Report. As previously mentioned, it defines the following principles and guidelines:

- (i) the Board of Directors defines the remuneration:
 - of the members of the Board of Directors and, in particular, the directors delegated with specific duties;
 - of the general managers;
 - of the executives with strategic responsibility;
- (ii) the Group defines the remuneration of senior managers and Group executives in general.

For a more detailed description, please see the *General Remuneration Policy* found at the end of the Report on Corporate Governance and Share Ownership, Volume 2. For further details on the corporate governance system, reference is made to Volume 2 as well. The section dedicated to the company's corporate governance system can also be accessed through the homepage of the website www.pirelli.com.

RISK GOVERNANCE SYSTEM

The current macroeconomic situation, financial market volatility, complex management processes and continuous legislative and regulatory evolution force successful businesses to renew their ability to protect and maximise tangible and intangible sources of value that characterise their own business model. Assessing and preventing risks that might compromise the Group's values and objectives have always been an integral part of Pirelli's distinctive

Risk Management office is independent of business and Internal Audit

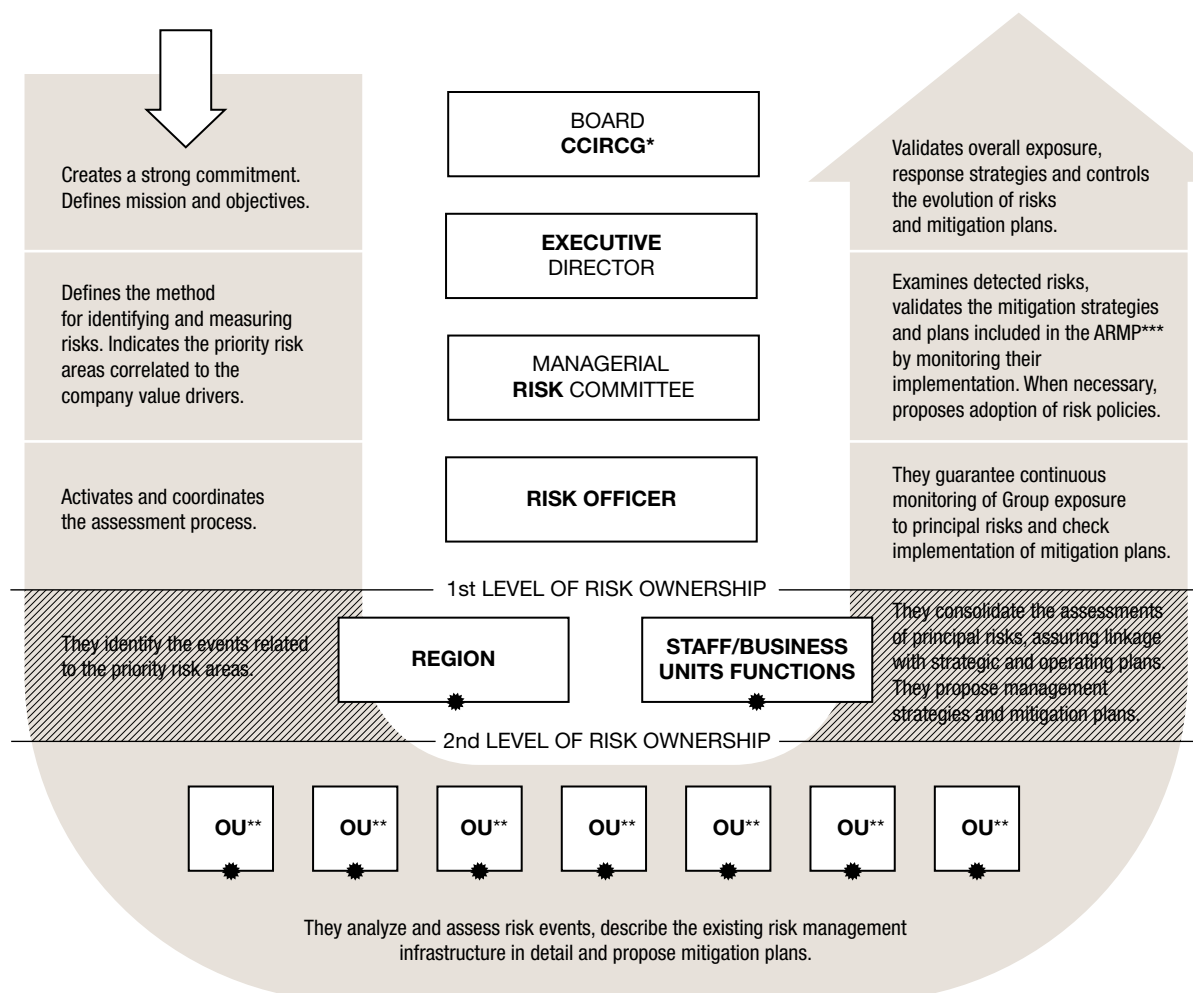
spirit of innovation and professional excellence. For these reasons, the Board of Directors decided in 2009 to upgrade its corporate governance system by introducing a pro-active risk management system. It uses a systematic and organised process of identifying, analysing and assessing risk-prone areas that could compromise the attainment of strategic objectives, provides the Board of Directors and top management with decision-making tools so that they can anticipate and manage the effects of these risks and, more in general, “govern” them. **Strategic objectives are not only economic but also social and environmental, reflecting full integration of the sustainability system in corporate development plans.**

The chosen Model is based on a precise **methodological approach** that is: (i) **value driven**, insofar as the most significant risks are identified according to their capacity to prejudice attainment of the Group targets defined in the Strategic Plan, or impair “critical” corporate assets (“**Key Value Drivers**”); (ii) **top-down**, insofar as top management takes the lead in identifying priority risk areas and events having the greatest impact on the business; (iii) **quantitative**, i.e. based on exact measurement of the impact of risks on forecast operating and financial results.

The risk management system is illustrated as follows:

Focus on key value drivers, over and above processes

Central role played by the board of directors and top management



(*) Internal Control, Risks and Corporate Governance Committee | (**) Operating Units | (***) Annual Risk Management Plan | * Risk Owner

For more information about the Pirelli risk governance system, please see 2010 Corporate Governance Report, Volume 2 (Report on Corporate Governance and Share Ownership).

RISKS AND UNCERTAINTIES

The principal areas of risk to which the company might be exposed are illustrated in detail in the section *Risks and uncertainties* within the Directors' report on Operations in Volume 1, to which the reader is referred for detailed discussion of these issues.

A summary of these risks and uncertainties is provided as follows:

- **Strategic risks**, which are closely tied to Pirelli's objectives and consequent strategic choices. This category includes the exogenous risks stemming from evolution in the external context where the Group operates and the risks stemming from internal factors, such as financial risks, the risks connected with typical business processes and human resource/organisation risks.

The most significant risk factors in this area include increased competition in the markets where Pirelli operates, especially Europe and Latin America, and the steady rise in raw material costs (especially natural rubber). These factors might partially impair overall profitability, to the extent that the Group is unable to modify the commercial price/mix component and the internal cost efficiency component.

The Pirelli Group operates in countries such as Venezuela, Argentina, Brazil, Turkey, China, Egypt, where the general political and economic context and tax systems might prove unstable in future.

- **General risks**: regardless of implemented strategies, Group operating activities rely increasingly on the proper, uninterrupted functioning of information systems and network infrastructure in support of business processes. The complexity of the information system environment used, the distribution of activities worldwide and links between them may increase the level of risks connected with information and communication technology. The global scale of Group operations exposes it to a plethora of risks (stemming from natural events, malicious acts, malfunction of auxiliary plants or interruption in the supply of utilities) that might even cause an interruption in business activities for an indefinite period of time, consequently impacting its operating and financial results. In 2010 the assessment of ten infor-

mation systems critical to the Group and of five production sites was completed. Risk mitigation activities were undertaken on the ten information systems and operating continuation plans were prepared for the production sites.

THIRD PARTY AUDITS ON SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Risk management at Pirelli is comprehensive and includes the identification, analysis and monitoring of environmental, social and financial risks that are not only directly associated with the company but also connected with the sustainability of the supply chain.

Together with constant co-ordination and monitoring at the corporate level, compliance with Pirelli **economic, social** (especially human rights and labour rights) **and environmental sustainability** rules is constantly assessed in periodic audits commissioned from **specialised independent firms**. Special attention is dedicated to the sustainability of Pirelli and supplier sites in "countries of concern" (as defined by EIRIS).

As early as 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) to monitor internal compliance with the **SA8000® Standard** (the benchmark tool used by the Group to manage social responsibility).

In 2011 Pirelli will commission **new, independent SA8000® audits** of production sites located in South America, China, Egypt, Turkey and Romania.

Between the end of 2009 and the beginning of 2010, independent audits were carried out on the chain of suppliers operating in countries of concern, involving a total of **72 suppliers**.

Another **58 audits of suppliers** were conducted between the **end of 2010 and early 2011** in the United Kingdom, Germany, Italy, China, India, Latin America, Turkey, Egypt and Romania.

For more information about these audits, please see the "Suppliers" dedicated section in the economic dimension of this report.

Ad hoc assessments are also carried out before entering a specific market, in order to assess any political, financial, environmental and social risks, including those connected with respect of human and labour rights.

COMPLIANCE

The Group Compliance Office – under the supervision of the General Counsel, Corporate Affairs and Group Compliance Department – interacts with **all** corporate departments to ensure that internal rules, processes and corporate activities **constantly comply** with the applicable regulatory framework and Ethical Code.

The Group Compliance Office actively participates in identifying the risks of non-compliance with internal and external rules, thereby playing a key role in preventing judicial and administrative penalties or major financial losses, including damage to reputation.

The principal projects implemented in 2010 by the Group Compliance Office include:

- the revision of the “231” Compliance Programmes, adopted by the Group in accordance with the spirit that characterises Pirelli, for continuous reinforcement of its own corporate governance and, in particular, its internal control system mechanisms, including in consequence of the new “presumed offences,” the liability of companies for offences committed by their employees and/or collaborators that have recently been enacted by lawmakers. All employees were notified of the launch of the project through the company intranet. Furthermore, the following individuals at the Group received personal notice of the launch of the project: executives of Italian companies, officers of Italian companies, middle managers of Italian companies and expatriate employees of Italian companies working abroad;
- methodological support under Law 262/05 for the “Corporate Financial Reporting Manager” and assistance for Group companies to ensure that corporate activities are operated in compliance with Law 262/05;
- In 2010, the Code of Conduct appended to the “231” Compliance Programmes and applicable to all Group companies were also revised and amended. The Code of Conduct set out the operating application of the principles of the Ethical Code and introduce specific rules to avoid the establishment of environmental situations favourable to the commission of offences in general and acts of corruption and administrative offences in particular as envisaged in Legislative Decree 231/2001. The Guidelines will be distributed to all employees in their local language in 2011. Specific training activities will also be planned during the year.

In regard to **corruption and related offences**, as set out in the Ethical Code and in the Code of Conduct, Pirelli has a clearly stated position of not tolerating *“corruption in any guise or form, or in any jurisdiction, or even in places where such activity is admissible in practice, tolerated, or not challenged in the courts. For this reason,” the Code continues,*

“Addressees of the Code are prohibited from offering complementary gifts or other benefits that could constitute a breach of rules, or are in conflict with the Code, or might, if brought to public notice, damage the Pirelli Group or just its reputation.”

The Code also states that Pirelli

- *“defends and protects its corporate assets, and shall procure the means for preventing acts of embezzlement, theft, and fraud against the Group”;*
- *“condemns the pursuit of personal interest and/or that of third parties to the detriment of social interests.”*

The *Whistleblowing Procedure*, described in the following section, is a tool used for enforcing compliance with Group rules.

In turn, the **Internal Control System** relies on an integrated process of identification, measurement, management and monitoring of major risks, monitors the efficacy and efficacy of business operations, while guaranteeing that documents and decisions are traceable; the reliability of accounting and operating information; compliance with laws and regulations; the protection of company assets.

GROUP WHISTLEBLOWING PROCEDURE

A key tool used to enforce compliance and internal control, as well as prevent risks, is represented by the Group *Whistleblowing Procedure*. This procedure has been established to handle reports of possible cases of corruption or violation of the principles and/or precepts set out in the *Ethical Code* – including equal opportunities – statutes and regulations.

The *Whistleblowing Procedure*, which has been distributed to all employees in their local languages, spells out how to report violations, suspected violations and inducement to commit violations of laws and regulations, the principles set out in the *Ethical Code*, internal control principles, corporate rules and procedures, or any other acts or omissions that might cause direct or indirect financial damage or harm to the image of the Group and/or its subsidiaries.

The Procedure explicitly **encourages** employees who are aware of potential or actual violations to report them immediately to the company, **either anonymously or openly**. They are guaranteed **absolute confidentiality** and **protection from reprisals of any sort**.

These reports may involve company directors, statutory auditors, management and employees, as well as anyone else who operates inside or outside Italy on behalf of the Pirelli Group or has business relationships with the

Group. This includes partners, customers, suppliers, consultants, independent contractors, accounting firms, and public institutions and entities.

The e-mail box and telephone and fax numbers, provided to those who want to file a report, are managed at the corporate level by the **independent Internal Audit Department** and are to be used by all Group affiliates.

The Pirelli Internal Audit Department is responsible for:

- setting up, managing and updated the addresses for sending communications; receiving, registering and analysing the received reports by engaging the participation of other corporate departments and offices for investigation as necessary and forwarding any reports to the supervisory bodies with jurisdiction according to the situations where a specific supervisory body exists (for Italian companies: the Board of Statutory Auditors, the Supervisory Bodies for offences pursuant to Legislative Decree 231/01);
- preparing specific action plans;
- ensuring the retrieval and storage of documentation for five years after the conclusion of the investigation;
- filing a quarterly report with the Internal Control Committee of Pirelli & C S.p.A. on reports received and actions underway.

If it is ascertained that the report is valid, the company must take appropriate disciplinary measures and legal action to protect itself and the Group, if necessary.

In 2010, the *Whistleblowing Procedure* was activated **just once**, following an anonymous report of presumed conduct in violation of company rules and procedures, particularly in regard to the internal rules that govern fair, transparent purchasing processes.

The analyses carried out by the Group Internal Audit Department did not reveal conduct confirming the allegations made in that anonymous report.

STOCK MARKET INDICES AND ETHICAL FINANCE

The commitment to create long-term value that characterises the company's responsible management and economic, social and environmental performance, has led to Pirelli being ranked on some of the world's most prestigious stock market sustainability indices.

Pirelli is strongly represented in the portfolios of socially responsible investors, especially in Europe and North America. A tailored communication strategy is dedicated to this area, and promoted through specific roadshows. The assessments of company performance by SRI ana-

lysts and investors create benchmarking opportunities and offer ideas for continuous improvement.

In June 2010, Pirelli sponsored the seminar "Business Sustainability and Responsible Investments for the Creation of Long-term Value," organised by the Academy-London Exchange Group and held at the headquarters of *Borsa Italiana*. On that occasion, the Chairman emphasised the importance of integrating the sustainable business model in strategies for growth and to maintain long-term value. The speakers at the event included Paul Druckman, Chairman of Access Technology Group – The Prince's Accounting for Sustainability Project, and Giuseppe Van Der Helm, Chairman of Eurosif.

The following ethical finance indices on which Pirelli appears are illustrated below:

DOW JONES SUSTAINABILITY INDICES



Pirelli has been included in the Dow Jones Sustainability indices since 2002.

For the fourth year in a row, Pirelli was confirmed as **global sustainability leader in the Autoparts & Tires** sector in September 2010, as part of the Dow Jones Sustainability World and Europe indices. **For the second year in a row**, Pirelli is also **the only Italian company to be ranked as a world leader in its own sector**. Pirelli's overall **rating for 2010 was 90%** (+2% from 2009), **compared with an industry average of 55%**.

The Dow Jones indices are revised every year by **SAM Group**, a Swiss asset manager responsible for assessment, admission or exclusion of companies from the Dow Jones sustainability equity indices.

In **January 2011** Pirelli was named **world sustainability leader** in the "Autoparts and Tyres" Sector and **Gold Class Company** for the fourth year in a row in the prestigious *Sustainability Yearbook 2010*, published by SAM Group in collaboration with PricewaterhouseCoopers.

The *Yearbook* is one of the most complete and authoritative global benchmarking tools for sustainable finance specialists. It includes only the top sustainability scoring companies, ranked as such by SAM Group in the Dow Jones Sustainability Assessment, or 15% of firms in 58 business sectors.

FTSE4GOOD INDICES



Pirelli's rating (expressed in qualitative terms in the profile prepared by **EIRIS** analysts) in 2010 showed further improvement from previous years.

In **March 2011**, for the first time, FTSE Group has given an **overall rating** to the 2,400 companies included on the list, **giving Pirelli a score of 97 on a scale from 1 to 100** in the Automobiles & Parts sector.

The benchmark is comprised of the FTSE All-share Index and FTSE Developed Europe Index, excluding tobacco and weapons makers, owners or operators of nuclear power plants, and uranium mining or production companies.

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

ASPI EUROZONE® 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 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 index. The 120 companies with the best sustainability performance are ranked on the ASPI EUROZONE® index.

The assessment of Pirelli conducted in 2010 showed **further improvement** from the previous years, particularly in the areas of **corporate governance** and **human rights**.

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 has been awarded an A+++ rating for the fourth consecutive year**, while it was rated A++ until 2006: it has thus achieved the best score possible in terms of ethics.

EPCI INDICES



Pirelli has been included in the ECPI ethical finance indices since 2008.

In particular, Pirelli is included:

- in the **EMU Ethical Index**, which ranks the 150 largest companies by capitalisation in the EMU (Economic and Monetary Union) market;
- in the **FTSE ECPI Italia SRI Benchmark**, whose components, selected from the FTSE MIB and FTSE Italia Mid-Cap baskets, are distinguished by their good rating in environmental, social and governance (ESG) terms;
- in the **FTSE ECPI Italia SRI Leaders index**, whose members, selected from the FTSE MIB and FTSE Italia Mid-Cap baskets, are qualified as excellent in terms of environmental, social and governance (ESG) sustainability;
- in the **investment universe** of companies listed on the **ECPI Ethical Index Global** and **ECPI Ethical Index Euro**.

The ECPI Italia SRI Benchmark and FTSE ECPI Italia SRI Leaders indices were launched on September 19, 2010 by ECPI and FTSE Group. They represent the first series of indices on the Italian market for responsible investment.

Pirelli has an **EE+ rating**, corresponding to the profile of firms that have a transparent long-term strategic outlook, good operating management and make a positive contribution to society and the environment.

ETHIBEL EXCELLENCE INVESTMENT REGISTER



Pirelli has been included in the **Ethibel EXCELLENCE** Investment Register since 2008.

Forum Ethibel, an independent association that bases its research on reports prepared by Vigeo, the social and environmental rating agency, assesses the sustainability profile of companies for their inclusion on the Ethibel Register.

KEMPEN INDICES



Pirelli has held **Pass Status** since 2003 in the entire Kempen Capital Management **"KEMPEN 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 and reporting.

PRINCIPAL AWARDS RECEIVED DURING THE YEAR

Pirelli received numerous awards in 2010 for its sustainable performance accomplishments, both in terms of product and the quality of relations with stakeholders. Some of the awards it has received are listed below in reverse chronological order, from January 2011 to January 2010.

JANUARY 2011

- In **China**, at the **Guangzhou Auto Show**, the magazine **Auto news** ranked the Pirelli **Cinturato P7** tyre as “**The best balanced tyre of the year.**” The Cinturato P7 stood out for its road hold, stability, tread pattern optimised to reduce its noise level and the low-carbon emissions production process.
- In England, Pirelli was ranked as the **Most Recommended Tyre Brand for 2010**, according to the market survey conducted by **Encircle Marketing**.
- Pirelli won the first edition of the **Lundquist Employer Branding Online Awards Italy 100**, qualifying as number one in Italy in online communication of employer branding, i.e. the company’s appeal as employer on the basis of the transparent, clear and concise communication through which it seeks to attract job applicants. The analysis considers the principal components of online employer branding: **Proposition** (how the company presents itself and what it offers to employees), **Recruitment** (information for job candidates) and **User experience** (presentation of content).

NOVEMBER 2010

- The Shandong Provincial Government awarded **Pirelli China** the “**Qilu Friendship**” prize for its contribution to the economic and social development of that Chinese province.
- In Switzerland, Pirelli was proclaimed the best tyre brand of the year for the fifth year in a row, and it won the “**Best Tuning Cars & Best Brands 2010**” competition, the most popular contest amongst readers of *Auto Illustrierte* (AI), a prestigious independent car magazine.
- In Germany, Pirelli has been ranked as the “**Best Brand 2010**” by the readers of *SportAuto* for the third consecutive year. This is the authoritative German magazine for automotive enthusiasts, who consider Pirelli to be the “most ‘sporty’ and ‘emotional’ brand.” Pirelli was especially appreciated in the sportsmanship category, for the score it achieved in the areas of “stability in curves,” “high-speed safety,” “excellent braking performance” and “emotionality.”

OCTOBER

- In Germany, Pirelli was proclaimed “**Top automotive employer 2010/2011**” by CFR, the national research institute that provides comparative analyses on HR management and corporate best practices. Corporate culture, work-life balance, pay, training, development, career opportunities and innovation management were the aspects considered in the CFR study, which awarded 25 firms in the automotive sector, from big car makers to small spare parts suppliers. Having reached its fourth edition, the study was conducted in collaboration with the AT Kearney consulting company, CAR (Center for Automotive Research), the University of Duisburg-Essen and the German Automotive Industry Association. In particular, Pirelli stood out in the categories “Primary benefits,” “Career opportunities” and “Innovation management.”

SEPTEMBER

- In Warsaw, Pirelli was the **guest of honour** at the **Cement Sustainability Initiative of the World Business Council for Sustainable Development (WBCSD)**, as the model for **best practice** in terms of management focused on continuous improvement of health and safety at the workplace. According to a study carried out by the Cement Sustainability Initiative, Pirelli practices were the best of all study participants belonging to the auto parts and tyres sector.
- In Germany, “**Exemplary**” was the final judgement of “**Autobild**,” which did not find any drawbacks with the Pirelli Cinturato P7, remarking on “its convincing talent, and satisfying energy savings characteristics; its smooth driving performance, with stable grip on curves and limited braking distances both on dry and wet pavement; its quiet ride.”
- Following the 2010 revision of the Dow Jones indices carried out by SAM Group, the Swiss asset manager responsible for assessment, admission or exclusion of the companies from the Dow Jones sustainability equity indices – **Pirelli was confirmed global Sustainability Leader in the Autoparts & Tires**

sector for the fourth year in a row, as part of the Dow Jones Sustainability World and Europe indices. For the second year in a row, Pirelli is also the only Italian company to be ranked as a world leader in its own sector.

JULY

- In London, Pirelli won the “**Country Award 2010**” for Italy, handed out by the authoritative IR Magazine Europe to the best companies and professionals in investor relations. The award was decided by over 700 domestic and international analysts and investors.

MAY

- In China Pirelli was judged the best brand on the spare parts market by the “**China Automobile Aftermarket Summit**,” the forum that was held at the end of April in Beijing and sponsored by the prestigious magazine **Motor Trend**. Twenty-seven tyre brands competed for the prize, which was awarded by sector experts participating at the forum who declared Pirelli “**Recommended Brand**” for 2010. The principal theme of the conference was the state of the art of the spare parts market, ranging from technology to marketing, with an analysis of the future.

APRIL

- Pirelli received another important award in the **United States**. On April 23 it participated at the **Ford World Excellence Award** ceremony in Dearborn, Michigan, receiving the prestigious prize for its **excellent performance** as measured by quality, cost and delivery in 2009. The star player for this award was the **tyre plant at Guacara**, Venezuela, which supplies Pirelli tyres to Ford.
- Another prize won by Pirelli in the **United States** was the prestigious **JD Power & Associates Award** for its **high performance tyres for sports cars**, which were found to be the favourite brand in the segment according to the “**Original Equipment Tire Satisfaction Index Study**” conducted by **JD Power & Associates**, which surveys the general level of motorist satisfaction every year.

FEBRUARY

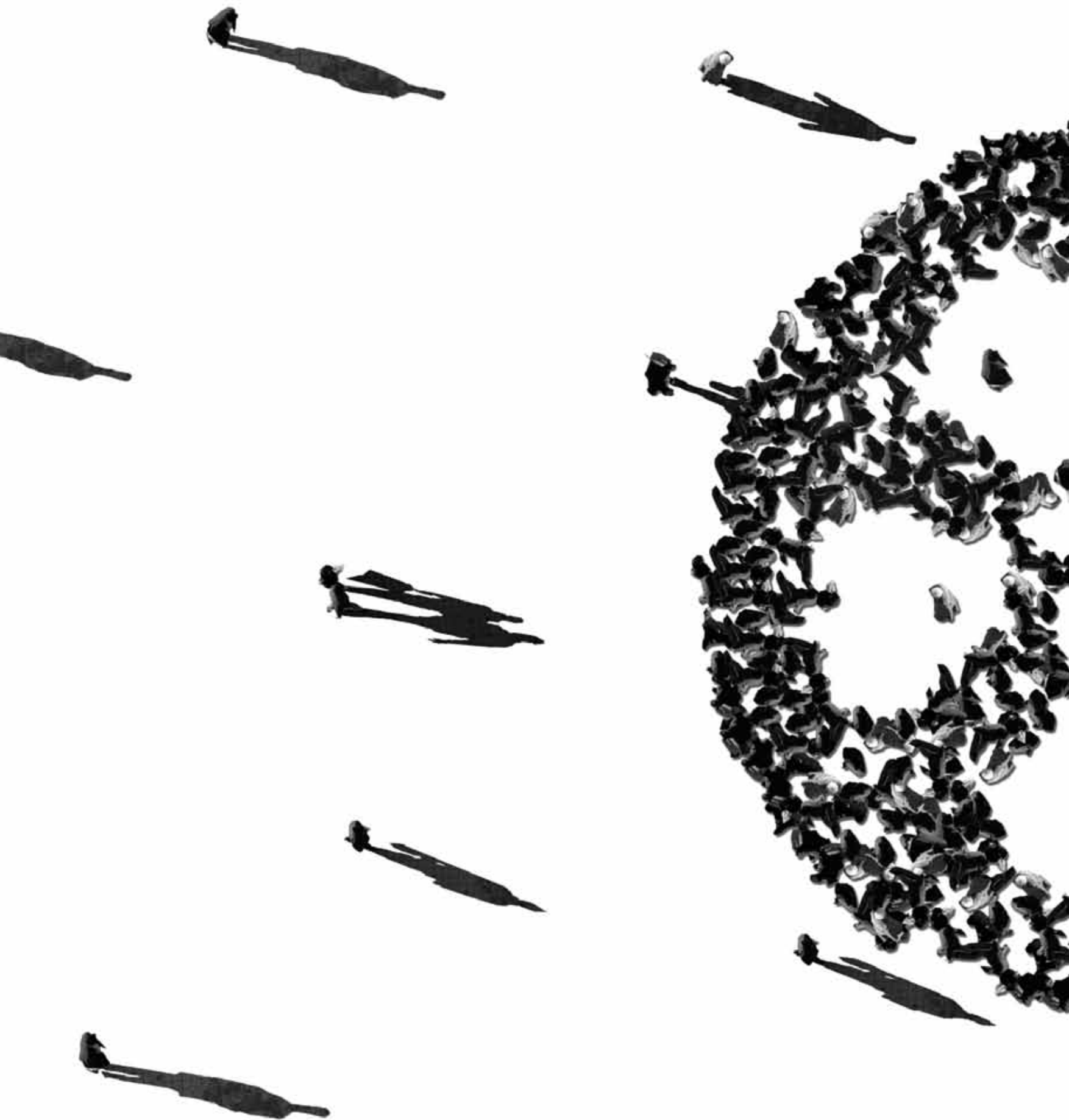
- **Cinturato P7 and P6** passed with flying colours the tests held by **ADAC**, the most important and prestigious Automobil-Club in Germany and Europe, with over 19 million members. Pirelli thus

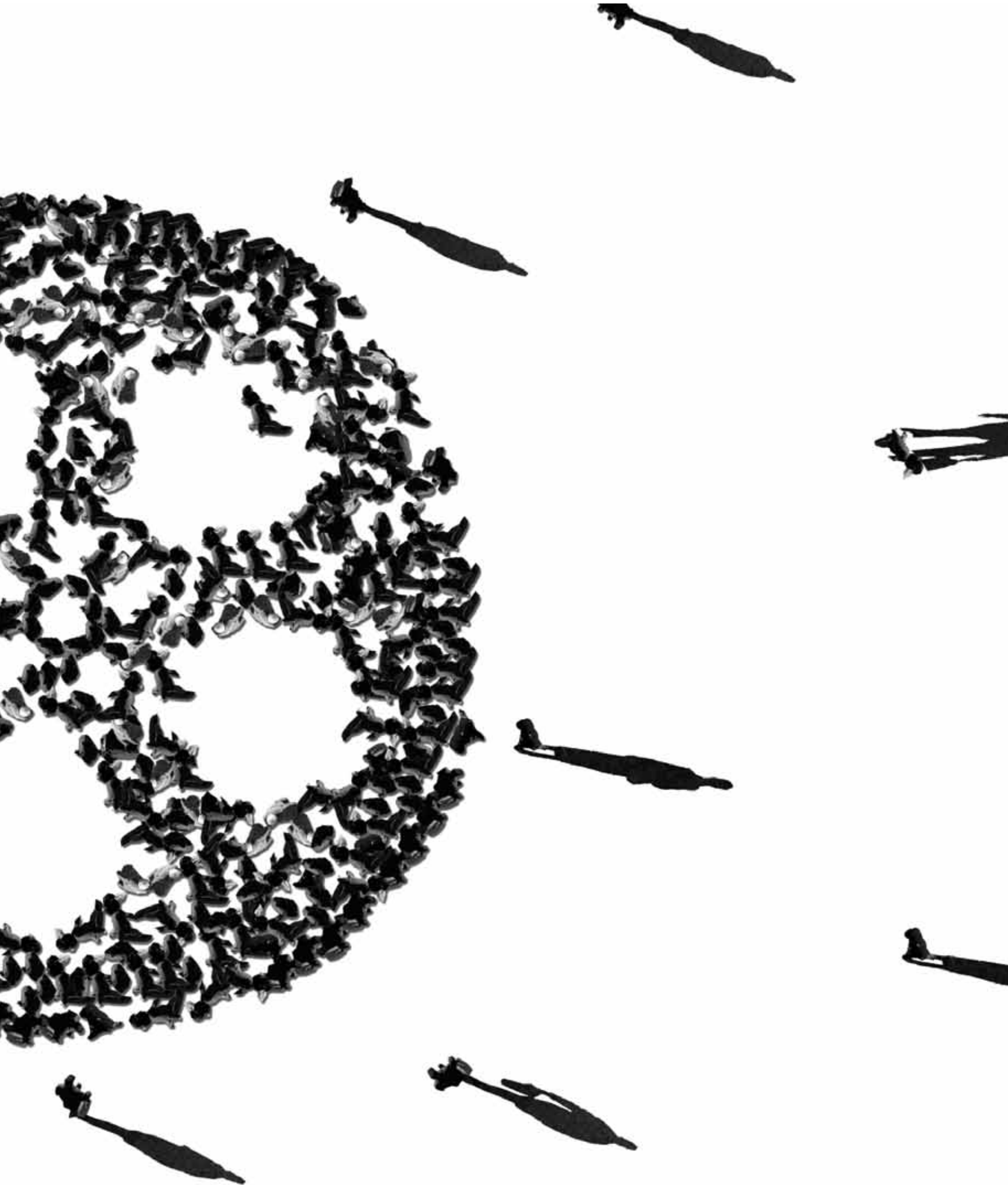
confirmed its leadership in terms of performance, safety and eco-compatibility, proving once again that it had internalised the philosophy and core values of **Green Performance**. The test results, which were also published by the automobile clubs of Austria and Switzerland (TCS and OAMTC), showed how the Cinturato P7 and P6 tyres are extremely reliable tyres and, therefore, deemed highly recommended for users. **Pirelli Cinturato P7** turned out to be the best in reconciling high performance on both wet and dry pavement, with low rolling resistance, higher mileage and quieter ride. The **Cinturato P6** posted the same results, not only by beating all its competitors in the tests, but also by being **the only tyre classified in the Green Performance category**. These results have rewarded Pirelli’s approach, enabling it to win a leading position by combining safety, performance and eco-compatibility.

JANUARY

- Pirelli was the **tyre brand of the year in Nigeria**. The awards ceremony of the Nigeria Auto Media Awards was held in the capital city of Lagos on January 21. This competition was organised by the specialised car and transport press. Pirelli won the **Diamond Jewel Award** in the tyre category, as “**Tyre Brand of the Year 2009**”.
- In the presence of over 500 participating suppliers and automotive companies, Pirelli **Japan** won the **Autobacs Award 2009** in Tokyo as the best tyre supplier of the year. Autobacs, an historic Japanese reseller of spare parts and accessories for cars founded in 1947 and having operations worldwide, awarded Pirelli for the significant contribution it made to sales in 2009. The driver for this success was the **P4 Four Season**. For Pirelli Tyre, the Autobacs award represents a major success, the result of effective **teamwork** between headquarters, Pirelli China and Pirelli Japan, which collaborated on the project from the beginning.

For a complete, detailed overview of the awards and recognition received by the Group in 2009, please see the Sustainability section in the **Sustainability Channel** area on the website www.pirelli.com.









ECONOMIC DIMENSION

**Creation
of Shared Value
=
Return of Value**

“Working to ensure long-term responsible growth in full awareness of the inter-dependence of the economic, social, and environmental spheres, and being mindful of the effects a decision in one such sphere has on the others.

Seeking to be a leader of R&D in green technologies and products, ahead of market demand, in the knowledge of the benefits that today’s achievements will bring to tomorrow’s world. Linking together value creation, social progress, concern for stakeholders, and higher standards of living and environmental quality.”

(Ethical Code/Values – Sustainable Growth)

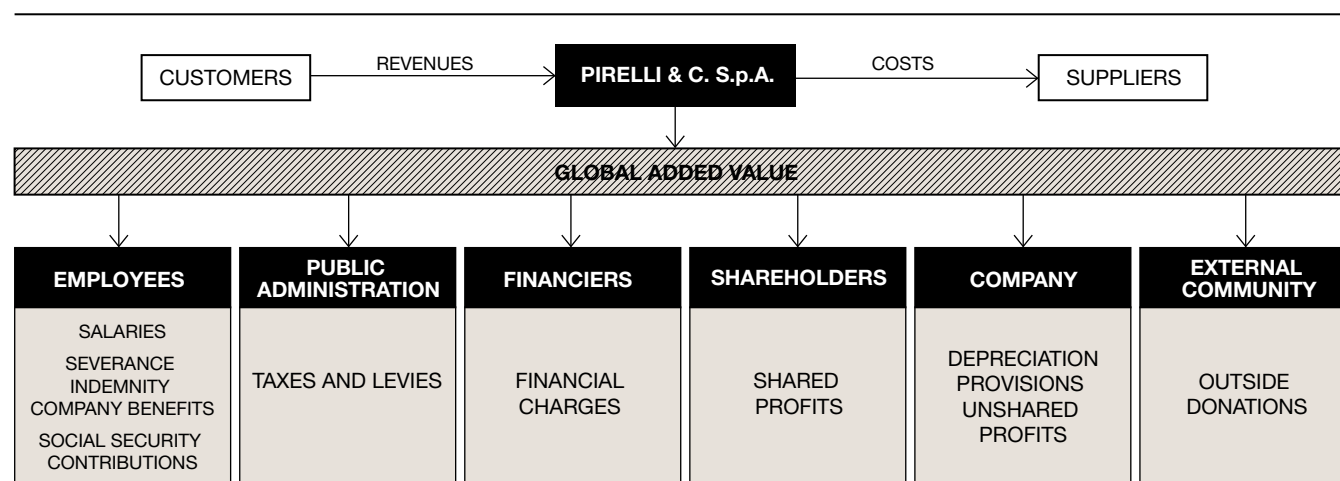
“The Pirelli Group intends to contribute to the prosperity and growth of the communities it operates in by providing efficient and technologically advanced services.”

(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 to express, in monetary terms, 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 2010, 2009 and 2008 is broken down as follows:

	2010		2009		2008	
GROSS OVERALL ADDED VALUE	1,495,881	%	1,293,255	%	918,953	%
Remuneration of personnel	(1,063,648)	71.1%	(949,217)	73.4%	(1,007,702)	109.7%
Remuneration of Public Administration	(137,358)	9.2%	(90,350)	7.0%	(71,400)	7.8%
Return on credit capital	(65,793)	4.4%	(70,112)	5.4%	(51,396)	5.6%
Remuneration of venture capital	(81,151)	5.4%	(81,132)	6.3%	0	0.0%
Remuneration of the company	(144,306)	9.6%	(99,144)	7.7%	214,157	-23.3%
Outside donations	(3,625)	0.2%	(3,300)	0.3%	(2,612)	0.3%

(*) The figures do not include the operations discontinued during the year that belonged to Pirelli & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A. The previous periods (2009 and 2008) were consequently restated on a comparable basis.

The trends of the items comprising gross overall added value as indicated hereinabove are adequately explained in Volume 1, Annual Financial Report at december 31, 2010. Reference is made to that Volume for further details.

With reference to the **outside donations**, the table below shows the contributions and donations made by Pirelli in the three-year period 2010, 2009 and 2008, broken down by category:

OUTSIDE DONATIONS* (in thousands of Euro)

	2010	2009	2008
Education	770	696	785
Culture	1,035	1215	624
Research	1,119	629	560
Solidarity, Sport	702	761	640
Other	0	0	3
TOTAL	3,625	3,301	2,612

(*) The figures do not include the operations discontinued during the year that belonged to Pirelli & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A. The previous periods (2009 and 2008) were consequently restated on a comparable basis.

In spite of the complex economic situation in 2008 and 2009, the Group maintained its focus on the importance of distributing value to the external community. These contributions were further increased in 2010 once the economic recovery got underway. The change over the past two years as compared with 2008 shows a marked increase in contributions to research. This area is considered key to global recovery from the crisis.

To correctly dimension and understand the proportion of the spent among the above categories, it must be remembered that the amounts shown are consolidated figures indicated in Euro, although they were mainly spent in local currency in the various countries (often emerging markets / developing countries) where Pirelli operates. This is particularly true for the categories "Education" and "Solidarity." Paradoxically, though the reported figures shown are lower in absolute terms than what was spent on Culture and Research, they correspond in real terms to the financing of a "universe" of development projects in the receiving countries.

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

During FY 2010, **no significant penalties were levied and paid** on a final basis for violation of laws and regulations, including any penalties connected with the supply and use of Group products and/or services.

Finally *"The Pirelli Group does not provide contributions, advantages, or other benefits to political parties or trade union*

organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation." (Ethical Code – The wider community).

SIGNIFICANT LOANS RECEIVED IN 2010

In February 2010, the **European Investment Bank (EIB)** granted **Pirelli Tyre S.p.A.** a loan for **Euro 100 million** under an agreement to support **Group research and development projects in 2009-2012**. This made it possible to use the whole credit facility approved for this purpose in July 2009.

In **May 2010** the **EIB** also disbursed the **first Euro 20 million** for a **new Euro 50 million loan**, granted in support of the **Euro 250 million loan for expansion of the Pirelli plant at Slatina in Romania**, dedicated to the production of automobile and light commercial vehicle tyres. The new loan complements a similar loan made in 2007 to support establishment of the same production plant.

SHAREHOLDERS, INVESTORS AND THE FINANCIAL COMMUNITY

"In its relations with all classes of shareholders, with institutional and private investors, financial analysts, market operators and, in general, with the financial community, the Pirelli Group is fully transparent, complies with the requirements of accuracy, timeliness, and equal access, and aims to ensure that a proper valuation of Group assets can be made."

(Ethical Code - Shareholders, Investors and the Financial Community).

Pirelli attributes great strategic importance to financial communication, considering it a key tool for building a trust-based relationship with the markets. **Accuracy, timeliness, equality and transparency** are the basic rules that Pirelli applies to its financial disclosures.

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**.

In 2010, financial communication aimed to promote the **Pirelli Equity Story**.

Conclusion of the process of transforming the company into a **pure tyre company** (following spin-off of Pirelli RE and the disposal of non-strategic activities) and the **achieve-**

ment of 2011 targets a year early led to drafting of the **new 2011-2013 Business Plan, with vision to 2015**.

The new plan calls for:

- further focus on the premium tyre segment, which is growing at a rate faster than the market and in which Pirelli holds a leadership position;
- adjustment of production activities between rapidly developing economies (RDE), Latin America and mature markets, in consequence of which each of the three areas will contribute one-third to Group profits in 2015;
- technological upgrade of production sites and machinery (in 2015, 60% of production will be in plants less than ten years old).

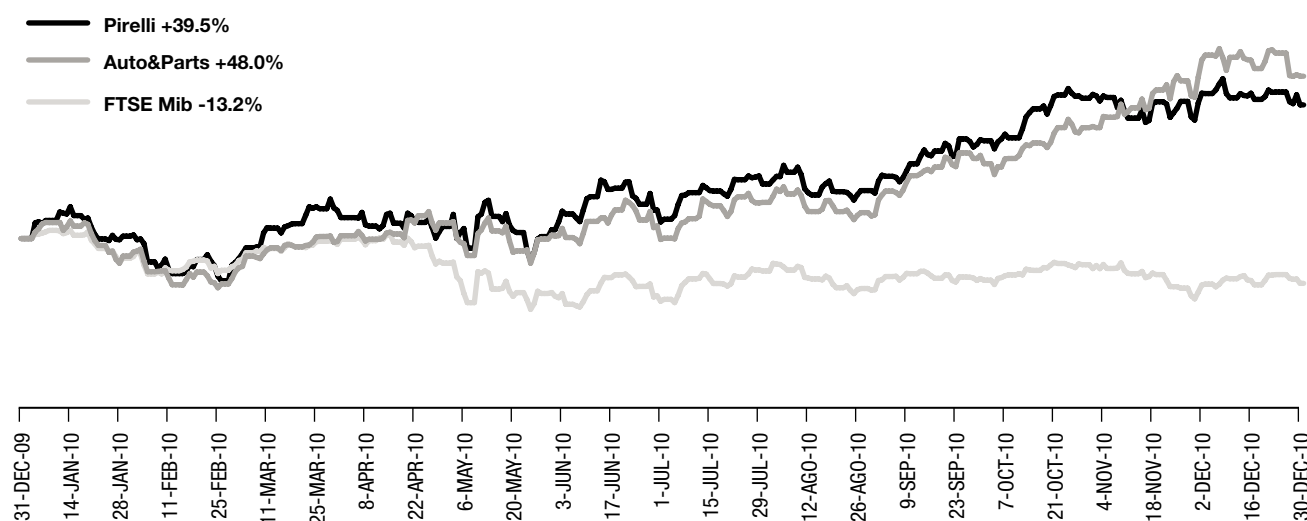
In 2010 the **Group met** more frequently with **investors** on major financial markets (**Milan, London, Edinburgh, New York, Boston, Paris, Frankfurt, Zurich, Copenhagen and Stockholm**) during dedicated road-shows and participation at industry conferences. Pirelli representatives met with **408 institutions, comprised of both current and prospective investors**. At the same time, coverage of Pirelli stock by investment banks was expanded, especially amongst international investment banks with specialised coverage for the tyre industry. At December 31, 2010 Pirelli stock was **covered by 21 brokers who regularly publish on it, including 43% global** (25% at December 31, 2008).

For years Pirelli has been dedicating special attention to relations with the **ratings agencies** that specialise in **sustainable finance**. In 2010 it also dedicated special attention to **Socially Responsible Investors**, with whom dedicated **road-shows** were held in the **Paris** and **Frankfurt** financial centres.

Pirelli financial communication is rounded out by a series of information services offered in the Investors section of the Pirelli website: from the “**Investor Channel**,” a financial and business news channel, to **Peers and Market**, a weekly financial newsletter, from **Tyre Market Watch**, which monitors **tyre market trends** in the principal geographical areas where the Group operates, to the summary forecasts (**Consensus**) of financial analysts who cover Pirelli stock.

In recognition of the efforts made by the company to financial communication, Pirelli was awarded the “**Country Award 2010**” for Italy. This important award is granted by **IR Magazine Europe** to the best firms and professionals in the area of investor relations.

The following graphic illustrates the stock market performance of Pirelli & C. in 2010. It also indicates the performance of the Auto & Parts segment and the FTSE Mib, for easy comparison:



In 2011 financial communication will continue by reporting the gradual implementation of the new 2011-2013 Business Plan, and by expanding contacts with analysts and investors, dedicating special attention to **SRI Investors** as part of the Group sustainability strategy.

For more details, reference is made to the regularly updated “Investors” section of the website www.pirelli.com. It provides a complete information tool for matters of interest to shareholders and the financial community.

OUR CUSTOMERS

“The Pirelli Group bases the excellence of its products and services on nonstop innovation. Its goal is to anticipate customers’ needs and meet their demands with an immediate and professional response that is delivered with propriety, courtesy, and unstinting cooperation.”

(Ethical Code – Customers).

The business of **Pirelli Tyre** is divided into **two main segments**: **Consumer** (tyres for cars, SUV, light commercial vehicles and motorcycles) and **Industrial** (tyres for buses, trucks, agricultural machinery and steelcord). These businesses are focused in turn on **two different sales channels**:

- **Original Equipment**, which directly serves the world’s leading car and truck makers;
- **Replacement**, for the replacement of tyres on motor vehicles that are already in circulation.

A macro-distinction can be made between “Specialised Resellers” and “Distributors” in the “Replacement” channel. Specialised Resellers are tyre specialists that operate as independent businesses. They are a key point of contact between the Group and end customers. Special attention is devoted to them in terms of shared development, to enhance the offer of products integrated with high-quality service that is consistent with Pirelli values and customer expectations. “Distributors” are key partners of Pirelli in guaranteeing continuous supply of tyres to specialised resellers, by offering local delivery and distribution services throughout the whole territory.

In addition to the Business Tyre customers, there is a heterogeneous group of customers classified in the “other businesses” category, which is a quality niche comprised of: **Pirelli & C. Ambiente**, active in the waste-to-fuel and photovoltaic renewable energy sectors and in environmental clean-up;

Pirelli Eco Technology, which operates in the diesel vehicle and heating plant emissions control technology sector; **Pzero**, an interdisciplinary project with an hi-tech spirit, bringing together marketing and fashion while being firmly rooted in industrial design.

CUSTOMER FOCUS

Customer focus – a key aspect of the Values and Ethical Code of the Pirelli Group – presupposes 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;*
- *exploitation of every opportunity offered by doing business to satisfy the customer’s needs;*

- *anticipation of customer needs;*
- *top product quality, as well as excellence of production systems and processes;*
- *constant focus on performance to satisfy customer performance and safety expectations;*
- *excellence and competitiveness on the market to offer customers quality products and services that efficiently satisfy their demands.*

As part of its customer focus, Pirelli has also adopted **a clear procedure for responding to complaints**. Drafted in the form of internal, interdepartmental rules, it requires giving **immediate responses** to complainants.

The Company’s commitments as listed above are similarly made explicit in the *General Conditions of Supply* applied by Group companies.

TRANSPARENCY

In the area of **advertising communication**, Pirelli established a centralised process for managing advertising campaigns and international media coordination in 2009, with the aim of enforcing compliance by all foreign affiliates with the rules of conduct adopted by the parent company, as well as with local laws and regulations.

The Group is associated with the **UPA (Utenti Pubblicità Associati** – “Associated Advertising Users”). **The Pirelli representative has been named deputy chairman of the association** in recognition of the company’s constant commitment and leadership in support of the **UPA Code of Conduct**. Pirelli also participates in the **Consumer Forum**. The Forum is an entity created by businesses and consumer associations **to promote consumer protection**.

Through the UPA, Pirelli is also a member of the **WFA (World Federation of Advertisers)**, which commits participating firms to engage in honest, truthful and fair competition and communication, in accordance with their code of conduct and self-regulation.

Consumer protection is also guaranteed by the company’s choice of **suppliers** in the communication sector (creative agencies, media centres, production companies) that belong in turn to business and professional associations having **ethical codes of communication**.

There were **no cases of non-compliance** with regulations or voluntary regulations applicable to marketing activity in 2010, including advertising, promotion and sponsorship.

INFORMATION AND TRAINING

Tyre products are subject to statutory noise abatement requirements at the **European** level. These laws will become much stricter beginning **in 2012**, when **new regulations governing rolling resistance and road hold on wet pavement** will also come into effect (European Union Regulation (EC) No. 661/2009). **Tyre labelling** requirements will also come into force **in 2012** (EU Regulation (EC) No. 1222/2009). They aim **to improve road safety**, by promoting tyres models having a high level of road hold on wet pavement, and reduction of the environmental impact of road transport through the promotion of tyres having low rolling resistance (and thus more fuel efficient) and having low noise levels. Every label will always have to give information about product performance in terms of rolling resistance, road hold on wet pavement and external noise, to be measured using harmonised test methods.

In the **United States**, “**Uniformity Tyre Quality Grading**” (UTQG) is required. These rules are currently being revised and will include mention of the degree of rolling resistance. **All Pirelli products** are sold with a **safety warning** affixed to the side of the tyres, **although this is not required under the law**. Voluntary tyre labelling requirements also exist in **Japan** and are being considered in other countries as well.

In 2010 there were **no cases of non-conformity** to regulations or voluntary codes involving product/service information and labelling.

Using numerous communication tools, Pirelli constantly provides **information** about its products and related initiatives to its distributor customers and end customers.

The international website *www.pirelli.com* is particularly important for this purpose. Updated at the end of 2010, it contains a series of changes, particularly regarding its approach to consumers.

The strategic objective of the site consists in helping consumers choose the product most suited to their needs, while assisting them throughout the decision-making process until eventual online purchase, and providing them as much information as possible. Regardless of whether the consumer’s “journey” on the site concludes with an online purchase, he will still have been provided with all the tools necessary for visiting any reseller, ready to make an informed purchase. More specifically, the “**Find your perfect tyre**” configuration tool is a method for engaging the consumer by starting from his personal and driving characteristics, leading him step by step to determining the most suitable tyre for his needs, as described in detail by internationally recognised experts. This ideal tyre can even be “tested” by using virtual and interactive tests.

Other tutorial and interactive configuration tools are offered in the sections dedicated to the car, motorcycle and truck businesses. Each one has its own characteristics aimed at the target segment.

The new website marks a significant change for the Pirelli digital identity: its functionality and style make it stand out as one of the most important brands in the automotive and other sectors.

GETTYRE is the **Pirelli and Metzeler e-commerce** site dedicated to motorcycle and scooter owners. In collaboration with the network of resellers located in every region of Italy, GetTyre.it is the official online store that clearly features a range of tyres and special offers for consumers. The site is already active in Italy and, from March 1, 2011, it will also be active in Spain.

Pirelli paper publications are dominated by the **company magazines *Pirelli World*** and, for Brazil, ***Giro***, in addition to publications for the international market, including ***Pirelli Truck. Street and Motopasion*** in Brazil. This last publication, which is also available online and published in four languages in Europe (Italian, Spanish, German and English) and in two languages in South America (Spanish and Portuguese), represents a steady channel for communication between Pirelli and transport resellers and professionals. It offers a key tool for distributing information and updates on products and applications.

In 2010 a project to improve both company employees’ and customers’ knowledge about tyres and Pirelli products was developed and implemented worldwide. This is the ***Tyre Campus*** project, whereby Pirelli aims at achieving **excellence in product training**, both in terms of content and methods, from factory visits to simulations of tyre performance. Information and training are now truly comprehensive. Tyre Campus also proposes high-level training to its own customers on administrative, management and marketing issues, in addition to technical product training.

LISTENING AND EXCHANGING IDEAS AS SOURCES FOR CONTINUOUS IMPROVEMENT

Customer relationships are 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 **Pirelli Tyre Contact Centers**, which number 31 worldwide and are staffed by over 200 employees, providing both information assistance and order management (inbound), telemarketing and teleselling

(outbound), with over 1,800,000 calls a year. A training programme for certain European markets was also developed during 2010 (and is being expanded in 2011), in order to improve relationship skills with customers and developing greater technical and commercial skills. Specific reports and analyses are generated on the basis of available tools to assess efficiency, effectiveness and customer satisfaction.

Pirelli is also present on **Facebook**, **Twitter** and **YouTube**, three constantly updated channels that are enjoying exponential growth in spontaneous participation by fans. The principal aims of this exposure is to maintain the **involvement** of users interested in the Pirelli brand and products, support communication of the institutional website and exploit the opportunity to **transform customer experiences into opportunities for continuous improvement**.

The German brand Metzeler is particularly active through **RIDEXPERIENCE**, the **multilingual blog** where bloggers share their extreme travel experiences, technical advice and interesting news about the motor-cycling world.

Feedback received during 2010 included the results of the **Dealer Satisfaction Surveys** conducted in Italy and Brazil, covering the level of customer satisfaction compared with leading competitors.

In **Italy** Pirelli posted a total level of satisfaction **exceeding the market average (+2.3%)**. The competitive advantage was confirmed not only at the general level but also for the principal sectors that were investigated, particularly marketing, which remains a strong point for Pirelli (+5.1% above the average for its main competitors) and the product range (+4.9% above the market average).

In **Brazil**, FY 2010 confirmed an **extremely positive trend**, both in terms of general customer satisfaction (+3% from 2009 and +18.3% from 2008 with Pirelli reaching the highest levels of satisfaction on a scale from 1 to 5), and in terms of specific areas like product quality (+4.2% from 2009 and +15.6% from 2008).

In collaboration with a group of professors and researchers at the **Bocconi University in Milan**, a specific study was conducted in 2010 on the target market of the new **Cinturato P1**, prior to its planned launch on the market in the first half of 2011. This study was carried out by using the **conjoint analysis** statistical method, in order to determine the **purchase drivers** according to the value perceived by the consumer. "The result has shown that **the brand, as a proxy for quality and safety, is the most important purchase driver (34%), followed by product performance characteristics, such as road hold (23%) and durability (15%).**

The **action plans** defined after the results of surveys conducted in Europe during 2009 were implemented in **2010**.

Pirelli will launch the **Engaging the Consumers** project in **2011**. Using a detailed analysis of all phases of the purchase process, the project aims to identify and select Pirelli's target consumers with precision – the consumers on which it will focus "consumer insights driven" plans – in addition to marketing activities. All of these activities serve to support Group growth strategies.

QUALITY CERTIFICATIONS

ISO 9001

The Group has had a Quality Management System since 1970, which it has gradually introduced at all its production plants. The Pirelli QMS was certified in 1993 according to ISO 9001. Now all car, truck, motorcycle, agricultural, steel cord and anti-particulate filter plants are certified in compliance with the most recent edition of this standard.

ISO/TS 16949

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

Since 1993 the Pirelli Materials and Experimentation Laboratory, and since 1996 the Pirelli Pneus (Latam) Experimentation Laboratory, have implemented the quality management system and are accredited in compliance with ISO/IEC 17025. This system is maintained in compliance 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)

Monitoring of the producers and suppliers of raw materials used by the Group continues as part of certification of the compliance of chemical products pursuant to European regulations to protect worker health and the environment. In accordance with REACH requirements, Pirelli does not produce or directly import chemical substances from non-EU countries, constantly controls the chemical sub-

stance registration processes implemented by producers and suppliers, verifies their certification and requests continual updates as necessary to carry on its business.

SAFETY, PERFORMANCE AND ECO-SUSTAINABILITY

The Group's **R&D** has carried on its **commitment** to develop innovative products, characterised by performance and eco-sustainability, in accordance with the company *Green Performance* philosophy.

Respect for the environment, safety and cutting-edge performance are the key characteristics of the new Pirelli car product lines, such as the **Cinturato** family and the **Scorpion Verde**. In the commercial vehicle segment, the extension of the **Serie 01**, introduced in 2009 for trucks and tractors, to trailer and semi-tractor-trailer equipment (**ST:01**) represents another example of the company's commitment. The **eco-impact mark** on the side of **Serie 01** tyres identifies the products that permit reductions in environmental impact through lower rolling resistance, fuel consumption and external noise, in addition to higher mileage. **The new generations of tyres are already made in compliance with future European Union labelling regulations, which is coming into force in 2012.** Similarly, Pirelli in 2008 also proceeded with the early elimination of highly aromatic oils from green performance product compounds. By eliminating them in 2008, Pirelli anticipated the mandatory 2010 European deadline.

For more details about the "eco-sustainable" characteristics of products, please see the *Environmental Dimension* chapter in this report.

Pirelli research is constantly dedicated to **improving product quality and performance, as well as end customer safety**. To achieve this, the company relies on its **close ties with the most prestigious car makers** in a segment that is particularly scrupulous and demanding in terms of safety and performance: the **Ultra High Performance** market. Continuous improvements in key performance parameters, such as braking performance under dry and wet conditions, offer customers top-quality products in terms of road safety. There are tyres that have been conceived primarily to offer safety and innovation, such as **self-supporting** tyres or **Run Flat** tyres, which guarantee vehicle mobility and control even in the event of a sudden loss in pressure.

Pirelli's commitment to end customer safety is also documented by its signature on the **European Road Safety Charter**, promoted by the European Commission through the Directorate General Energy and Transport, with the aim of reducing the number of victims of motor vehicle accidents. With this agreement, Pirelli undertook to intensify

its programme of initiatives already launched at the international level. In particular, aside from nudging consumer choices towards higher performance, and thus safer tyres, Pirelli has implemented information programmes (e.g. a space dedicated to safety and prevention topics in each issue of *Pirelli Truck*) designed to raise driver awareness of the importance of driving with tyres in good condition (correct pressure and sufficient remaining tyre tread).

The **"Safe & Go" 2010 campaign** is worthy of mention in this sense. As part of this programme, "mobile workshops" were set up at the rest areas along Italian motorways. Here, Pirelli technicians performed free checks for motorists on the condition of their tyres and offered genuine "maintenance lessons."

Other initiatives that have been scheduled beginning from 2011 call for the creation of information kits targeting young people, to be distributed through Pirelli reseller networks. These kits will describe the tyre characteristics having the greatest impact on road safety.

The motorcyclist world is particularly sensitive to road safety. This is the target for a Pirelli campaign that will focus on active and passive safety issues, from the importance of certified protective equipment to motorcycle maintenance and the Motor Vehicle Code.

OUR SUPPLIERS

"Suppliers and outside workers play a key role in improving the competitiveness of the business. While seeking the keenest competitive edge, the Group bases its relations with suppliers and outside workers on fairness, impartiality, and ensuring equal opportunities for all parties concerned.

The Pirelli Group requires that its suppliers and outside workers comply with the principles and rules in this Code."

(Ethical Code – Suppliers and Outside Workers).

GROUP POLICIES

Sustainability is fully integrated in the relationships between Pirelli and its suppliers.

In compliance with the Group Ethical Code and the Policy "Social Responsibility for Occupational Health, Safety and Rights, and Environment", Pirelli has developed the necessary procedures to **select and assess suppliers and subcontractors according to their commitment to economic, social and environmental responsibility.**

The Pirelli model for sustainable management of its supply chain was verified and validated by SGS: in 2009, within the Assurance Process of the Sustainability Report according to **AA1000** Standard provisions, a specific focus on sustainable development of the supply chain was made.

SUSTAINABILITY CLAUSES OF CONTRACT

Since 2008, sustainability clauses have been systematically included in contracts and purchase orders for goods and/or services and/or works, both with private suppliers and with the Public Administration (or entities/companies controlled by them).

The clauses envisage the implementation of Pirelli sustainability policies: Ethical Code, Code of Conduct and the “Social Responsibility for Occupational Health, Safety and Rights, and Environment” 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 the 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 his own suppliers.

In 2010, the consolidation of large-scale distribution and acceptance of sustainability clauses permitted structured substantial review of their application through independent audits, as previously mentioned.

These clauses will be revised in 2011, in view of syntactical simplification, while maintaining the key elements of social and environmental responsibility and business ethics that are currently included. The clause providing for Pirelli audits will obviously be retained.

PURCHASES PERFORMANCE

Following is an overview of the **purchases of goods and services** by Pirelli in 2010/2009/2008, highlighting the **weight of tyre purchases on total purchases**:

Purchases of goods and services Percentage purchased against total purchases	2010	2009	2008
TYRE	94%	94%	94%
OTHER BUSINESSES (CORPORATE + ECO TECHNOLOGY + AMBIENTE + P ZERO)	6%	6%	6%

(*) The figures do not include the operations discontinued during the year that belonged to Pirelli & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A. The previous periods (2009 and 2008) were consequently restated on a comparable basis.

The following illustration show the breakdown of Pirelli (Tyre + Other Businesses) purchases by geographical area and the second illustration shows the number of suppliers corresponding to each area.

As readers will notice, more than half of the acquired value is represented by OECD countries. Likewise, the

number of Group suppliers is far greater in OECD areas than in non-OECD areas.

It should be pointed out that **78%¹ of suppliers are located in the same area** as the supplied Pirelli affiliates, in accordance with a **Local for Local** procurement approach.

PERCENTAGE VALUE OF PIRELLI PURCHASING BY GEOGRAPHICAL AREA*

		2010	2009	2008
OECD COUNTRIES	EUROPE	50.0%	47.4%	49.2%
	NORTH AMERICA	2.4%	3.1%	1.4%
	OTHERS*	2.5%	3.1%	0.4%
NON-OECD COUNTRIES	LATIN AMERICA	18.2%	26.4%	26.9%
	ASIA	20.8%	15.4%	20.2%
	AFRICA	1.5%	1.4%	1.9%
	OTHERS	4.6%	3.1%	0.0%

(*) The figures do not include the operations discontinued during the year that belonged to Pirelli & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A. The previous periods (2009 and 2008) were consequently restated on a comparable basis.

PERCENTAGE OF PIRELLI SUPPLIERS BY GEOGRAPHICAL AREA*

		2010	2009	2008
OECD COUNTRIES	EUROPE	58.7%	63.5%	49.2%
	NORTH AMERICA	3.2%	4.3%	1.4%
	OTHERS*	0.2%	3.4%	0.4%
NON-OECD COUNTRIES	LATIN AMERICA	26.7%	22.9%	26.9%
	ASIA	4.7%	4.5%	20.2%
	AFRICA	3.0%	1.3%	1.9%
	OTHERS	3.5%	0.1%	0.0%

(*) The figures do not include the operations discontinued during the year that belonged to Pirelli & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A. The previous periods (2009 and 2008) were consequently restated on a comparable basis.

As indicated above, **the purchases of goods and services by the Tyre business represent 94% of Group purchases**. Additional details on the purchases made by Pirelli Tyre follow below, broken down by type of purchase, and a snapshot of the number of suppliers corresponding to the types of goods/services acquired by Pirelli Tyre.

¹ Does not include raw material suppliers

PERCENTAGE VALUE OF PIRELLI TYRE PURCHASES BY TYPE

	2010	2009	2008
Raw materials	55.4%	52.4%	59.5%
Supplies	4.6%	4.8%	5.1%
Services	28.7%	34.1%	25.6%
Capital goods	11.4%	8.8%	9.8%

PERCENTAGE OF PIRELLI TYRE SUPPLIERS BY TYPE

	2010	2009	2008
Raw materials	3.0%	3.3%	2.6%
Supplies	38.9%	9.7%	5.4%
Services	47.3%	73.8%	82.8%
Capital goods	10.8%	13.2%	9.2%

The Table “**Percentage Value of Pirelli Tyre purchases by Type**” shows that **raw materials** remain the **most important purchasing category**, accounting for **55% of the total**. This percentage was higher in 2010 than in 2009. The reason for the increase lies in the continuous growth of prices, particularly for natural rubber. The total spent on “Capital goods” has also increased, being closely tied to the increase in industrial capacity that characterised the period.

In regard to the second table “**Percentage of Pirelli Tyre Suppliers by Type**”, which shows the number of suppliers by type, the criteria used to classify supply and service vendors have been refined. The number of vendors in these two categories continues to account for more than 80% of the total, although their weight on the total value of purchases is much less than, for example, that for raw material purchases. The fragmentation of supply and service vendors is evident, in comparison with the substantial concentration of just a few vendors of raw materials.

What follows is a graph illustrating **the percentage composition of the mix of raw materials** purchased by Pirelli Tyre in 2010. Alongside it we see the 2009 and 2008 data published in previous sustainability reports. Specifically in comparison with 2009, the weight of natural rubber rose in 2010 against a decrease in carbon black and chemicals. The average volume of raw materials used in 2010 for the production of tyres was about 1 million tonnes, including **about 6% derived from recycled material**.

MIX OF PURCHASED RAW MATERIAL

	2010	2009	2008
Natural rubber	33%	24%	28%
Synthetic rubber	24%	23%	22%
Carbon black	11%	13%	12%
Chemicals	14%	17%	14%
Textiles	10%	13%	11%
Steelcord	8%	10%	13%

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**, where the interdepartmental process based on specific quality standards led 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.
- **monitoring of vendor** (*Vendor Rating*), assessed on the basis of the quality of the product supplied or service provided, 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’s sustainability is assessed in an independent audit.

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

These procedures 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 to 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 **communication, on-going training and knowledge sharing tool**.

The processes of dialogue and interaction with suppliers are the object of process improvement, in terms of both quality and tools. Specifically, the Vendor Rating results are regularly revised and commented on by the 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.

Several new projects to improve the purchasing process and support relationships with suppliers were developed and implemented in 2010. In particular:

- continuous improvement and extension of IT systems for systematic analysis and monitoring of the provision of indirect materials and services;
- vendor training on sustainable management: pilot programmes launched in Brazil and Turkey;
- launch of activities for the new Group “Purchasing Portal,” which is an advanced tool that from 2011 will permit managing purchases even more efficiently and with greater coordination amongst the various countries than is the case now. The new IT tool will also make it possible to conduct communication, awareness and training campaigns for vendors, in which sustainability will play a key role.

INDEPENDENT AUDITS OF VENDOR SUSTAINABILITY

Independent audits of 72 suppliers of Pirelli Tyre operating in countries of concern where Pirelli operates – Brazil, Argentina, Egypt, China, Romania, Turkey, Venezuela, Indonesia, Malaysia, Thailand – (as defined by the EIRIS classification) **were carried out between November 2009 and January 2010.** These audits reviewed compliance by these vendors with the sustainability clauses.

A number of **remedial plans** to rectify identified non-conformities were developed after the audit, and all of these were being completed at the end of 2010.

The commitment made by **Pirelli Turkey** merits special mention: it has **trained dozens of vendors on the sustainable corporate management process**, in view of shared growth.

Another 58 independent audits were scheduled between the end of 2010 and early 2011 in the United Kingdom, Germany, Italy, China, India, Latin America, Turkey, Egypt and Romania.

These 58 audits cover:

- 25% of the total value of purchases from service vendors in western countries;
- 25% of the total value of purchases from raw material vendors in the “countries of concern.”

The vendor **audits** are carried out both at the **Pirelli sites**, where the suppliers provide services with their own personnel, and **at Suppliers’ own facilities.**

Both workers and supervising managers are interviewed on specific issues as part of these audits.

At the **central level**, a **team** comprised by the **Group Sustainability and Purchasing Departments** defines the guidelines for selection of the vendors to be audited, while supporting the corresponding local departments that will manage the process.

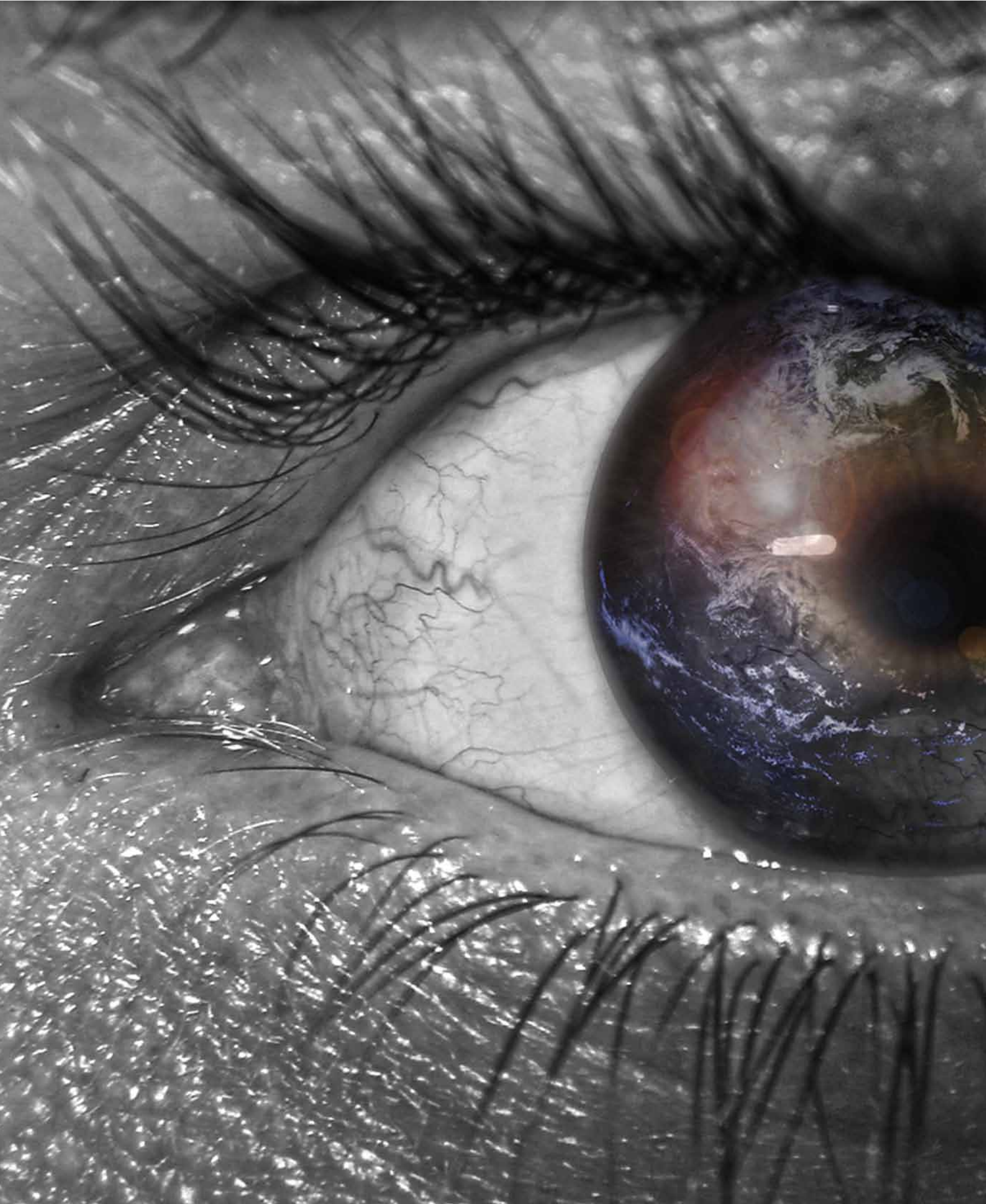
The audits are performed by a leading international service auditor of Quality, Health and Safety, Environment and Social Responsibility (QHSE) compliance. This auditor uses a **checklist** of sustainability parameters based on the **SA8000®** standard, the **“Social Responsibility for Occupational Health, Safety and Rights, and Environment” Pirelli Policy**, and the **Pirelli Ethical Code**, and thus in compliance with the provisions of the Group’s **sustainability clauses signed by the vendors.**

The results of the audits conducted between the end of 2010 and the beginning of 2011 will be immediately analysed to identify any criticalities and/or areas for improvement and to prepare corrective measures to be shared and developed with the suppliers themselves, according to a priority plan tied to the criticality of any instances of non-compliance that are found.

2011 TARGETS

In addition to the **58 audits already mentioned**, work continues on achieving the following targets in 2011:

- In-service training programme on sustainable management of the supply chain, targeted at all Group buyers.
- New Vendors Portal: development, pilot project in Italy and first extension to other EMEA countries.
- Definition of new audits on the basis of the criteria decided by the local offices of Pirelli, while maintaining central support (following the training mentioned above).
- Drafting of a Pirelli manual for sustainable management of the supply chain, designed to render the adopted managerial approach more uniform and efficient amongst the various affiliates, while making the relevant know-how available to everyone.





ENVIRONMENTAL DIMENSION

**Management
of environmental
footprint
over life cycle**

“In running its operations the Pirelli Group is mindful of the Environment and public health. A key consideration in investment and business decisions is environmental sustainability, with the Group supporting eco-compatible growth, not least through the adoption of special technologies and production methods (where this is operationally feasible and economically viable) that allow for the reduction of the environmental impact of Group operations, in some cases even below statutory limits. The Group has adopted certified Environmental Management Systems to control its operations, chooses production methods and technologies that reduce waste and conserve natural resources, and assesses the indirect and direct environmental impact of its products and services. The Group works alongside leading national and international organizations to promote environmental sustainability both on a local and a global scale.”

(Ethical Code of the Pirelli Group - Environment)

The above principles are illustrated in the Group policy “Health, Occupational Safety, Environment and Social Responsibility,” which is available to the External Community in the “Sustainability” section of the website www.pirelli.com.

THE PIRELLI APPROACH TO MANAGEMENT OF ENVIRONMENTAL ISSUES

LIFE CYCLE THINKING: TOWARDS CARBON AND WATER FOOTPRINT

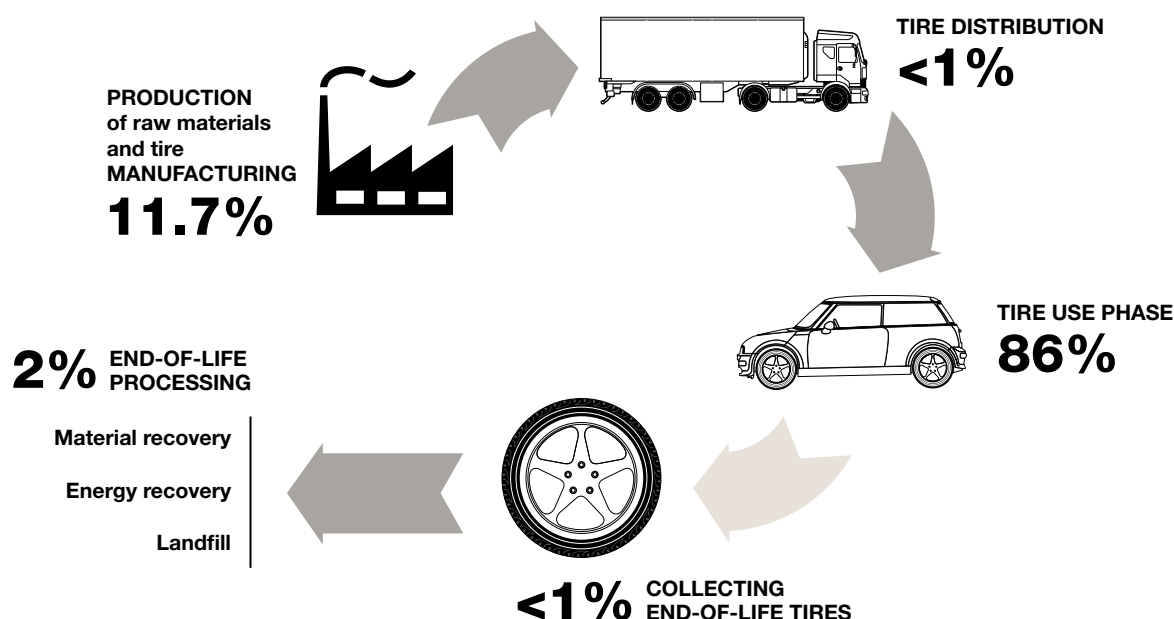
We must reject the mythology of perpetual growth that grew out of the fantastic technological developments of the past two centuries. [...] We should be able to persuade the next generation that the secret of living a good life is learning to live within limits.
Perpetual Growth, Garrett Hardin 1994

Continuous research to improve performance is also based on the ever-more detailed and extensive awareness of the interactions between Group activities and the environment, without being limited to those it directly operates but by expanding the scope of analysis to all phases of the life cycle of Pirelli products.

This is the only approach that can guarantee that nothing is left to chance, that strategic choices are managed knowingly and effectively by decision-making processes taking into account environmental variables and, more in general, sustainability.

The Company sums all this up with the concept of “Life Cycle Thinking”: developing products, while thinking about the interactions with the environment stemming from their production, use and end of life.

LIFE CYCLE ASSESSEMENT OF AN AVERAGE EUROPEAN PASSENGER CAR TYRE



source: ETRMA – On ETRMA's track! – the percentage impact associated with each phase is shown, as based on the study Life Cycle Assessment of an average European car tyre – Prè Consultants B.V. on behalf of BLIC, 2001.

This approach, which is key to guaranteeing **full environmental sustainability**, is supported by scientifically recognised tools that can improve strategic decisions as objectively as possible, by using the results of assessment of environmental impact throughout the product life cycle (*Life Cycle Assessment*).

This process represents an ambitious goal for Pirelli. It calls for an initial phase of **Footprint Analysis**, in-depth study of existing interactions between the environment and the product over its entire lifetime, with special attention to two key themes: water (*water footprint*) and climate change (*carbon footprint*).

Environmental management system and certifications

Since 1997, Pirelli has implemented environmental management systems for continuous improvement of its environmental performance. These systems have been created and certified in accordance with ISO 14001. All operating Tyre plants were certified at the end of 2010.

100%
of Pirelli tyre
operating sites
are ISO 14001
certified

The focus on management of environmental issues also falls on new plants, where the company considers the **implementation and certification** of environmental management systems in compliance with ISO 14001 to be **binding and fundamental requirements**. This activity, together with control and maintenance of previously implemented and certified systems, is coordinated on a centralised basis by the Health Safety and Environment Department.

In addition to the production plant management systems, Pirelli has decided to obtain ISO 14001 certification for its environmental management system at the **Vizzola Ticino Tyre Test Track**. This is a centre for scientific assessment and experimentation of tyre and vehicle performance under different operating conditions. It was designed and built near the Ticino River at the end of the 1960's.

Although this centre's impact on the environment and biodiversity of the area are insignificant, the environmental certification was sought by Pirelli to guarantee maximum environmental protection. In fact, the centre's 26 hectare site lies 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 located in 95 countries around the world).

In addition to the Vizzola, another two Pirelli units are located either adjacent to areas that are protected and/or of major value for biodiversity. This is the Breuberg site in Germany, measuring 68.7 hectares, which is located opposite an area protected under state law, and the Gravatai site in Brazil, measuring 57.4 hectares, including 16 hectares of land ecosystem protected under federal law. In both cases, the presence of the ISO 14001 certified environmental management system guarantees that all potential environmental impacts, although assessed to be low or absolutely insignificant, must be duly considered in order to reduce all possible impact to a minimum.

In regard to the scope of the Pirelli Tyre production sites, in 2010 the Settimo Torinese plant used to process car tyres was decommissioned, and its production activities were transferred to the New Settimo Torinese Technological Centre, adjacent to the production plant used for industrial tyres. By the end of 2011, certification of the environmental management system will be extended to all activities located at the New Technological Centre, including those transferred from the old site at Settimo Torinese.

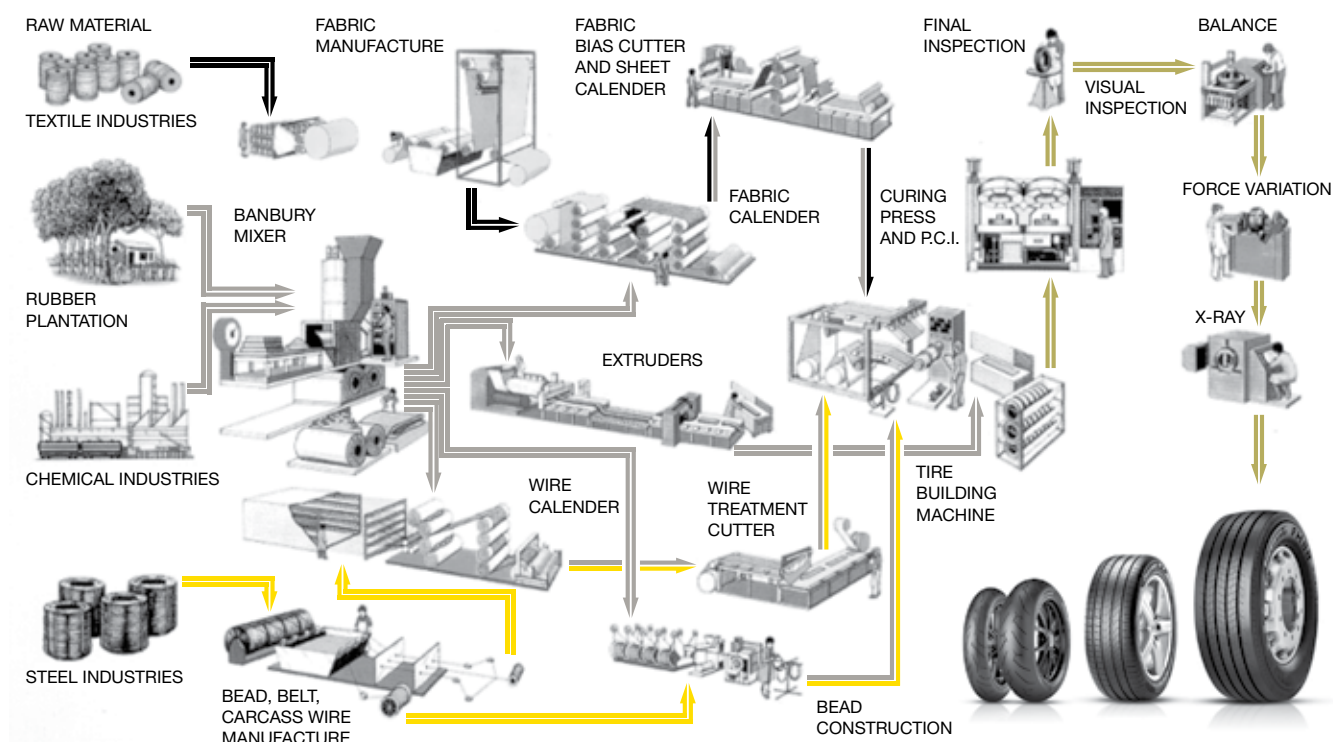
Monitoring of environmental performance

In parallel with the definition of specific common guidelines and procedures for drawing up and implementing management systems, a web-based management system for "Health, Safety and Environment Data Management" (HSE-DM) is operative, having been created and operated at the corporate level by the Health, Safety and Environment Department. This system makes it possible to monitor environmental, health and safety performance at all Tyre segment production plant.

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 HSE performance of all Pirelli business units.

No spills or other significant environment-related incidents occurred in 2010. Consequently, no fines were incurred at all. Several minor events occurred, but they were promptly dealt with and resolved in accordance with established environmental management system procedures.

THE BIRTH OF A TYRE



How a tyre is created

As regards production, tyre manufacturing may be initially considered as being comprised of two principal phases:

- creation of the rubber part, the compound, the tread and the sidewalls;
- construction of the base structure, an actual rubber “framework” that supports all the components.

The rubber part of the tyre (tread, sides and fabric) is a special mix, more commonly referred to as a “compound,” which is mainly composed of rubber (both natural and synthetic), plasticizers (petroleum derivatives) and binders (mainly carbon black and silica), whose percentages are about 30% each, even if the exact value depends on the type of compound that is desired. The remaining 10% or so is comprised of other mineral binding agents and products (e.g. accelerating agents, anti-decomposition agents, vulcanizing agents...).

The plasticizers and carbon black are stored in dedicated silos and sent to a closed mixer (“banbury”), in which the compound undergoes initial processing. A computer controls and manages the quantities of ingredients, both those in storage and those sent to the mixer.

Instead, the rubber (both natural and synthetic) is cut into pieces and added manually, after being weighed in order to obtain the desired composition. Then, the compound sheets are transferred to an open mixer (“calender”), comprised of two big rollers. After passing through these rollers, the composition and density of the mix-

ture becomes more uniform. This particular step in the process involves continuous torsion and simultaneous stretching. At the end of the cycle, special chemicals are added, such as vulcanizing agents and accelerants, which are necessary for the following phases.

Then, the compound sheet is sliced into strips and plunged into a vat (“batchoff”) for final cooling. At this point, the compound is used to fabricate the tyre tread or sidewalls. It is then extruded into the appropriate form for the subsequent steps. The heart of the tyre structure is represented by the fabrics, which are formed by longitudinal threads (weft) and transverse threads (warp), and may be composed of various materials. The fabrics are then cut at a certain angle with respect to the longitudinal direction (the direction of movement, of rolling or of the weft).

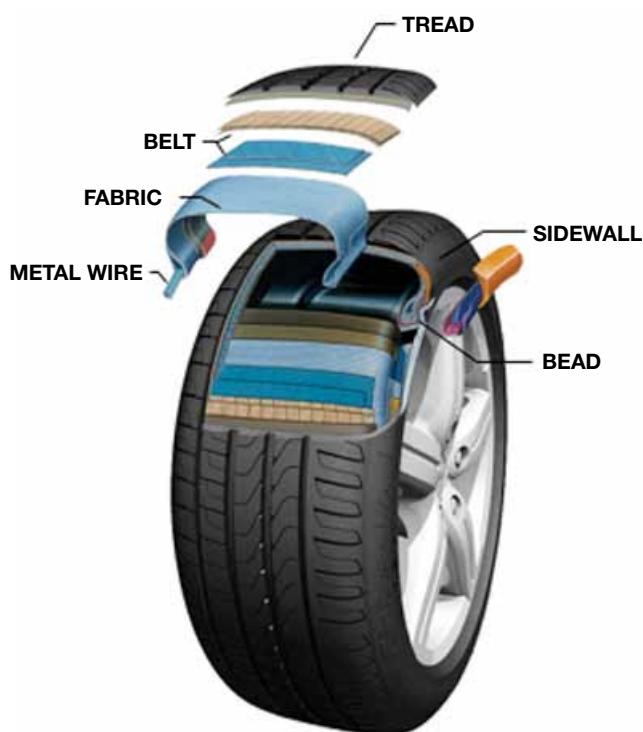
Another fundamental part of the tyre is the sidewall, and specifically the area close to the metal wire, which is called the “bead.” The base is supported by the ring, comprised of a series of brass-coated steel wires, which stiffens the part touching the wheel rim.

The components described thus far must be assembled together to make the finished tyre. This assembly process is carried out by using devices that are called “building machines.”

The resulting tyre (called a “raw tyre”) is then sent to be vulcanized, which involves a genuine solid state chemical reaction. Before being vulcanized, the tyre must first be

“grouted,” a treatment that prevents it from sticking to the mould or the vulcanization chamber.

After being cooled, the vulcanized tyre is deburred to remove any imperfections that might alter its appearance. Then it undergoes an initial visual inspection (both internal and external, to check that there are no obvious fabrication defects), which is then followed – in the case of truck tyres – by an X-ray inspection in specially shielded areas.



ECO-SUSTAINABILITY OF PRODUCTS

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, manufacturing and end of life. According to this publication, about 90% of the impact during this phase results from the consumption of fuel caused by friction between the tyre and road surface, while the remaining portion stems from interaction between the environment and the solid particles released by the tyre due to its contact with the road surface (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 constant exchange of information and experience with other tyre manufacturers, and participates in the specific working group set up by the World Business Council for Sustainable Development.

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 performance. Pirelli is actively developing and using a series of new, increasingly ecological materials for compounds. Research and development will enable the Group to eliminate highly aromatic oils from its entire worldwide product line by 2013.

In 2010 Pirelli continued research on raw materials from renewable sources that will lead it to produce ecological silica derived from food processing scraps (rice husks).

PIRELLI CINTURATO: ENVIRONMENTAL FRIENDLY PERFORMANCE

Environmental friendliness, safety and performance are the key features of the new Pirelli 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 P1 (to be launched in spring 2011), P4, P6 and P7 (dedicated to the premium car segment) and featuring ECO-IMPACT on the sidewall, can reduce rolling resistance by 20% and energy consumption by 4%, while increasing overall mileage by up to 30% in the case of the P4 Cinturato line.

**REDUCE
IMPACT
NOT
PERFORMANCE**

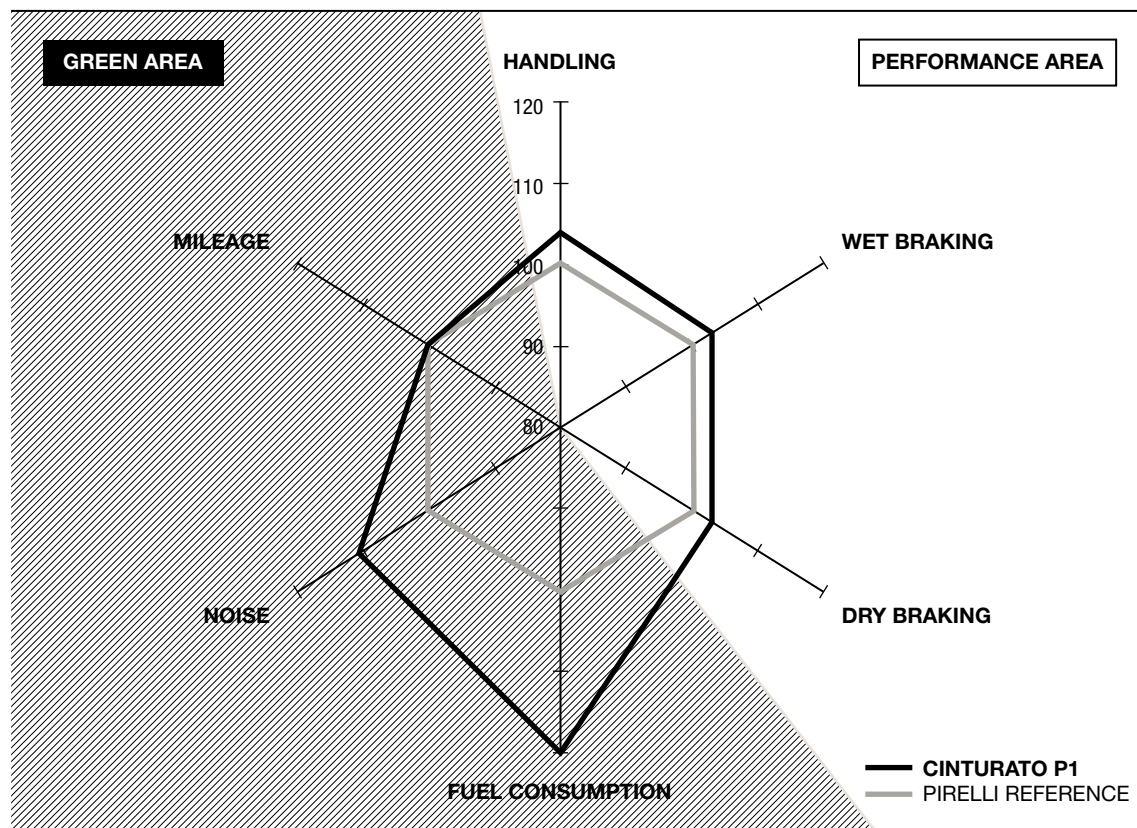


Cinturato
GREEN PERFORMANCE



POWER IS NOTHING WITHOUT CONTROL

CINTURATO P1



The key features of the product are described as follows.



Lower fuel consumption and CO₂ emissions: the new Cinturato cuts rolling resistance by 20%: this means a savings of 4% in terms of fuel consumption and polluting emissions. Rolling resistance depends on factors both independent of the tyre (vehicle speed and weight, type of road surface, air temperature and tyre pressure) and intrinsic to the tyre, such as structure, compounds and tread pattern. In designing the new Cinturato, Pirelli has made changes to these factors, introducing innovative solutions covered by patent.



Greater mileage: The tread compound of has been reinforced with specific ingredients to extend the durability of the tyre without sacrificing grip characteristics.



Reduction of pollutants: Pirelli eliminated highly aromatic oils from the tread compounds in 2008, before the applicable European Directive came into force. The impurities present in these types of oils consist of polycyclic aromatic hydrocarbons, which are potentially harmful to human health. Furthermore, the

Group is actively working to replace these substances outside of Europe as well, even if the new regulatory restrictions mentioned above do not apply there.



Noise abatement: one of the distinctive characteristics of the new car tyres is their significantly reduced acoustic impact. This simultaneously satisfies new European regulations that will come into force in 2012 and the expectations of car makers. Noise has been reduced by an average of 27% both inside and outside the vehicle. This reduction in noise has been one of the objectives shared by all new product lines.



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, is the other key parameter according to which the new models have been designed. 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 as compared with other tyres.

SCORPION VERDE PIRELLI: GREEN PERFORMANCE FOR SUVs

Pirelli research and development activity created new products in 2010 in the car and light truck tyre segment, flanking the existing green line of Cinturato tyres.

The Group decided to launch the Scorpion Verde in Barcelona. This is the first high performance ecological tyre for SUVs and crossovers that has been made in accordance with the Pirelli green performance strategy.

From March 15th to 25th, 2010, in the place where the "Scorpion" family of tyres dedicated to 4x4 vehicles was introduced 13 years ago, over 150 journalists and 400 resellers from all over Europe and Japan alternated in a marathon of presentations and tests – in town and on the Idiada circuit – organised by Pirelli to introduce the first SUV and crossover tyre that combines environmental friendliness, savings, braking, road hold and driving pleasure without impairing performance.

Scorpion Verde extends the green performance line to the world of SUVs, whose end users need a performance product that is also mindful of the environment.

Fabricated from materials without highly aromatic oils, Scorpion Verde reduces overall fuel consumption by up to 3.9% in city driving and 3.4% in mixed driving conditions (city and highway) as compared with the best-of-class in this product category. It also reduces noise by one decibel, or almost a third of the total.

The new tyre has thus been lightened and designed to use up to 10% less raw materials, with the same reduction in environmental impact by unit produced.

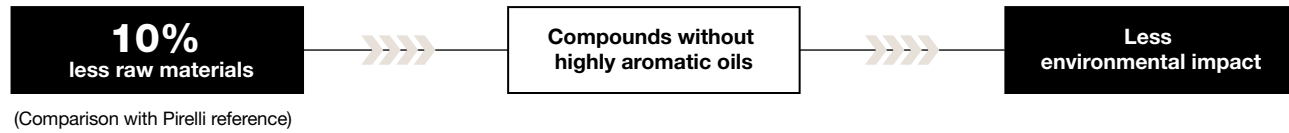
The strongly ecological character of this tyre is complemented by improved braking, better hold on wet surfaces and handling. In addition to inheriting the ecological experience accumulated by Pirelli technicians with the Cinturato P7, Scorpion Verde develops the high performance technology of the PZero family.

SCORPION VERDE

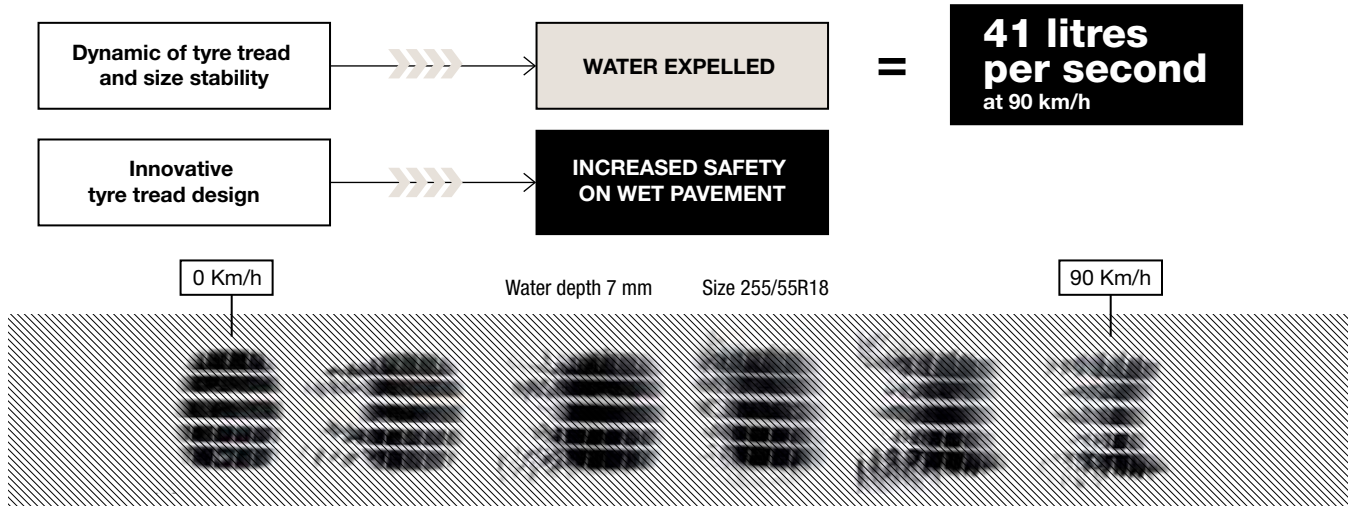
 **GREEN PERFORMANCE**

PIRELLI
POWER IS NOTHING WITHOUT CONTROL

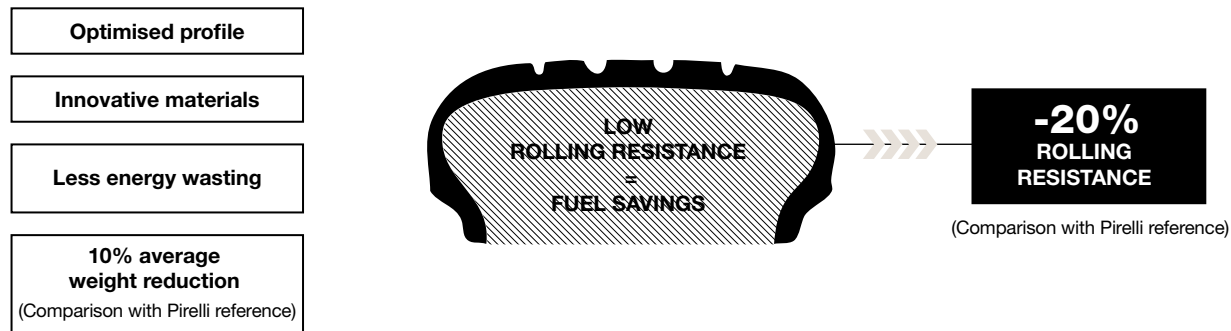
CLEAN AIR



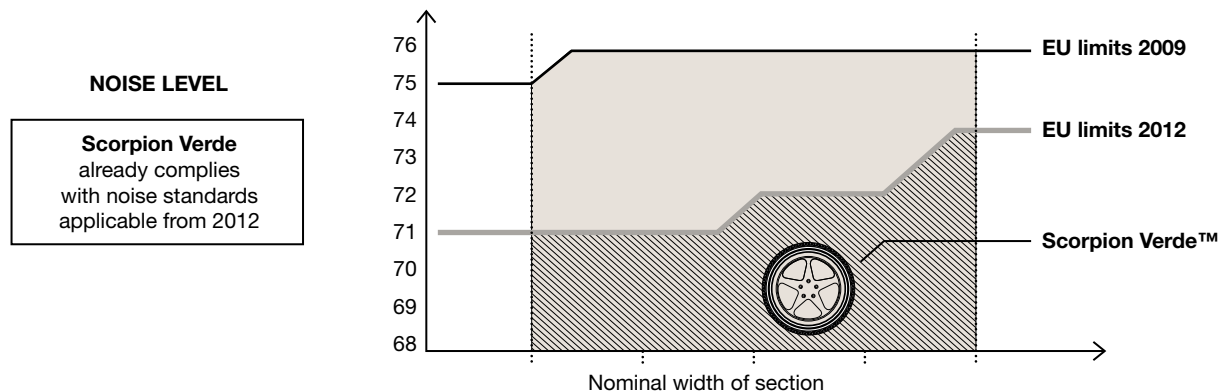
WET PERFORMANCE

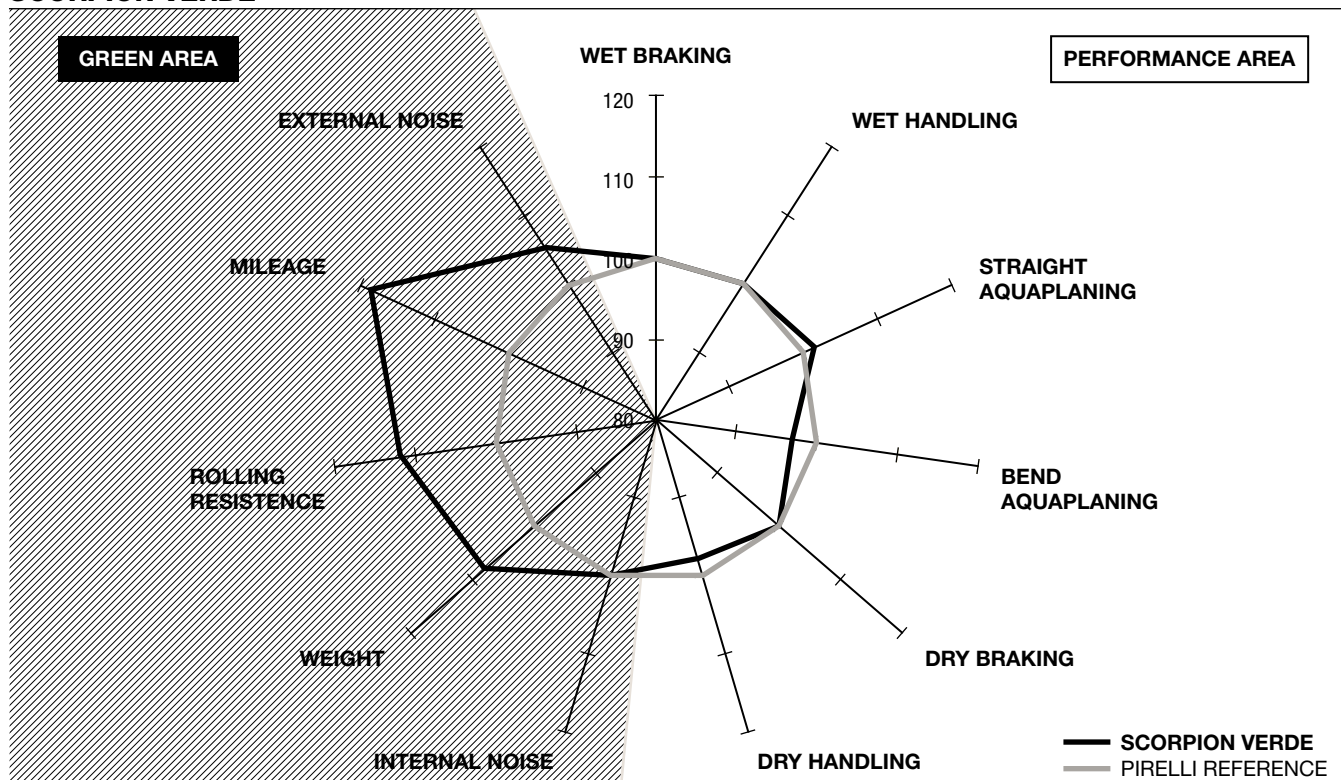


FUEL SAVINGS



NOISE ABATEMENT



SCORPION VERDE**GREEN TRUCK INNOVATION**

The principal objective of research and development in the Truck Business Unit is to strike the right balance between all the characteristics of a Pirelli tyre: performance, safety and environmental friendliness. This means developing a tyre that is not limited to compliance with regulatory requirements governing integrity, eco-compatibility, and so on, but extends to all those elements or factors that a tyre must have to offer complete safety both for the driver and the world surrounding him. This radically changes the way a tyre is designed, since it implies developing it for

any situation, including unusual conditions.

One of the principal eco-compatibility features is reduction of the energy necessary to fabricate the tyres. For example, a reduction in weight reduces both the raw materials and energy necessary to fabricate the tyre.

The use of recyclable raw materials plays a key role in design. Another key aspect is tyre mileage potential: not only its first life, but also the number of re-treads that can be realised on the same casing translate not only into energy savings but also savings of raw materials. This involves reducing its overall environmental impact while remaining focused on improving the product's performance.

SERIES 01: SUSTAINABLE INNOVATION**ECDIMPACT****HIGH MILEAGE**

- Improved mileage and longer first life of the tyre.

**RETREADABILITY**

- Easy tyre reuse thanks to high retreadability and recyclable materials containing no environmentally-harmful highly-aromatic oils (HAOF).

**ENERGY™ EFFICIENT**

- Low rolling resistance with reduced fuel consumption and CO₂ emissions.

**LOW NOISE LEVELS**

- Improved quietness and excellent travel comfort.
- Noise levels already compliant with 2012 European Directives.

A whole series of innovations were rolled out in 2010. From April, Amaranto FH88 Energy™ is available in the 385/65 R 22.5 size to equip the steering axles of vehicles used on long and medium routes (H and R segments). Compared with the previous FH55, the new 385/65 R

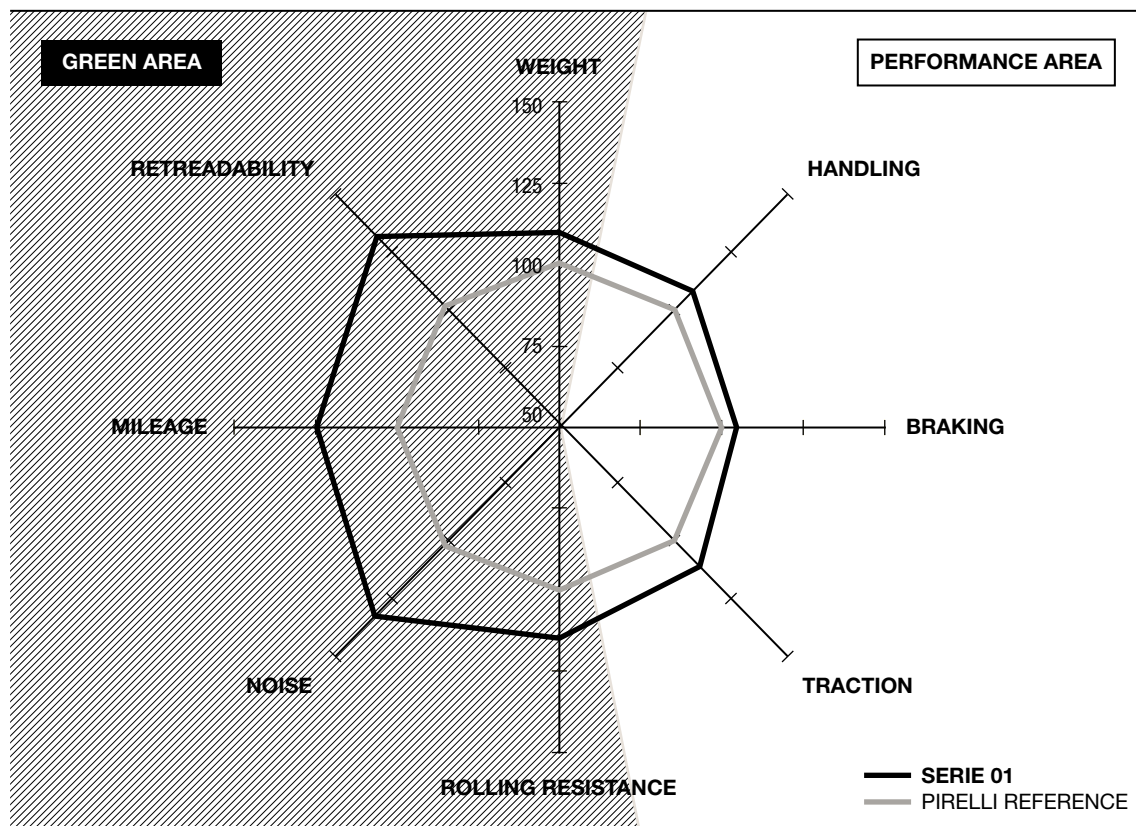
22.5 FH88 offers better performance in terms of useful life, rolling resistance, acoustic comfort and retreadability.

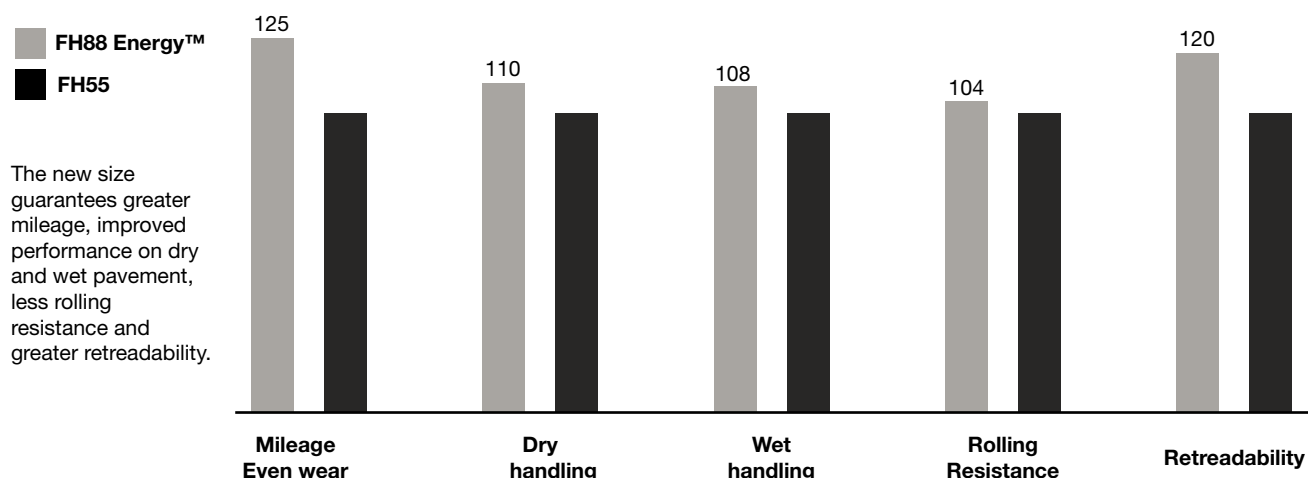
In 2010 Pirelli rounded out the most complete range of tyres for city busses on the market: MC85 / MC85 M+S / MC88 M+S for efficiency and safety in urban public transport.

In the urban public transit sector, the demands of transport companies and passengers can be summed up in three key points: efficiency, economy and safety. These performance characteristics are demanded both of the vehicles used and their individual components, and particularly tyres.

Pirelli has used the latest structures and materials in these tyres, perfected by the Research & Development Department to guarantee high performance in terms of mileage, durability, safety and comfort.

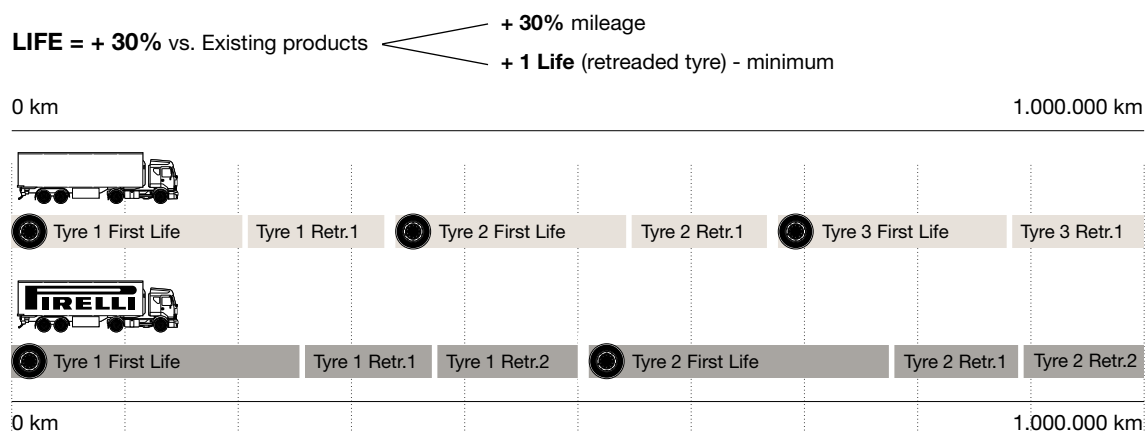
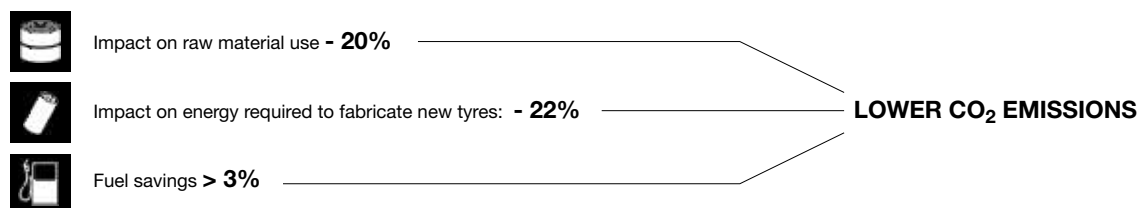
- Mileage: realised by using a special compound that is highly resistant to abrasion and the type of tread design with three deep grooves, which also permits reshaping.
- Durability: this refers to resistance of the casing structure for retreading, achieved with the SATT™ structure, the hexagonal section ring and reinforced sidewalls.

01 SERIES

FH88 ENERGY™

- Safety: in terms of grip, handling on wet, slippery surfaces and limited braking distances, realised through the formulation of the tread compound and special tread pattern with zigzag grooves.
- Comfort: this refers to the effective absorption of shocks caused by irregular road surfaces and low noise, accomplished with the SATT™ structure and geometry of the tread design.

Every line has been designed to maximise performance under a specific weather condition, by means of specific tread design characteristics, with a special focus on handling and grip. The quality and completeness of its product range means that Pirelli tyres are the top choice for many local public transport companies and equip thousands of vehicles in various European cities.

TYRE LIFE: ENVIRONMENTAL IMPACT**ENERGY SAVINGS OF SERIES 01 COMPARED WITH EXISTING PRODUCTS**

Pirelli Truck completes the range of products to be used on trailers and semi-tractor trailers in the H (Highway / long distance) and R (Regional) segments, with the 435/50 R 19.5 ST:01 size. Due to its size characteristics, this size is also called supersingle and is used especially in equipping “mega-trailers”, i.e. the trailers used for transporting large volumes. In terms of market potential, the 385/55 R 22.5 and 385/65 R 22.5 sizes still have limited volumes, although their popularity is growing.

Use of the 435/50 R 19.5 size, as compared with the 385/55 R 22.5, makes it possible to transport about 4 m³ more cargo, while holding the load capacity constant. Compared with use of 19.5” in pairs, the advantage lies in

managing 6 tyres and 6 rims, instead of 12 plus 12. This fact, aside from streamlining operating and maintenance times, offers a slight advantage in terms of weight load when the total gross weight of the vehicle is kept constant (about 190 kg compared with use of the 285/70 R 19.5 size).

Aside from its versatility, customers obviously expect the same level of performance in both uses, load and volume: durability, mileage, integrity and reliability. However, from the technical point of view, due to the diameter, lowered clearance and maximum bead- ing dimensions, the structure of this tyre is subjected to higher levels

of stress than other tyres: loads, lateral forces, deformation and slippage that increase the potential criticalities at the extremities of the belt bundle and bead.

For this size, the Group R&D technologists have thus created a new structure to be used with the familiar SATT™ technology process: this is TWST (Twin Wrapped Spiral Technology), patented by Pirelli. The new belt structure, combined with the use of more innovative materials (compounds and fine cords), the reinforced bead, the strap ring (HBW – Pirelli patent) creates a tyre that offers the benefits summed up in the concept “ECOIMPACT,” common to all of those new generation tyres offered in the Series 01, which combine user benefits with environmental friendliness.

The “Pirelli Lifecycle Management” programme (for improving tyres, aiming to reduce their cost/kilometre and

environmental impact by improving the entire life cycle of the product) underwent interesting developments in 2010. In the heavy vehicle tyre re-treading market, Pirelli Tyre signed a collaboration agreement with Marangoni (with whom it had already had an agreement since 2003) for Europe. This was subsequently extended to South America, where the Group is the unchallenged leader in the truck tyre segment. The agreement calls for supplying pre-moulded belts for re-treading Novatek brand tyres (this brand is owed by the Group) using the original Pirelli tread design. Marangoni makes the belts sold in Europe at plants in Hamburg, Germany and at Ferentino, Italy.

This project aims in particular at improving the new Series 88 and 01 products, which were introduced on the market in 2009. The belts are available with five different types of compounds, since each is specifically designed for a particular user segment. It must be emphasised that re-treading is outsourced exclusively to a network of re-treaders selected and certified by Pirelli. The partnership between the Group and retreaders, with the collaboration offered by Marangoni on the technical and industrial level, will create a vast professional network capable of guaranteeing quality and a local presence to all the biggest truck fleets in Europe.

SAFE & GREEN: CYBER™ TYRE “LEAN”

The normal use of a car having tyres whose pressure is 20% less than its recommended pressure may result in up to 3% higher fuel consumption (with a consequent increase in environmental pollution), as well as 25% greater irregular wear and tear on the tyre tread, which reduces the lifetime of the tyre by 30%. This has led to the need to install a tyre pressure monitoring system on cars.

After offering the K-Pressure™ Optic system to the replacement market in past years, Pirelli is now able to offer the original equipment market the most advanced system for measuring tyre pressure and temperature. Cyber™ Tyre “Lean” not only satisfies the new regulatory requirements in force in Europe from 2012, it also offers a series of additional information in order to optimise tyre pressure under all load conditions, with additional benefits in terms of fuel consumption. Consisting of a sensor slightly larger than a 2 Euro coin, mounted inside the tyre rim, it represents the first step towards a deep transformation of the tyre into an active system, capable of transmitting useful data and information to the vehicle, to offer new functions for driver safety.



PIRELLI LIFE CYCLE MANAGEMENT



FORMULA ONE

In 2010 the **FIA (Fédération Internationale de l'Automobile)**, the **teams and the Formula 1 organisation** chose **Pirelli as their sole supplier for the three-year period 2011-2013**.

Pirelli will provide the teams with six different types of tyres for the whole season: four slick type tyres, made of different compounds for use in races on dry asphalt; one rain tyre, developed for heavy rain; and an intermediate type tyre for use on damp asphalt and in light rain.

In line with the Green Performance strategy, aimed at developing products and solutions that combine maxi-

mum performance and safety with respect for the environment, Pirelli's supply relationship with Formula 1 is based on the principles of environmental sustainability. Like all Pirelli racing tyres, the PZero compounds to be used for the world's most important car racing championship have eliminated all highly aromatic oils. Furthermore, the production plant processes are managed to economize on energy and water use and thus reduce greenhouse gas emissions, such as CO₂. Special care is taken to reuse production scraps and used tyres. The disposal protocol calls for recycling used F1 tyres, which will be used to generate new raw material for other tyres or generate power.



F1 TEAMS MADE A CHOICE.



PIRELLI. OFFICIAL TYRE SUPPLIER F1.



POWER IS NOTHING WITHOUT CONTROL.

END-OF-LIFE MANAGEMENT OF TYRES (ELT)

**1,4
BILLION**
tyres sold
every year by
all tyre makers
worldwide

About 1.4 billion tyres are sold every year worldwide (*JATMA Report 2010*), and they naturally become end-of-life tyres.

In 2009 about 2.6 million tonnes were produced in Europe; in 2007 about 4.6 million tyres were made in the United States, and about 800 thousand tonnes were made in Japan. These numbers clearly indicate the dimensions of the phenomenon and its potential environmental impact. In these three cases, the efforts made by institutions, producers and recovery chains have made it possible to achieve extremely positive results.

In Europe, 95% of end-of-life tyres (ELT) were recycled. In the United States, about 90% of ELT were recycled, while the corresponding amount for Japan is slightly higher (ETRMA ELT 2010 figures).

The Pirelli Group has been dedicated for years to research on the management of ELTs, both in-house at Pirelli Labs, and in collaboration with leading industry institutions inside and outside Italy. Pirelli is active in the Tire Industry Project (TIPG) of the World Business Council for Sustainable Development (WBCSD), in the ELTs (End of Life Tyres) working group of ETRMA

and, at the national and local level, It interacts directly with leading entities active in the recovery and recycling of ELTs.

As a member of TIPG, Pirelli Tyre has collaborated on the publication of a report on the management of ELTs, taking a pro-active approach to raising the awareness both of emerging countries and those that do not yet have a system for recycling ELTs, and to promote their recycling and reuse according to defined management models, which have already been successfully launched.

PRODUCTS OBTAINED FROM ELTS RECYCLING

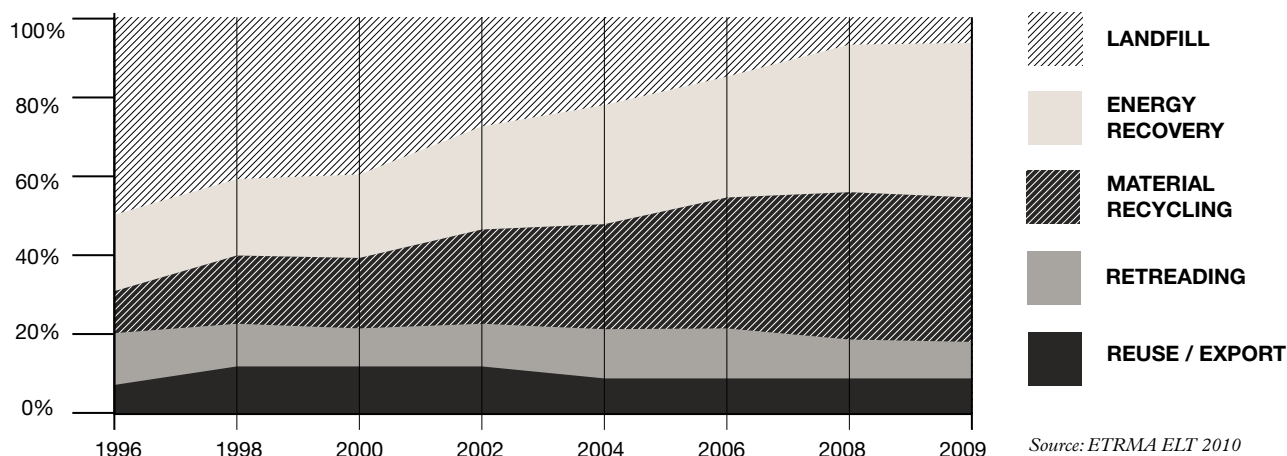
At the material component level, tyres are made of numerous materials that influence how they are recovered.

An end-of-life tyre can be recycled in two different ways:

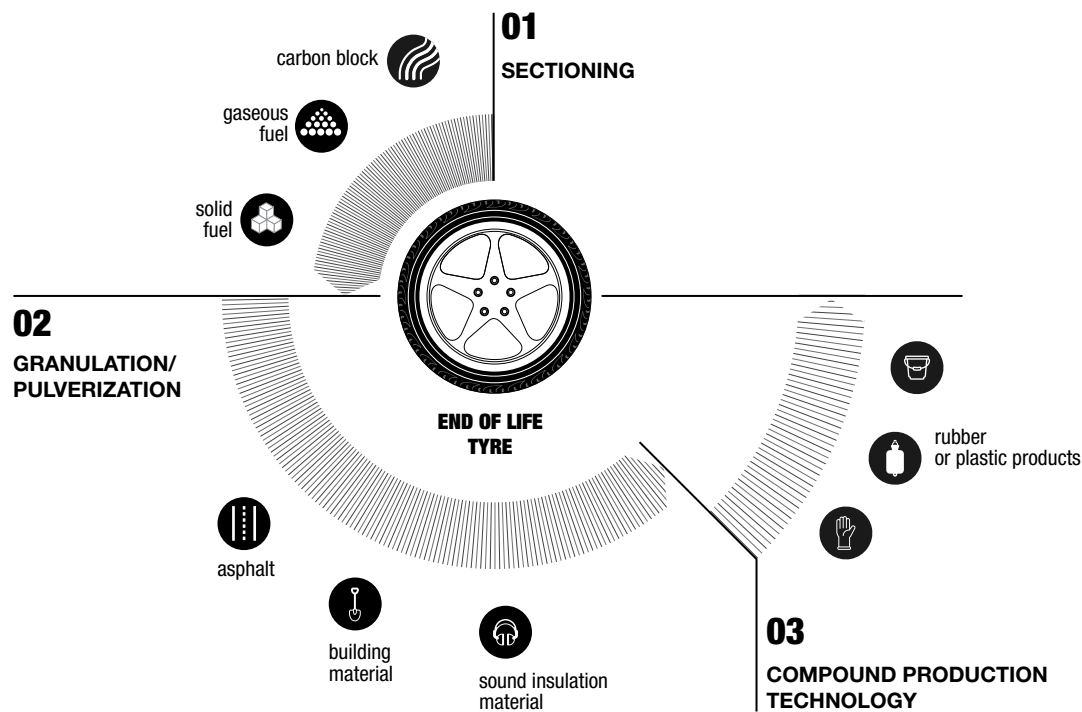
- **Recycling of material:** the tyre can be used as-is, or after physical treatment in countless applications, from civil engineering works to the production of asphalt and compounds ready to be reused in production processes.
- **Recovery of energy:** due to the high caloric content of ELTs, which exceeds that of coal, they are used as fuel in thermoelectric plants and in the ovens of cement production plants. The presence of natural rubber means that the ELT has a biomass content that is near or above 20% of its total weight, thereby assuring a reduction in the greenhouse gas emissions of the plants that use them.

95%
recycled tyres
in Europe in 2009

EVOLUTION OF USED TYRES RECOVERY ROUTES



TYRE RECYCLING DIAGRAM

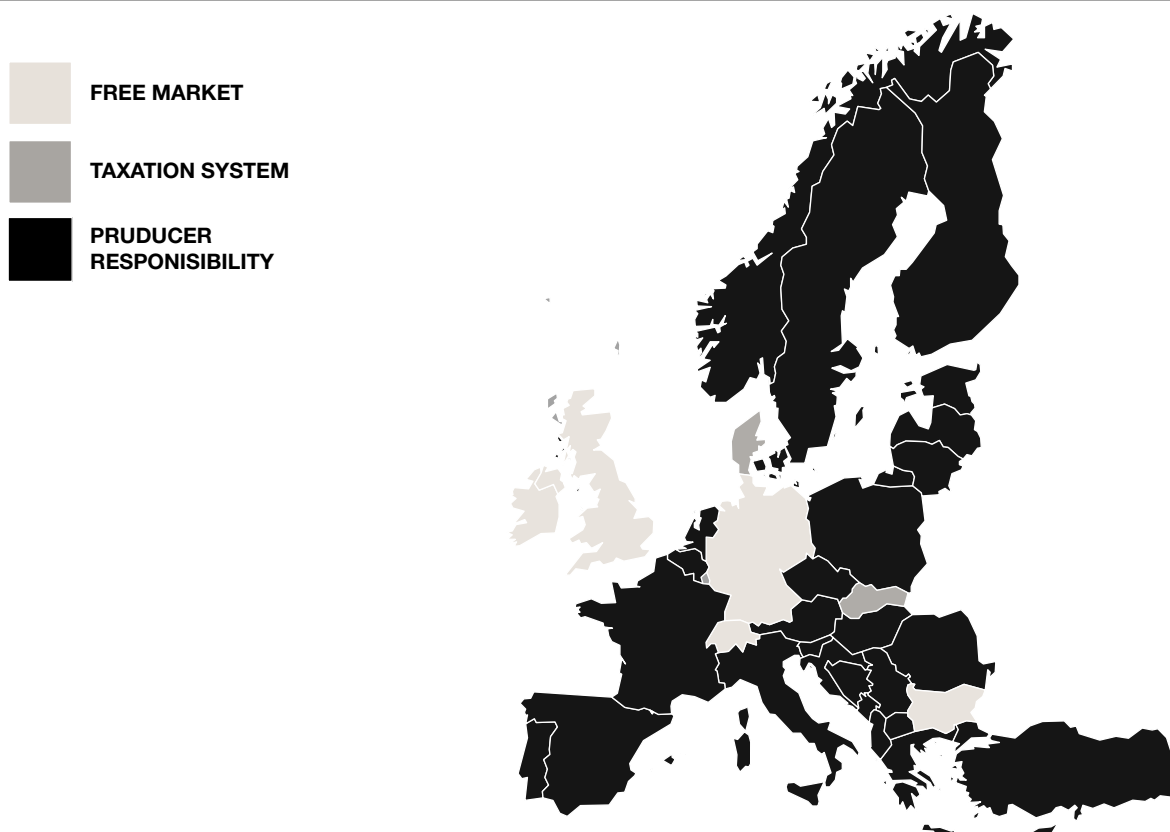


THE THREE SYSTEMS FOR MANAGEMENT OF ELTS

Taxation system	Each country is responsible for the recovery and recycling of ELTs. The tyre makers pay a tax to the government, which has overall responsibility for organisation and compensates the individuals and companies that recycle the ELTs. The tax is then passed on to the consumer.	Applicable in Denmark, Slovakia and Slovenia.
Free market	The law sets the targets to be reached and the parties responsible for the individual stages of production and recovery, but it does not impose responsibility for the entire recovery process. Consequently, all system operators make agreements on the free market and act in compliance with local waste management law.	Applicable in Austria, Bulgaria, Croatia, Germany, Ireland, Switzerland and the United Kingdom.
Producer responsibility	The law defines the legal structure and makes the tyre makers responsible for organising the management of ELTs. It is possible to set up a not-for-profit company to manage the ELTs by using more economical solutions. The tyre makers must monitor their recovery activities and submit reports to national authorities.	Applicable in Norway, Netherlands, Sweden, Belgium, Finland, Estonia, France, Poland, Portugal, Hungary, Romania, Spain, Greece and Italy.

Source: "Ecopneus", www.ecopneus.it

ELT MANAGEMENT: COUNTRY SPECIFIC IMPLEMENTATION IN EUROPE



Source: "ETRMA", www.etrma.org

SUSTAINABILITY, TECHNOLOGY AND PRODUCT: INITIATIVES FOR SPREADING ENVIRONMENTAL AND SAFETY AWARENESS

At the 2010 Hannover Trade Fair, one of the biggest and most important industrial trade fairs in the world, entitled "*Efficiency, Innovation, Sustainability*," the massive presence of Pirelli products at the Italian stand confirmed the eco-sustainable policy adopted by this company. The Group accepted the invitation to participate at the ICE stand, an opportunity to present to the public the concept of **green performance: a set of technologies, compounds and solutions focused on improving the performance of its new products and simultaneous reduction of its environmental impact.**

At the Italian Stand, which hosted Pirelli, visitors were able to admire the Cinturato P7 car tyre, the TPMS Cyber™ Tyre Lean sensor and the new Feelpure™ A/R anti-particulate filter for heavy vehicles. The Regional

Series:01 tyre generated wide appeal in the commercial transport sector. Developed with new patterns, structures and materials, the FR:01 reduces environmental impact and acted as the true ambassador of sustainable mobility. Various initiatives were carried out in 2010 to promote the culture of product environmental sustainability.

In May, the first event dedicated to improving awareness of Group products was held in at the company's Bicocca headquarters in Milan, as part of the international project "Product Experience," dedicated both to employees and to Pirelli Tyre customers. The keynote speakers were the Market Director, Uberto Thun, who introduced the concept of green performance and the Pirelli strategy in this area, and the Product Director, Maurizio Boiocchi, who illustrated the exclusive characteristics and performance of the Scorpion Verde, in response to end customer and automotive industry requirements. Three hundred persons attended the event, which should become a regular occasion for giving updates on Pirelli products to its employees.

The first “Tyre & Product Training Week” ended on Thursday, December 16 in Milan, at the Bicocca Auditorium. This event was organised within the framework of the Tyre Campus and aimed to provide theoretical and practical training about tyres. On this occasion, 25 technical training managers from 24 countries offered training seminars on tyres and the range of Pirelli car products. They also improved their own communication skills by participating in the “Train the Trainers” programme. The participants engaged in product experience activities by visiting the Milan Experimentation Department and, on the fourth day, the new Pirelli Industrial Centre at Settimo Torinese. During the event, they were provided with all supporting tools for Pirelli product information and training activities, such as the “Tyre & Product Library,” whose content and user rules were thoroughly revised, as well as a platform dedicated to sharing information and tools.

Pirelli has also signed the *European Road Safety Charter*, the participatory vehicle promoted by the European Commission and comprised by over 1,950 companies, associations, research institutes and public entities. They are engaged in taking concrete measures and sharing practices to solve road safety problems, with the specific aim of reducing the number of motor vehicle accident victims.

With this agreement, Pirelli has committed itself to intensifying its programme of safety initiatives already undertaken at the international level. In addition to guiding the choice of consumers towards high-end tyres, Pirelli has implemented prevention and maintenance programmes and tools. These include “mobile workshops” for free checks of tyre condition and tyre “maintenance lessons” to raise motorists’ awareness of their importance to driving safety.



AWARDS



In 2010, Pirelli’s flagship green performance product received major recognition for its comprehensive sustainability. “Exemplary, with no weaknesses”: this was the brilliant result achieved by the Cinturato P7 in ecologically focused tests organised in Germany by the specialised magazine “*Autobild*.” These tests were held to assess the capacity of this type of product to combine energy savings and safety features, even under the most demanding conditions on wet roads.

When compared with four other 205/55R16 V tyres, the Pirelli “green” tyre designed for medium and high-powered cars received the highest overall score. It stood out especially for its performance on wet road surfaces – handling and braking distance – and aquaplaning on curves.

The Group received numerous other awards and recognition for the quality, performance and eco-sustainability of its products. They have been cited in the first chapter of this report, in the section dedicated to the principal awards received during the year.

PRODUCTS OF OTHER BUSINESSES

Pirelli Eco Technology

Pirelli Eco Technology is the Group company that operates in the diesel vehicle and heating plant emissions control technology sector.

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. One of the principal sources of particulate in urban areas are combustion processes in heating plants or 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 these emissions. Pirelli Eco Technology offers the following products: Feelpure™, a particulate filtering system and GECAM™, the white diesel, “reduced particulate emission” fuel oil.

THE FEELPURE™ SYSTEM

Pirelli has been producing and developing Feelpure™ filtering systems since 2004 as mufflers to substitute the original equipment mufflers on diesel engines. They can reduce the mass of diesel engine PM10 emissions by over 90% and NO2 emissions by 50% on average.

With its production facilities in Italy, in Romania and, since 2010, also in China, 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.

GECAM™, WHITE DIESEL

GECAM™ - 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 reduce particulate emissions and the formation of nitrous oxides, one of the principal pollutants typically found in urban areas.

Pirelli Ambiente

The Group is actively engaged on energy and environmental issues, and offers solutions for sustainable development through its subsidiary Pirelli & C. Ambiente S.p.A.

By recovering urban solid waste through its associate Idea Granda, Pirelli Ambiente produces CDR-Q, a high-quality fuel developed and patented with the contribution of Pirelli Labs.

Through Solar Utility and its subsidiaries and associates, it generates electric power from photovoltaic cells, providing customers with “100% green” energy.

Pirelli Ambiente Site Remediation offers solutions for management of environmental problems by conducting environmental due diligence.

Green&CO₂ operates in the building energy certification and energy consumption streamlining to reduce pollution emission segments.

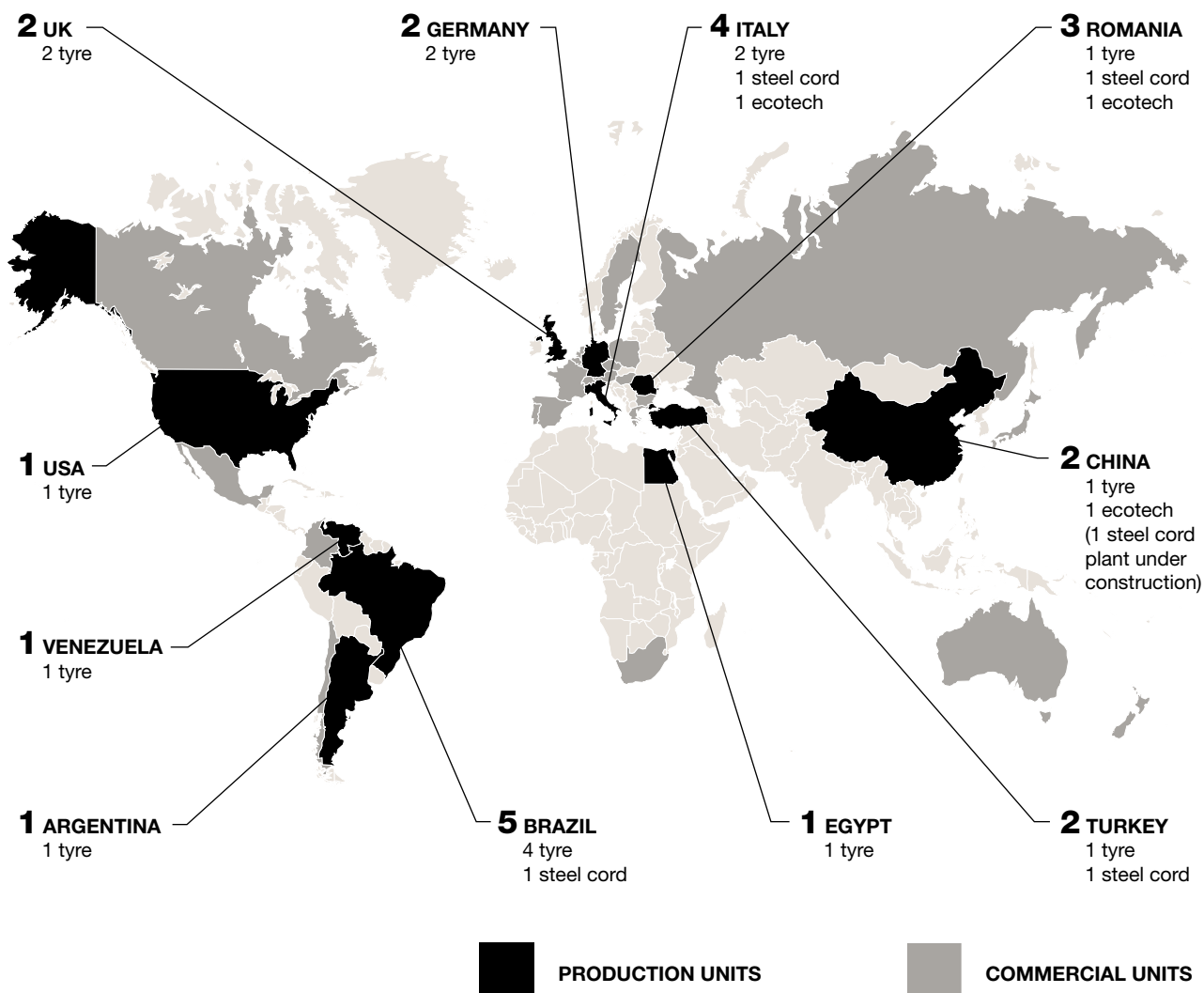
PZero fashion

Continuous green performance research is also a cornerstone of PZero, the luxury brand extension active in the field of industrial design for apparel.

The attention and care dedicated to researching cutting-edge materials and technological solutions, both in terms of design and environmental friendliness, represent the green performance approach taken by PZero.

ECO-SUSTAINABILITY OF PROCESSES

SCOPE OF PRODUCTION SITES – TYRE + ECOTECHNOLOGY



EXPANSIONS AND NEW SITES

The past year was marked both by the beginning of expansion of various existing production sites and the construction of new plants.

In particular:

- **Settimo Torinese (Italy)**, construction of the New Technology Centre and transfer of production activities from the Settimo Vettura site;
- **Slatina (Romania)**, expansion of the tyre production plant;
- **Yanzhou (China)**, expansion of the tyre produc-

tion plant and construction of the steel cord production plant;

- **Mexico**, construction of a new plant for production of high-performance and ultra-high-performance tyres, to be operational beginning in 2012.

Each project has been executed by dedicating adequate attention to all environmental issues, both during the design and construction of buildings, and during the definition and installation of processes and production machinery, with the awareness that these choices will impact environmental and other types of performance over the years to come.

OTHER SITES

Pirelli periodically audits the environmental performance of all facilities that are not classifiable as manufacturing sites, focusing in particular but not only on their power and water consumption.

The ecological impact of these facilities is marginal in comparison with the impact generated by production plants (i.e. 2% of total Group consumption). However, measures are currently being taken to reduce the consumption of natural resources and energy and improve awareness of the specific environmental issues that depend on the different dimensions of each facility.

ENVIRONMENTAL PERFORMANCE

The presented environmental data cover the entire scope of the Group, and thus cover both the offices and production sites, with the exception of the production sites that are not yet completed.

Production recovered strongly in 2010, making it possible to use plants at full capacity and consequently improve their environmental performance significantly, aside from any specific efficiency and improvement measures.

The expansion and construction site activities had a significant impact on certain environmental parameters, with the most visible effect being that on waste output. Pirelli Real Estate and Pirelli Broadband Solutions were sold in 2010, on September 30 and October 31, respectively. The environmental performance indicators consolidate the data from these companies up to their disposal date.

Analysis of Group environmental indicators uses the same scope of consolidation as the one used for operating and financial results. The performance of the Tyre segment is reported separately from the other businesses (Pirelli Eco Technology, Pirelli Ambiente, PZero, Corporate) that also include the activities sold in 2010 (Prelis, formerly Pirelli Real Estate, and Pirelli Broadband Solutions). It should be emphasised that almost the entire environmental impact of Pirelli processes is generated by its production sites. The principal changes in the scope of reporting during the three-year period 2008-2010 are broken down as follows:

- **2008:** all tyre and steel cord production plants, plus – for the second half of the year only – the EcoTechnology factory in Italy;
- **2009:** all tyre and steel cord production centres, with the addition of the contribution of the EcoTechnology factories in Italy and Romania;
- **2010:** the Settimo Torinese (Vettura) has been decommissioned since 2009; its production activity has been transferred to the “New Industrial Centre.” Sale of Pirelli Real Estate and Pirelli Broad Band Solutions.

In regard to environmental performance, the specific consumption during the last three years reported in the following graphs was calculated by standardising the data with tyre production (about 900,000 tonnes in 2010).

In 2010 a new calculation model was implemented, based on energetic/environmental factors and coefficients updated according to the following official sources:

- *IPCC 2006 Guidelines for National Greenhouse Gas Inventories;*
- *IEA 2010 CO₂ emission from fuel combustion.*

The 2008 and 2009 indicators have also been revised in accordance with this new method, in compliance with the GRI and GHG Protocol reporting rules.

Energy

Better energy efficiency can produce substantial benefits both for global economic growth and poverty reduction as well as for mitigating climate change.

Kandeh K. Yumkella, Chair, UN-Energy

The focus on energy efficiency and development on its management system continued in 2010, with actions at each of the Pirelli production units that are still concentrated on two principal problems: improvement of the performance of existing production sites and the development of new sites according to the Group's best standards.

International guidelines and standards are applied to guarantee growth and development of production that minimise environmental impact, while maintaining adequate economic efficiency, with the commitment to create and integrate them in business processes. Pirelli promotes eco-efficiency, the conservation of non-renewable natural resources and investment in the development of innovative products and processes. The Group measures its environmental impact in view of improving them and promotes the adoption of best practices.

Major progress was made in 2010 in all areas of responsibility, through continuous application of actions aimed at:

- **improving the energy management systems**, by exactly measuring consumption and focusing daily

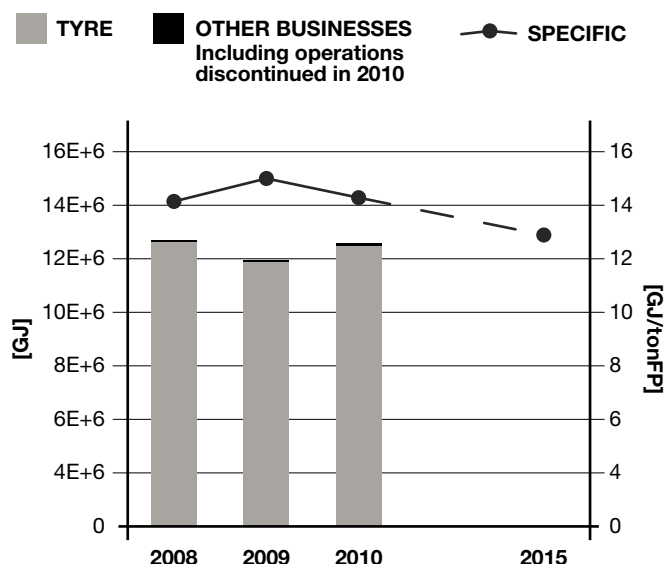
-15%
specific
consumption
of energy
by 2015

on technical indicators;

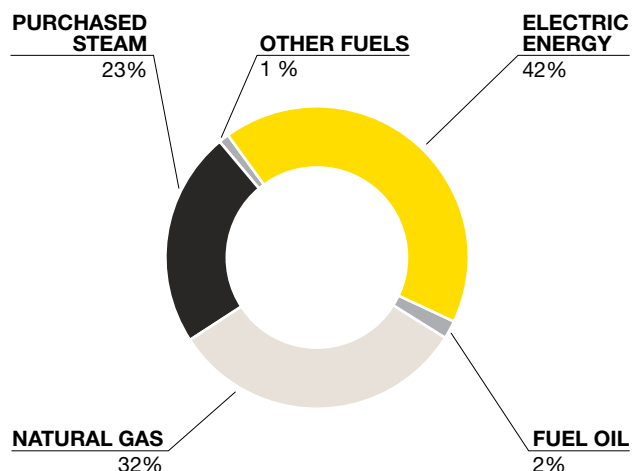
- **improving the quality of energy transformation** by streamlining resource and plant use;
- **improving the efficiency** of distribution plants;
- **recovering energy** for other uses;
- **applying targeted maintenance plans** in order to reduce energy waste.

Thanks to these actions and to the saturation of the productive processes, not reached in 2009, Pirelli's specific energy consumption was reduced by more than 5% from the previous year, as illustrated in the following graphic.

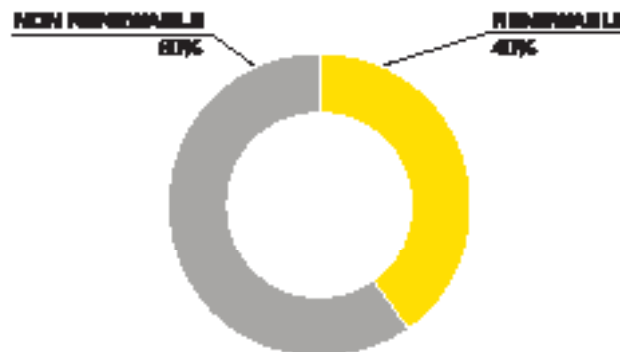
ENERGY CONSUMPTION



DISTRIBUTION OF ENERGY SOURCES



DISTRIBUTION OF THE PURCHASED ELECTRIC ENERGY SOURCES



The results achieved by production plants confirm the targets set out and illustrated in the previous Sustainability Report.

OBJECTIVES TO 2015

Specific targets have been defined for reducing specific energy consumption by a total of -15% from 2009, during the five-year period 2010-2015. In 2011 plans call for actions to reduce specific consumption up to 13% from 2009 levels.

CO₂ Emissions

The scientific evidence remains overwhelming and the case for bold and urgent action to tackle climate change is stronger than ever. As business leaders, we are used to making decisions on the basis of projected risk and established scientific fact, at this point in time we cannot afford to ignore the undeniable impact of climate change on global populations, natural resources, the economy and on our businesses.

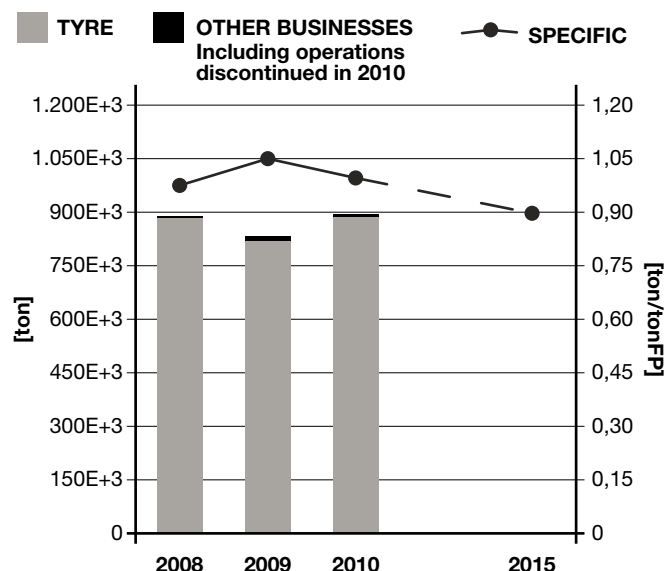
The Cancun Communiqué

Pirelli's industrial operations generate direct greenhouse gas emissions due to the transformation of fossil fuels (principally methane gas) into thermal energy. Indirect emissions derive instead from the production of energy by third parties, which is then purchased by the Group (electric power and steam). Pirelli monitors and consolidates "equivalent CO₂" for direct emissions, insofar as it also accounts for the contribution – albeit marginal – made by methane (CH₄) and nitrous oxide (N₂O).

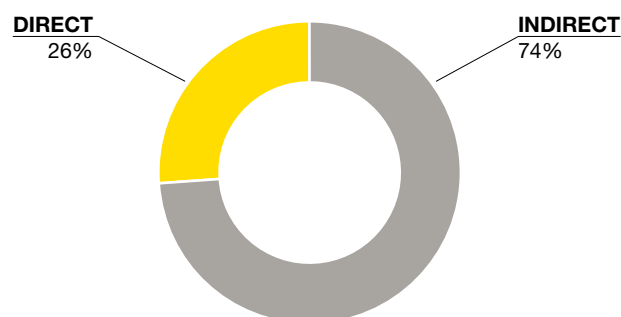
-15%
specific
EMISSIONS
of CO₂ by 2015

Specific emissions were reduced by slightly less than 5% in 2010, largely due to the abatement of direct emissions, resulting from measures taken to increase energy efficiency.

CO₂ EMISSIONS



DIRECT AND INDIRECT EMISSIONS OF CO₂ - 2010



OBJECTIVES TO 2015

Specific targets have been defined for reducing specific CO₂ equivalent emissions by a total of 15% from 2009, during the five-year period 2010-2015. In 2011 plans call for further reducing specific emissions by up to 9.5%, according to the change in energy consumption. Other more specifically focused actions are currently under study.

OTHER INITIATIVES

Offsetting CO₂ emissions



The actions taken by Pirelli to reduce greenhouse gas emissions stemming directly and indirectly from its activities include offsetting measures, such as support for the creation and protection of dedicated wooded areas that can absorb carbon dioxide emissions.

In 2010 the Group took action to create and protect 26,936 square metres of forest in Italy, in the

Parco del Ticino, and 5,014 square metres in Madagascar. These initiatives will generate carbon credits that will fully offset the emissions produced by the Vizzola Ticino Test Track, used by the Pirelli Experimentation Department for testing and developing tyres.

These initiatives are also characterised by their positive impact on biodiversity. The project in the Parco del Ticino is part of the network of projects for environmental improvement, mitigation and compensation that the Parco Lombardo of the Valle del Ticino has been pursuing for several years due to progressive territorial fragmentation caused by various human activities.

The project in Madagascar, carried out at the Mananby Reserve, is part of a bigger project for reforestation and preservation of biodiversity.

This initiative was defined in collaboration with LifeGate ImpattoZero®.

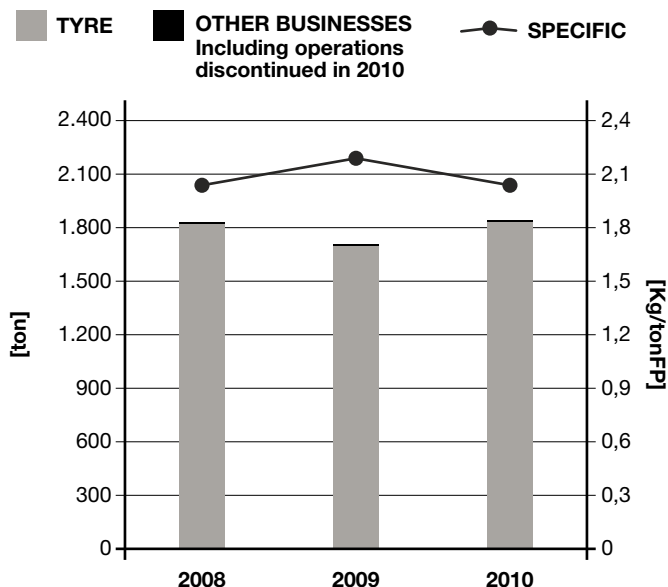
Monitoring of employee transport CO₂

During 2010 monitoring of CO₂ emissions from train and air travel by Italian employees continued. Travel by car was also included, as compared with the previous year. This contribution has been estimated to account for about 0.6% of all Group emissions. This figure is slightly higher than in 2009, but it remains at 2008 levels, partly due to the implementation of policies to encourage use of conference calls or videoconferences in place of travel.

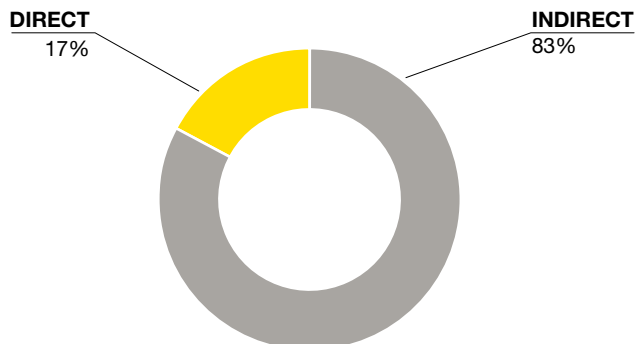
NO_x emissions

NO_x emissions (both in absolute terms and according to unit of output) are directly impacted by the energy consumption illustrated above. Therefore, both the recorded trends and forecast future trends track those for energy consumption.

NO_x EMISSIONS



DIRECT AND INDIRECT EMISSIONS OF NO_x – 2010



Water

Water touches practically all aspects of our lives. Water is the lifeblood of our planet - providing the life line to people, communities, biodiversity and in fact our economy as a whole and climate change threatens those very same things and to a large extent through impacts on water.

UN-Water Vice-chair Tim Kasten

The geographic distribution of Pirelli production plants gives a representative and varied view of the current situation of water resources.

Although the Group's production processes need modest quantities of water, as compared with the more water-intensive activities that are largely dedicated to thermal exchanges, there is a clear discrepancy in terms of the availability and quality that distinguishes the areas where production plants are located. This discrepancy charac-

terises ever-widening phenomena in everyday life around the world that have major repercussions at the local level.

Pirelli has decided to complement its efforts to reduce the impact of this phenomenon on climate changes with a concrete objective of reducing its own water use by 2015. It is included this goal in a project to reduce the pressure water resources, called "Water Project."

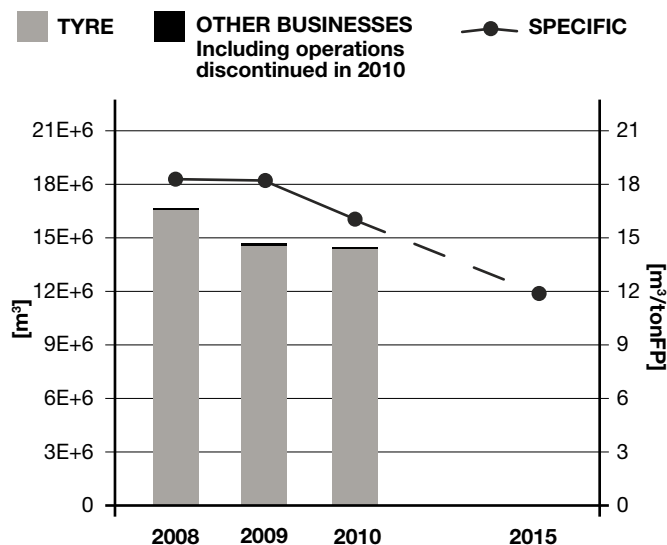
In practice, the "Water Project" will guarantee continuation of previously launched programmes for streamlining internal consumption, and on the other hand identification and management of its "water footprint", i.e. its impact on water resources throughout the entire tyre life cycle.

The importance of the goal testifies to the effort made by Pirelli to sustainable development of its activities, and water might be the resource that best illustrates the concept of sustainability: the balance between the economic, social and environmental dimensions, the balance between economic value, which influences and is in turn influenced by physical availability and the possibility of satisfying social and environmental needs.

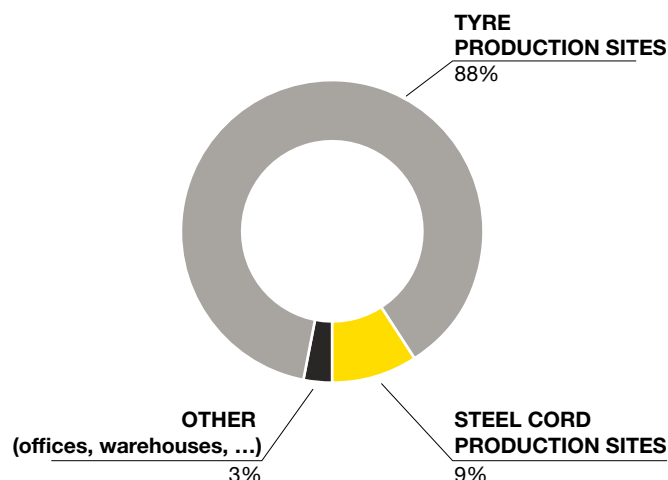
The application of the aforementioned project already gave the first result on the performance: in 2010 Pirelli's specific water withdrawal was reduced by more than 11% from the previous year.

-35%
H₂O specific
withdrawal
by 2015

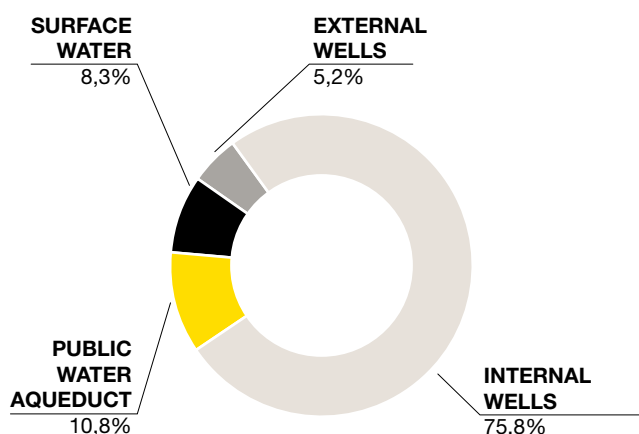
WATER WITHDRAWAL



DISTRIBUTION OF WATER WITHDRAWAL BY TYPE OF ACTIVITY – 2010



WATER SOURCES – 2010



In regard to **water discharges**:

- the volume of discharged industrial water is estimated to be about 8 million cubic metres, of which more than 70% was channelled to surface catch basins;
- the remainder was discharged in the sewage system, to which non-industrial waste water was channelled;
- before being discharged in the final catch basin, industrial waste water was subjected to periodic analysis, which did not reveal any violation of maximum concentrations allowed by local standards.

Waste

Environmentally sound management of wastes was among the environmental issues of major concern in maintaining the quality of the Earth's environment and especially in achieving environmentally sound and sustainable development in all countries.

Agenda 21 – Chapter 21

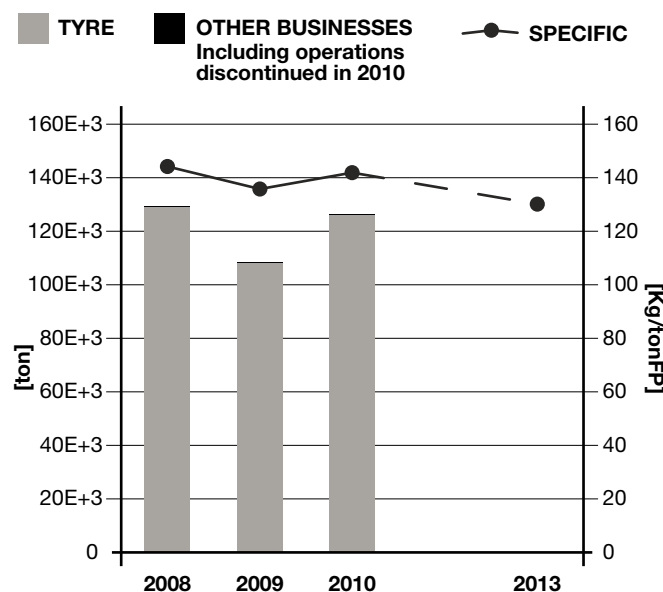
Sustainable management of the wastes generated by production processes is premised on the primary need of reducing waste output. Therefore, Pirelli bases its activities for improvement of its environmental management of waste disposal on:

- **innovation of production processes**, with the intention of reducing waste output at the source, steadily reducing processing discards;
- **streamlined packaging management**, whether the packaging is obtained together with purchased products or used for packing its own products (see the section on management of packaging);
- **operating management of generated waste**, aimed at identifying and ensuring the selection of waste treatment channels that can maximise their recovery and recycling.

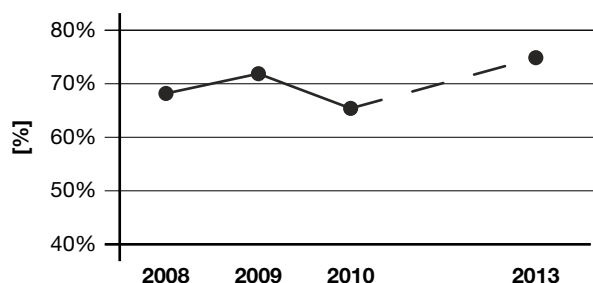
Aware of the environmental impact of waste output and waste sorting, the Group intends to **reduce the quantity of specific waste produced by 2013** by 5% as compared with 2009, and at the same time increase waste sorting to 75%.

The specific production of wastes increased slightly in 2010, mainly due to the expansion and industrialisation activities that will be fully operative in the next few years.

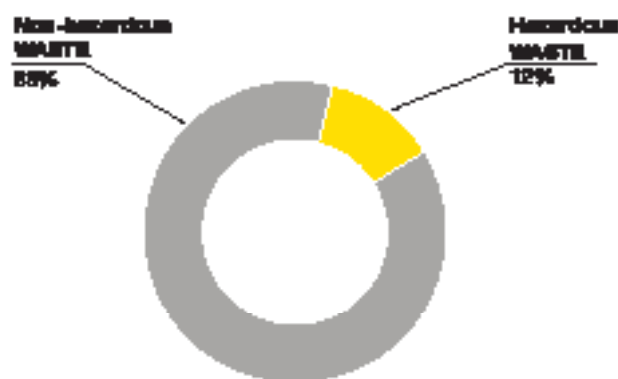
WASTE PRODUCTION



RECYCLED WASTE



DISTRIBUTION OF WASTE BY TYPE - 2010



HANDLING OF PACKAGING

Different procedures for handling packaging materials exist for different types of products. While tyres are sold without packaging materials, steel cord and particulate filters are sold in specific containers. It should be pointed out that tyre sales accounted for 98% of all Group sales in 2010.

Amongst the various programmes implemented to reduce the packaging materials used for making product sales, the Steel Cord Business Unit continues to manage and streamline the use of packaging materials, in collaboration with its own customers. The purpose of these actions is to increase the quantities of reusable packaging materials, both through their being returned to production sites and through replacement of certain types of packaging with more resistant models that are less subject to wear and tear and thus having a longer useful life.

More specifically, attention has been focused on replacing traditional wood pallets with new plastic or metal pallets, which are highly reusable. A plastic pallet can be reused about ten times, as opposed to possibility of using a traditional wood pallet once or at most twice. Reducing waste generates obvious benefits.

In particular, the replacement of all wood pallets with plastic and metal pallets was completed at the beginning of 2011, even in Latin America.

As a result, more than 90% of the pallets used by the

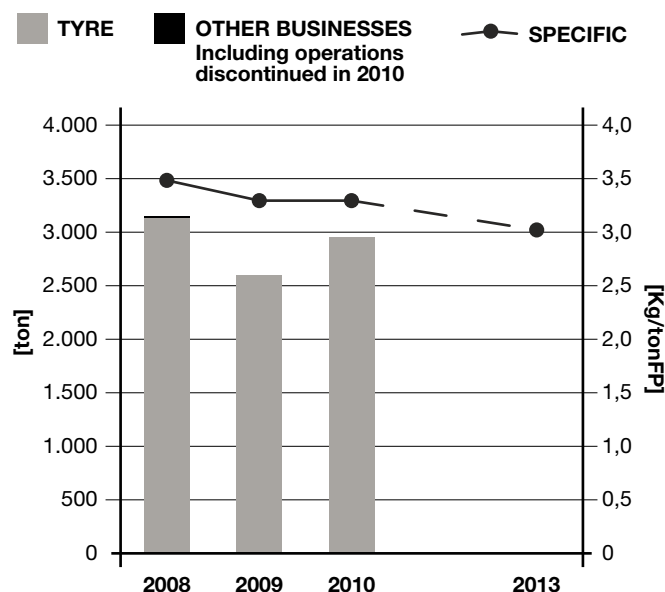
Steel Cord Business Unit are made of plastic or metal. A total of 40 thousand such pallets have replaced 320 thousand wood pallets, with consequent savings of 3,500 tonnes of wood from 2003 to now. The aim is to fully replace all wood pallets in a couple of years.

Solvents

In regard to the consumption of solvents used as process ingredients, the following graphic illustrates the production increase realised in 2010 through absolute growth in the absolute consumption of solvents. Specific consumption has remained unchanged from the previous year, while there was a nearly 5% improvement from 2008.

By 2013, it is expected that its use in production processes will be further reduced by another -5% from 2009 levels, for a total of -9% from 2008, by extending the use of technologies that use less solvents and solvent free technologies.

SOLVENT CONSUMPTION



Following the installation and activation of catalytic abatement plants at certain production sites, the estimated quantity of volatile organic substances released in the atmosphere in 2010 was significantly lower than the aforementioned consumption of 3,000 tonnes.

Other environmental aspects

SUBSTANCES HARMFUL TO THE OZONE LAYER

The presence of substances harmful to the ozone layer is entirely attributable to liquid refrigerants used in air conditioning plants, which are equipped with closed circuits. Except for accidental and unforeseeable leaks of these

substances, there were no free releases in the atmosphere that could be correlated with production activities.

SO₂ EMISSIONS

Direct emissions of SO₂ stemming from the combustion of diesel and fuel oil was estimated to be about 150 tonnes in 2009.

GREEN FACTORY

-36%
reduction in
direct CO₂
specific
emissions

Work on creation of the **technological and production centre at Settimo Torinese** for production of “green performance” tyres continued in 2010, 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, and will be fully operational in 2011.

The New Industrial Centre will be the Group’s most technologically advanced plant for the production of ecological, high-performance and ultra-high-performance tyres. This will be made possible by:

- the adoption of measures that limit environmental impact and reduce energy consumption to the greatest extent possible, which is absolutely consistent with the Pirelli strategy of sustainable development;
 - the use of the most modern technologies, the result of Group research, including evolution of the Pirelli robotic system to produce tyres (Next Mirs) and the precision system for the production of compounds (CCM).
- When operating at full capacity, the New Centre – resulting from the integration in one area of the two Pirelli plants already operating at Settimo Torinese and which will be staffed by over 1,200 employees – may produce more than 3.5 million of tyres annually exclusively for the premium segment.

The experience accumulated during this project will be exploited in the planning and construction of new production sites, with the appropriate changes and additions.

Green performance initiatives

Consistently with the Group’s green performance strategy, since 2009 the Settimo Torinese New Industrial Centre project has involved the implementation of an action plan to reduce energy consumption and prevent environmental impact, for the responsible use of natural resources, promotion and adoption of standards that exceed international standards.

In comparison with the previous organisation of car tyre production at Settimo Torinese, the project’s principal objectives in regard to energy and the environment are:

- reduction of CO₂ emissions, with a reduction of 36% of specific emissions, through total conversion of plants to methane use;
- the production of energy from renewable sources for more than 20% of energy requirements, through the installation of photovoltaic panels totalling 1.1 MWe and co-generation systems using biofuel, for a power output of 1 MWe;
- energy efficiency, with a reduction of 33% in specific consumption, due to the modern technologies created both by Pirelli research and the best opportunities offered by the market.

“Rubber powder” will be used for outdoor paving in asphalt in order to guarantee reuse of discarded tyres, lower fuel consumption and noise abatement.

In certain areas, paving made with a type of cement treated with a photocatalytic active ingredient is being designed, with the purpose of reducing air pollution.

-33%
reduction
in specific
energy use

+20%
energy from
renewable
sources



Research and technological innovation projects

In the context of the framework agreement for creation of the Settimo Torinese Technology and Production Centre for the production of “green” tyres, Pirelli Tyre and the Turin Polytechnic have pursued 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.

Following the PTSM and Next Mirs processes, installed at the New Centre, the CCM process has also been presented.

THE PTSM PROCESS

PTSM (Twin Screw Mixing) is the new process for preparation of compounds and is the result of a combination of traditional batch mixing with continuous CCM technology. It 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. The PTSM process has optimised the silanization reaction of silica based compounds (“green” tyres). This has made it possible to significantly reduce tyre rolling resistance, which directly translates into vehicle fuel savings. The TSM technology streamlines production efficiency, guaranteeing productivity increases of at least 300% as compared with the previous continuous CCM technology. During execution of the PTSM project, special attention was also dedicated to definition of the layouts, in order to significantly limit the final size of the plants and reduce their industrial impact.

NEXT MIRSTM PROCESS

MirsTM 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. 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 Next Mirs represents a huge technological leap in the tyre fabrication process after Mirs. It expands its scope of flexibility to different lines characterised by families of different materials and permits the fabrication of products for the most diverse uses in terms of performance requirements: highway and racing supercars.

The contribution made by Next Mirs to eco-compatibility is based on three principal aspects.

1. Vulcanisation process

As part of the Next Mirs project, Pirelli has developed a new concept that will lead to a more uniform degree of vulcanisation between the different parts of the tyre. This will make it possible to improve the production efficiency of the vulcaniser up to 30%, resulting in:

- a proportionate reduction in the number of vulcanisers and moulds, and thus a reduction in CO₂ emissions during production;
- a considerable reduction in the energy used, mainly for the energy dispersed by the vulcanisers and thermal plants serving them.

2. Extrusion process

In contrast with the Mirs project, the Next Mirs process has adopted a new “cold,” i.e. low temperature extrusion system, with consequent reduction in heat use. The efficiency of extruder screws has also been improved.

All of this translates into improved product performance, especially in terms of maintaining the original characteristics of the compounds during use.

3. Next Mirs product

With the Next Mirs technologies, it is possible to realise semi-finished products that are more exact in terms of weight (the variability of weight is about 1/3 compared with NP) and more complex.

Due to the combined effect of these two peculiarities, the weight of the specific products can be significantly reduced by this process (about -4/5%) and, therefore, aside from an equivalent reduction in raw materials used, a significant reduction will also be realised in the rolling resistance base load of the product in use.

Due to its high flexibility, optimised modularity and logistics, the Next Mirs truly represents “an incubator of process technologies.” In future, certain will be applicable to normal Pirelli production, with consequent improvement of the green performance of production processes.

In 2011 tests will be conducted for extension of the Next Mirs vulcanisation process to traditional processes, in order to assess the benefits that can be achieved in regard to product, process and the environment.

THE CCM PROCESS

In addition to what has been developed and introduced at the Technological Centre, the CCM (“Continuous Compound Mixing”) process is particularly significant. This process uses a 100% computer controlled pneumatic distribution system to transport the ingredients from their storage silos to the twin-screw extruders that operate continuously. The CCM technology was designed to manage the complexity of the process deriving from the large number of ingredients required to produce the compound, and it improves the quality of the produced compound, and consequently the quality of the finished product. By means of a specially designed 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.

CAPITAL EXPENDITURE FOR IMPROVEMENT OF ENVIRONMENTAL PERFORMANCE

Capital expenditure in 2010 to improve the environmental performance of production sites totalled Euro 3.2 million (Euro 2.8 million in 2009).





SOCIAL DIMENSION

**Being an
“Employer of choice”**

**Growing in
communities WITH
the communities**

INTERNAL COMMUNITY

The Pirelli Group recognizes the crucial importance of human resources, in the belief that the key to success in any business is the professional input of the people that work for it in a climate of fairness and mutual trust. The Pirelli Group safeguards health, safety and industrial hygiene in the workplace, both through management systems that are continually improving and developing and by promoting an approach to health and safety based on prevention and the effective handling of occupational risk. The Pirelli Group consider respect for workers' rights as fundamental to the business. Working relationships are managed placing particular emphasis on equal opportunity, on furthering each person's career development, and on turning their diversity to account by creating a multi-cultural working environment.

(Ethical Code – “Human Resources”)

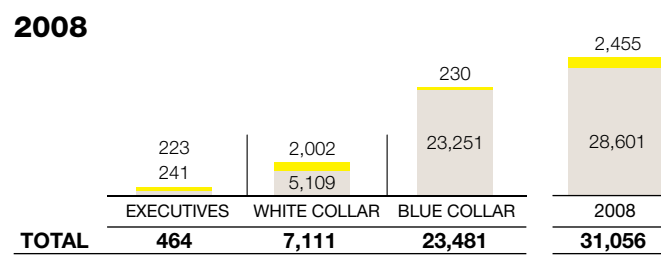
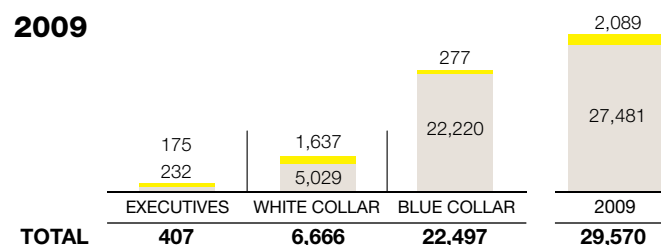
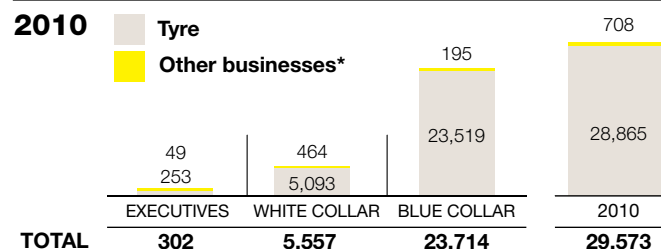
The above principles are discussed in detail in the Group policy “**Social Responsibility for Occupational Health, Safety and Rights, and Environment.**” The commitments made by Pirelli with this Policy are based on the **SA8000® Standard**, which for years has been the benchmark for Group social responsibility, and the **United Nations Global Compact**, of which Pirelli has been a member since 2004.



Pirelli employees with their families on Open Day 2011 at Bicocca site, Milan

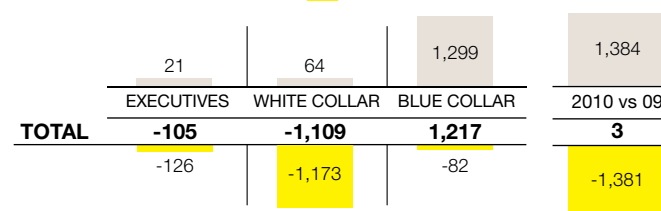
PIRELLI EMPLOYEES AROUND THE WORLD

BREAKDOWN OF EMPLOYEES BY CATEGORY

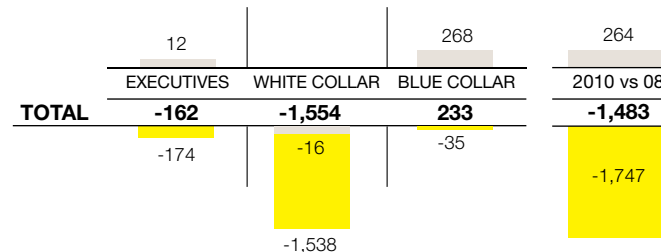


DELTA 2010 vs. 2009**

■ Tyre
■ Other businesses*



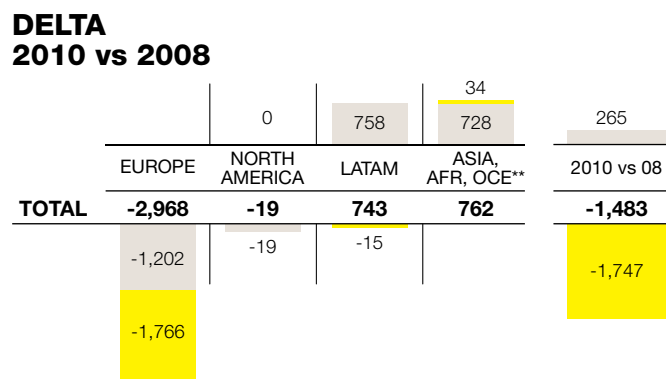
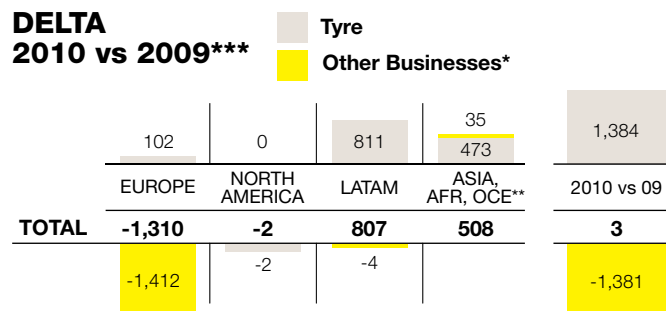
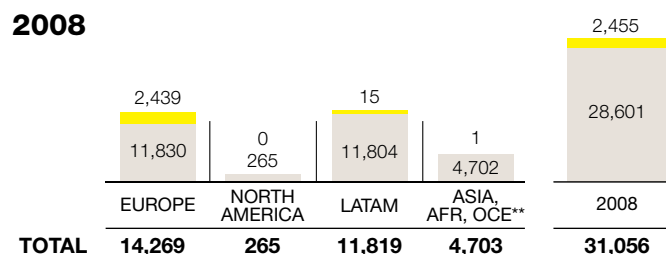
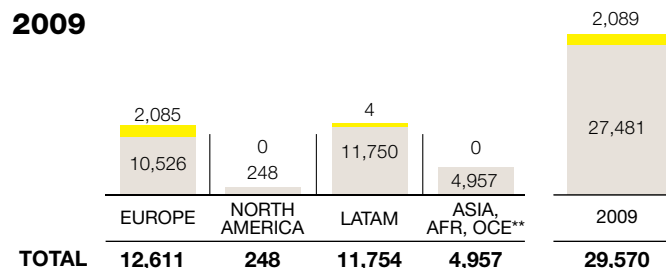
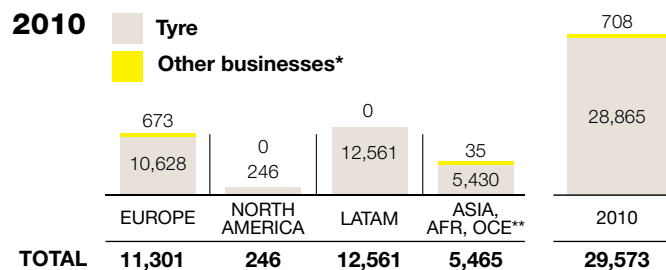
DELTA 2010 vs. 2008



(*) includes Corporate, P.Ambiente, P.Zero, P.Eco-Technology; for 2008 and 2009 it also includes the Real Estate and Broadband Solutions businesses, which were discontinued during 2010 and whose employees were no longer on the payroll at December 31, 2010

(**) the delta for 2010 compared with the one for 2009 in the section “Other Businesses” includes the reduction of 1267 employees at operations discontinued in 2010 (Real Estate and Broadband Solutions)

BREAKDOWN OF EMPLOYEES



(*) includes Corporate, P.Ambiente, P.Zero, P.Eco-Technology; for 2008 and 2009 it also includes the Real Estate and Broadband Solutions businesses, which were discontinued during 2010 and whose employees were no longer on the payroll at December 31, 2010

(**) Includes Turkey

(***) the delta for 2010 compared with the one for 2009 in the section "Other Businesses" includes the reduction of 1267 employees at operations discontinued in 2010 (Real Estate and Broadband Solutions)

TYPE OF EMPLOYMENT CONTRACT

	2010	2009	2008	10 vs 09	10 vs 08
Unlimited term	91.9%	92.4%	90.6%	-0.5%	1.3%
Limited term	7.7%	7.0%	8.2%	0.7%	-0.5%
Temporary	0.4%	0.6%	1.2%	-0.2%	-0.8%
Part-time (% of total FTE)	0.9%	0.7%	0.7%	0.2%	0.2%
Internship/ Other	612	401	435	211	177

AVERAGE SENIORITY (years)

	2010	2009	2008	10 vs 09	10 vs 08
EXECUTIVE	17	14	12	2.7	4.7
WHITE COLLAR	12	11	11	1.1	1.1
BLUE COLLAR	9	9	9	0.5	0.7

EMPLOYEE FLOWS BY GEOGRAPHIC AREA

The following data refer to group incoming/outgoing employees. The disposals and acquisitions of companies or business units, and changes in work schedules from full to part-time are not considered.

	INCOMING	OUTGOING
2010		
Europe	1,449	1,450
North America	38	32
LATAM	2,978	2,025
Asia, AFR, OCE*	1,627	1,045
TOTAL	6,093	4,552

2009		
Europe	852	2,164
North America	7	13
LATAM	1,752	1,961
Asia, AFR, OCE*	984	719
TOTAL	3,595	4,857

2008		
Europe	1,703	2,034
North America	28	18
LATAM	3,803	2,803
Asia, AFR, OCE*	1,206	1,044

TOTAL	6,740	5,899
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* Includes Turkey

The overall trend of employees at year end 2010 was characterised by substantial stability compared with the end of 2009, with a net increase of three persons.

Examining the details of personnel changes in the individual business units, we find that following the refocus of Group activities on the Tyre business, the Real Estate business unit was deconsolidated and Pirelli Broadband Solutions was sold, resulting in a total reduction of 1,267 employees from December 2009.

Instead, Pirelli Tyre showed a net increase of 1,384 employees from December 31, 2009, including 85 executives and white collar employees and 1,299 blue collar employees. In the “mature countries”¹, the net reduction of 175 employees was concentrated mainly in the following countries: at the Manresa plant in Spain (-248) following the second and final phase of shutting down production activity and conversion of the plant into a logistics hub; at Settimo Torinese in Italy (-94), following the technological and organisational restructuring leading up to launch of the new Car and Truck Centre operation; at the steel cord plant in Merzig, Germany (-97), following closure of the cord and thin wire department. At the same time, limited-term employees were newly hired to meet production requirements at Carlisle, England (23) and Breuberg, Germany (210). On “emerging markets”², total headcount rose by 1,559 employees, including 61 executives and white collar employees and 1,498 blue collar employees. This increase occurred mainly in Romania (281), China (317), Brazil (714) and Argentina (117), following the increase in production and sales volumes.

In regard to the annual changes in new hires and terminated employees from 2009 (a year dominated by the deep international economic and financial crisis), 2010 showed a strong increase in new hires, mainly due to the increase in factory production volumes.

Pirelli does not employ anyone under the age of 14. The Tyre Sector employs 14 young workers between 16 and 18 years of age (3 in Brazil, 10 in Germany and 1 in Switzerland), and 6 young workers between the ages of 14 and 16 on an exceptional basis (4 in Brazil, 1 in Germany and 1 in Switzerland), as part of training and induction schemes in compliance with local laws.

DIVERSITY AWARENESS AND MANAGEMENT

In the **multicultural context** that has always characterised the Group, individuals offer an **enormous wealth of kaleidoscopic diversity**, which has to be managed to be transformed into a competitive advantage.

The commitment made by Pirelli to the development of diversity and equal opportunity is stated in all Group sustainability documents, and specifically the **Ethical Code** approved by the Board of Directors, the **Group “Social Responsibility for Occupational Health, Safety and Rights and the Environment” Policy** and in the **“Equal Opportunities Statement”** signed by the Chairman. These documents have been distributed to all employees in their local language and published on the institutional website *www.pirelli.com / About Pirelli / Sustainability*.

International scope is a defining characteristic of the Group: we operate in **over 160 countries on five continents**, and **88% of its employees work outside Italy**. Awareness of the **cultural differences** that create our identity underlies the Group’s reliance on managers having local origins: **88% of senior managers work in their country of origin**. In order to develop the innovative and managerial potential inherent in **multiculturalism** and in different professional contexts, the company promotes the growth of its managers through **international intercompany transfers** (see the following paragraph). It is no accident that **58% of the senior managers** on active duty in 2010 have had **at least one intercompany assignment in another country** during their professional career. Moreover, at the end of 2010 **15% of all managers on foreign assignment were women**.

Pirelli is also committed to promoting maximum **awareness of the positive and dynamic differences** that exist between **genders** in a complex organisation like Pirelli, while giving due consideration to the fact that it is necessarily impacted by the different cultures existing in the different countries. **In 2011**, an ad hoc working team will seek to “interpret” the gender differences existing in the Group, in its industrial sector and in the changing global context, in order to define actions to further develop and to create a new management model that will be also applied to all other types of diversity.

1 These are countries where Pirelli operates, internationally defined as mature markets, i.e. non-emerging markets.

2 These are the emerging countries where Pirelli operates, Brazil, Argentina, Venezuela, Chile, Colombia, Mexico, China, Romania, Turkey and Egypt.

Following below is a **breakdown of employees by gender** in the three-year period 2008/2009/2010, expressed as the **percentage of women against the total number of employees in each job category**.

PERCENTAGE OF FEMALE WORKERS BY CATEGORY

Year	% Executives	% Cadres	% White Collar Employees	% Blue Collar Employees
2010	8%	18%	31%	4%
2009	9%	18%	32%	4%
2008	10%	18%	31%	5%

These figures exclude the employees of operations that were discontinued in 2010, i.e. Prelios S.p.A. – formerly Pirelli Real Estate – and Pirelli Broadband Solutions S.p.A.

The percentage of **women** against the total executive population does not show a significant change from the previous year. A **positive aspect** is the substantially unchanged proportion of women **in the cadre category**, which is the spring board for promotion to executive positions.

Pirelli dedicates great attention to **equal remuneration**, by monitoring its evolution in view of improvement, transparent reporting and to comprehend the reasons underlying differences. At least in regard to the differences illustrated below, they are mainly tied to the professional background and career of individuals, and also reflect the impact (**especially in Latin America**) of staff turnover, which can significantly alter the deltas reported in the previous year. Consequently, a comparison among different countries aimed at producing a consolidated data makes no sense, being the latter undermined by strictly local differences that reflect practices and pay scales that cannot be compared with each other or added one to the other, as well a population mix that can vary significantly by age and professional seniority. While emphasising that the situations described here represent a snapshot of 3/4 of the total work force covered by wage and salary policy (blue collar employees are normally covered by national collective bargaining agreements), note that at the end of 2010:

- **in Italy**, the pay difference between the average salary for men and the average salary for women amounts to about 7% on average in favour of men without differences between white collar staff and cadres; in 2009 the difference between the average salary for men and the average salary for women was about 4% on average in favour of men in the cadre category, while the difference was 2% in favour of men in the white collar staff category.
- **In Latin America**, the trend measured in Italy is extended for the population of white collar staff, with a discrepancy of 15% in favour of men, while amongst cadres the difference falls to 13%; in 2009 the difference was 2% in favour of men amongst cadres, while

there was no difference in the white collar staff category.

Furthermore, at the end of 2010:

- **In China** the difference falls to 4% in favour of men, both for cadres and for white collar staff;
- **In Turkey**, while the men on the white collar staff have a 4% advantage, women instead have a 3% advantage in the cadre category;
- The same trend surveyed in Turkey is also found in **Germany**, where the difference in favour of men in the white collar staff category (8%) is reversed, albeit only in the amount of a 2% advantage for women in the cadre category;
- in the **Executive category** – where women represent 8% of this population – when the position of men and women carries the same weight, the pay difference falls to a maximum of 3%, in favour of men. In 2009 the difference was 8% in favour of men.

The inclusive culture adopted by Pirelli as the basis for doing business permeates corporate life even in regard to **disability**. It should be pointed out that there is often an objective problem in measuring the number of disabled employees. The reason is both that in many countries where the Group operates, there are no specific laws or regulations promoting their employment, and because this information is deemed confidential in many countries protected by privacy laws. In any event, the Pirelli Equal Opportunities Policy lists disabilities among the protected diversities and is a value and operating model applicable to all affiliates. In Italy, the Pirelli Group has made and signed specific agreements with the relevant authorities to promote hiring of disabled workers by the Group.

Management of the **age** factor is one of Pirelli's priorities too. As can be seen in the following tables, Group employees' average age is young in all categories including managers, as well as **homogeneous amongst both genders**.

AVERAGE AGE AT YEAR END 2010

	Executives	Cadres	White Collar Employees	Blue Collar Employees	Grand Total*
Women	45	42	36	33	36
Men	47	44	38	35	35
Grand Total	47	43	37	35	36

**figure cover 96% of Group employees*

The following table illustrates **average job seniority** broken down by **professional category** and **gender**: again there are no substantial differences between men and women. In all professional categories, in spite of the relatively **low average age** of employees, their **length of service at Pirelli is proportionately high**, confirming a **high sense of loyalty**.

AVERAGE JOB SENIORITY AT YEAR END 2010

	Executives	Cadres	White Collar Employees	Blue Collar Employees	Grand Total*
Women	15	14	10	5	9
Men	17	15	12	9	9
Grand Total	17	15	11	9	9

*figure cover 96% of Group employees

In regard to **promotion of equal opportunities**, the following activities are now consolidated:

- as far as possible in the **recruitment** process, seek to provide a high proportion of women in the range of candidates;
- use of **training** to impact the cultural change connected with the promotion of diversity, using specific modules dedicated to “Diversity Management”, beginning with the courses dedicated to new hires (e.g. *Pirelli's way Joining the Group*);
- take **positive measures** for respect of cultural diversity, such as different foods that are clearly marked in company canteens so that everyone may freely comply with their own religious dietary restrictions, multilingual bookstores in the factory, multilingual welcome kits for those joining Pirelli at a facility in a country other than their home country.

Aside from the respect of differences, what has to unite all Pirelli affiliates in the same corporate culture are its corporate values, policies and rules, which are applied worldwide, with the only difference lying in the language used to translate them.

The survey *Your Opinion 2010*, covering all Pirelli executives, cadres and white collar staff in different languages, including English, Arab, Chinese, French, German, Italian, Portuguese, Romanian, Spanish and Turkish, has revealed a particularly appreciable result in regard to the high level of acceptance by Pirelli employees of gender, cultural and age differences. The answers “**I am absolutely in favour**” – the highest ranking amongst the possible positive answers – totalled **82%** in regard to respect of **gender differences**, **85%** in regard to respect of **cultural differences**, and **85%** in regard to respect of **age differences**.

Pirelli has been active for years in **promoting** diversity in the **external context**, both nationally and internationally. Its membership in the **European Alliance for CSR**, **CSR Europe**, **preparation of toolkit for management of multiculturalism and gender differences with the Sodalitas Foundation** (the Group has a seat on its Board), active participation in drafting the **Italian Charter for Equal Opportunities and Job Equality** are some of the most representative activities that have

engaged the Group in sharing its good practices with other responsible companies.

Pirelli has also been engaged in promoting **welfare** initiatives for its employees. The Group has been historically active in supporting its own employees, with numerous measures calibrated to the needs stemming from the different socio-cultural contexts in which the affiliates operate. Widespread measures include: day care centres offering special discounts to Group employees, subsidised holidays for employee children, scholarships, healthcare benefits, prevention campaigns, company discount arrangements with various service providers (from medical exams to car rental). As announced to the market on November 4, 2010, when the 2011-2013 Business Plan and vision to 2015 was presented, Pirelli established both **the increase in diversity of management** as compared with the situation at the end of 2009, and a **focus on the welfare system offered/to be offered** to its employees around the world among its **growth and value creation targets**. For this reason at the end of 2010 the results of a survey that listed all affiliates work-life balance adopted measures, were shared with operating managers, so that they would be inspired by such practices **to integrate** the locally already applied initiatives.

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/affiliate company level.

Compensation policies are applied on a country-by-country basis, with the exception of processes applicable to executives and human resources on international mobility, which are coordinated by Group headquarters.

The targets of the **annual bonus system (MBO – Management by Objectives)**, involving **all executives and about 60% of cadres** at the Group, are consistent with the values, objectives and parameters of the annual Management Plan.

A **Cash Incentive Plan 2009-2011** was introduced for **senior management** in 2009. It aims to relaunch and support Group performance over the **medium term** in support of the Three-year Business Plan, which was presented at the beginning of 2009. In view of greater management involvement, at the end of 2010 the Board of Directors approved extension of a **new Cash Incentive Plan 2011-2013**, based on the targets of the 2011-2013 Business Plan presented to the financial community in

November 2010. For senior manager that were already beneficiaries of the Cash Benefit Plan 2009-2011, the new plan entailed consistent **updating of the parameters for the two-year period 2012-2013**.

The Incentive Plan is consistent with market best practice, which calls for **total compensation** of executives where the **variable component** is **always more important**, in order to generate a positive correlation between received compensation and achieved results.

Particular importance is assumed by **co-investment** on the part of the individual participants of **50% of the annual incentive** received in support of the three-year plan. Its purpose is to support medium-term performance through use of deferred compensation. Upon attainment of the three-year targets, plans call for disbursement not only of the three-year bonus but also the annual “invested” share with an extra contribution by the company calculated using a certain multiplier (so, its assignment is expected only at the end of the three-year period, in support of the company retention policy). If the three-year targets are not met, the annual “invested” amount of the incentive is returned, less 50%.

The **cost of the Cash Incentive Plan 2011-2013** will be entirely **self-financed by business results** during the three-year period, as in the case of the previous Plan.

In 2011 the compensation and international assignment activities will be the target of special **communication** activities.

The overriding aim is to promote greater individual **engagement**, through enhanced **awareness** of company rules, among other things. **Caring** programmes in support of expatriate employees will also be upgraded, in order to facilitate their integration in the new country where they work.

LISTENING, EMPLOYER BRANDING, TRAINING AND DEVELOPMENT

In 2010, the theme of the year at Pirelli was **Listening**, with the **third Group Opinion Survey**, in which 78% of the white collar staff participated. This survey led to important **change management** actions.

The year was also characterised by **sharp growth in training activities**, as well as extension of the **performance management** process, enhanced by **skills mapping**, to all affiliates.

The **Leadership** project was launched in 2010. This is a programme for revision and distribution of the new Group managerial programme to encourage development of differ-

ent types of behaviour by managers that are more consistent with the firm's current strategies and classifiable in **three parallel areas of action: business management, human resource management and change management**.

Employer branding activities also continued at full pace.

LISTENING TO EVOLVE: OPINION SURVEY 2010

Pirelli introduced the Group mood survey in 2005.

Your Opinion, the third opinion survey conducted in 2010 – the previous one was carried out in 2008 – involved all Group **executives, cadres and white collar staff**, and was extended to **blue collar workers throughout South America**. By asking specific questions in the local language, the survey aimed to obtain feedback from employees in order to promote activities and projects for continuous improvement of both management and business.

The response rate in the **staff** area was particularly satisfying, at **78%**. This manifests a strong desire to communicate with the company and inform management of personal opinions.

The results of the survey, which have been consolidated at the Group level, were encouraging overall. **Improvements** were realised in **all the analysed categories** as compared with the previous survey, and in most cases the positive difference was significant.

The most important results reveal the **strong sense of belonging** to the Group, a **high level of knowledge and expertise regarding company services and products**, and they also testify to a **good level of internal operating efficiency**. **More than 75%** of the participants expressed a **favourable or highly favourable opinion** in regard to **Pirelli Image**, company **management of health and safety, empowerment, internal communication, social and environmental responsibility, acceptance of gender, culture and age differences and engagement**.

During the summer, local management began **disseminating local and global results** in the various organisational units and in the various countries. Each country and organisational unit then launched a **plan for local action** to improve the areas that were less positive, to be carried out in subsequent months and throughout 2011. Actions at the Group level were also identified: some of these were initiated in 2010, while others were scheduled for 2011.

In view of realising maximum involvement and transparency, **periodic updates** will be provided in 2011 on



the progress made with the actions defined here.

A similar opinion survey was conducted in 2010 amongst the **blue collar employees** at Pirelli plants in Latin America (Brazil, Argentina and Venezuela).

The survey, distributed in paper format, covered a statistically representative sample of the population in the three countries, for a total of 2,334 people.

The **strengths** mentioned by the survey respondents included the **Group's image**, its **level of engagement**, **pride in the products and services offered to customers** and **sustainability**. **Rewarding and the relationship with one's direct supervisor** are mentioned as some of the areas in which **improvements** could be made.

The **results** were presented to management in Argentina, Brazil and Venezuela, and then **distributed** to local employees. **Local plans** for specific **action improvements at each plant** are currently being implemented.

KNOWING PIRELLI: EMPLOYER BRANDING ACTIVITIES

Employer branding activities are aimed at offering ad hoc occasions for orientation, in support of students and new university graduates, and to hire candidates to meet company requirements. In 2010, the Group operated not only on traditional and consolidated channels (like Career Days, Career Books, instructorships and testimonials by managers in university lecture halls, orientation meetings, visits to universities, sponsorships of training schools and masters...) but also in new media that are closer to the ways in which youths communicate with each other, such as social networks.

Several projects with an international scope continued in 2010, including:

- **POLITONG: programme** for collaboration between the Milan Polytechnic and Turin Polytechnic and Tongji University in Shanghai;
- **BOCCONI MERIT AWARDS**: financing of scholarships for the best students (Italian and foreign) matriculating at the Bocconi University;
- **COLLABORATION WITH THE UNIVERSITY OF CRAIOVA**: IT research project;
- **COLLABORATION WITH THE CHINESE UNIVERSITY IN SHANDONG**: R&D research project.

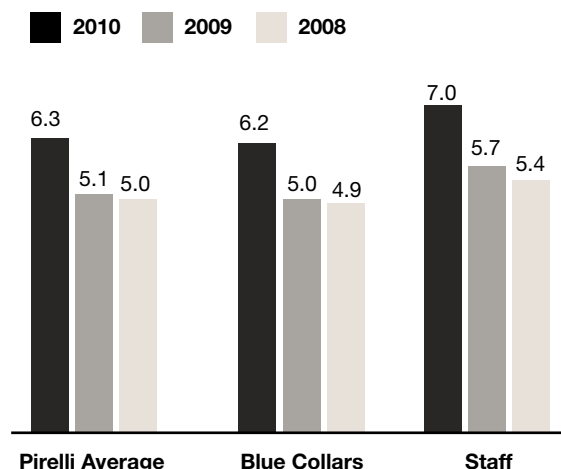
The web is one of the key tools for talent attraction

and employer branding tools. The content and communication style of the **"Career" section** of *www.pirelli.com* has been revised, to achieve maximum clarity and transparency. Thanks to these efforts, the section was awarded the **gold medal** as the best Italian corporate site for employer branding (*Employer Branding On line Awards – Lundquist*).

CONTINUOUS INVESTMENT IN TRAINING & DEVELOPMENT

As illustrated in the following graphic, the average days of training courses during the past three years has been **rising steadily**. In addition to the sharp increase in 2010 from 2009, special attention should be dedicated to the growth trend for all professional categories between 2008 and 2009, i.e. during the economic crisis. During those two years, Pirelli continued to invest in human resource training and development, with the firm intention of responsibly managing its own employees' development and simultaneously preparing itself qualitatively for the subsequent recovery.

AVERAGE DAYS OF TRAINING PRO-CAPITA BROKEN DOWN BY CONTRACTUAL CATEGORY



Among the **industrial** affiliates that significantly **increased training** of their **blue collar staff** in 2010, **Turkey** stands out in particular (+124%), even when considering the hiring of more than 200 limited-term employees in 2010 who received necessary job training; **South America** (+26%) and **Romania** (+29%) also stood out in light of the increase in production volumes corresponding to an increase in employees.

The resources dedicated to training were significant even in **Spain**, where the industrial plant at Manresa was converted into a logistics hub at the end of 2009.

In **Italy**, the bulk of the plan launched in 2009 to support change management at the **Settimo Torinese Industrial**

Centre was carried out in 2010, with an average of **6.2 days of training pro-capita for all blue collar employees**.

During the three-year period 2009-2011, the entire Pirelli industrial area at Settimo Torinese underwent a major re-industrialisation and technological innovation project, in order to create a big, new technological centre. The training programme for all employees (blue collar and white collar), focusing on technical and professional aspects and quality and improvement methods, on occupational safety, and on teamwork to promote responsibility, calls for holding **11 training days on average pro-capita by 2011** for a total of **about 1,250 employees**.

The significant increase in training activities in 2010 is also explained by a series of important international activities that were launched for **white collars**, including **“Leading Pirelli People” (Leadership Programme)**. In 2010 the company began study to update and improve its leadership programme to **address the challenges posed by the 2011-2013 strategic plan**. The new programme was drafted after several phases of joint consultation. That initial diagnostic activity was carried out by conducting about 60 individual interviews with Group executives from all countries where Pirelli operates and from all corporate units and departments. These interviews were followed by workshops for strategic alignment with senior management and an encounter with top management. The result was definition of a new leadership programme according to which training courses, performance and potential diagnosis and evaluation systems, the assessment criteria for hiring new employees in all countries were reconfigured.

A **training campaign** was carried out for **all Group executives (about 300 from all countries) lasting three days**. This included an individual assessment of their leadership skills according to the new leadership programme and using a **360° questionnaire**.

Training courses will be held in all countries between the end of 2010 and the first half of 2011, targeting local middle management and on the same lines as the courses held for executives (a total of 400 middle managers are expected to participate).

Many other international projects dedicated to the presentation of new content and tools for specific professional families were organised, supporting the growth of company staff. Activities to **enhance sensitivity for corporate social responsibility** completed these topics. For example, the **“Team for Kids”** Project engaged 21 Pirelli managers, who completed an intense restoration and remodelling programme for children aged 1-10 years hospitalised on an in-patient or out-patient basis. This initiative, which is part of the broader cooperation programme undertaken in 2008 by the Group and the Slatina Hospital, also typifies the new training format adopted by

Pirelli. The **CAP Community Action Programme** is a methodology based on the attribution of **social utility to team building** projects, in view of developing leadership in a way that is the most conscious and integrated with Group values.

The international **Career Development** programme **continued in 2010**, which was structured in development modules (Development Centres) and training modules (seminars entitled “Understanding Business Complexity” and “Managing Growing Complexity”). The programme, which involved 170 persons from all countries where Pirelli operates, was reconfigured in several parts so that the skills subject to diagnosis and development would be aligned with the previously mentioned leadership programme and requested behaviour drivers.

Finally, mention should be made of **“Pirelli Quality Week”**, a week of events aimed at raising the awareness of all Group employees on the importance of the impact of each individual’s work on the product quality and service offered to customers.

PRINCIPAL ACTIONS AND TOOLS SUPPORTING DEVELOPMENT ACTIVITIES

Performance Management

PMT - Performance Management Tool

– is the online performance management and assessment tool launched at the Group level in 2007 and gradually extended to all staff (executives, cadres and white collar staff) at Pirelli business units and subsidiaries. In 2010 this process involved over 5,600 employees, about 1,000 more than in 2009, because the online tool was also extended to the employees of major Group industrial subsidiaries in countries including China and the United States, as well as all companies at commercial affiliates that had handled only in paper format until just one year previously. The PMT has proved to be an extremely dynamic tool, capable of reflecting and embracing the new values and cultural changes promoted by the company, facilitating learning. In 2010, the “Performance Management Tool,” as previously mentioned for other processes that support employee training and development, was aligned with the **Leadership project** and programme. This is true in particular of the skills section, which since 2010 has included the nine drivers for the new leadership programme for everyone at the company who holds positions of responsibility and manages other employees. Consistently with the importance assigned to behaviour during the leadership project, since 2010 the Performance Management process envisages that not only the assessment of the achieved results but also of behaviour during the year be highlighted. Naturally, this change also satisfies the

aim of giving increasing importance to the processes of assessment and **exchanges of opinion** between supervisor and subordinate. With this aim in mind, and coinciding with the launch of the PM process in 2010, a new section was created in this tool, entitled **Development Plan** to create space for the comments by supervisor and subordinate on possibilities of **growth** and **development**.

Competence Mapping

In the “Performance Management” platform, a new section dedicated to **skills mapping** was created in 2010. This process aims to:

1. provide the company with a complete and exact snapshot of the distribution of skills;
2. provide the company with suggestions for planning specific training campaigns;
3. make individuals aware of the expectations that the company has of him;
4. provide the supervisor with an overview of the strengths and areas for improvement by his/her subordinates.

Compared with the past, when skills mapping campaigns were conducted using paper tools, the new online version of the process makes it possible to measure the extent of specific skills exactly, in view of the **mobility** and **polyvalence of resources**.

Scouting & Talent Management Activities

The principal process of talent scouting at the Group is connected with the Development Centre, the initial part of the previously mentioned *Career Development* international development training programme.

Various initiatives were undertaken in 2010 **to motivate, engage and retain talented individuals at the company**. The first step was to refine the criteria for **identifying talents** at the company. Then the department, business unit and company management were asked to list the names of talented individuals and define a development plan for each one. When Performance Management 2010 was opened, the talented individuals discussed and agreed on a **medium-term development plan**.

The goal of this process is to give the employee a clear understanding of the value of his professional career.

Furthermore, **interdepartmental committees** comprised of **senior management** will be organised beginning in 2011 to monitor and implement the process operationally, both in Italy and in other countries.

Finally, **the pool of talented individuals** will be used as a primary source for covering **executive position** openings.

INTERNAL COMMUNICATION: INVOLVING IN ORDER TO COMMUNICATE

To involve employees in the company’s strategic choices was one of the primary goals of Pirelli internal communication in 2010, consistently with the programme of actions undertaken in 2009 and in response to employees’ growing demand for information. The initiatives carried out to this end in 2010 are broken down by capacity of involvement.

This meant not only **information** but also **interaction**, i.e. the possibility of expressing one’s own opinion, according to a new model of internal communication that definitively supplants the old top-down scheme and gives employees an active role in dialogue with the company.

Participation is actually one of the principal goals pursued by Pirelli in 2010. **Involvement and a sense of belonging** are themes that supported events (e.g. company Open Days) and the choices made to give voice to stories, opinions and also proposals, and to write a narrative that truly represents the group. This is an opportunity that each member of the corporate community may seize to contribute to the collective awareness of *who we are* and *where we are going*.

New communication formats were introduced in favour of participation – occasionally in support of specific campaigns (“Performance Management,” Opinion Survey”, etc.) or on occasion of important institutional events (2011-2013 Business Plan, Quality Week), capable of engaging the interlocutor through multimedia languages that are up to date with current communication tools and having an **emotional perspective** that is increasingly focused on the employee.

Other measures taken to stimulate participation, involvement and a sense of belonging included events for the internal community that were organised over the course of the year, such as the **open days** in various countries and, in Italy, at the Bicocca and in Figline Valdarno. The latter event coincided with the 50th anniversary of the first Pirelli steel cord plant.

“**Pirelli is us**” could be the **slogan for internal communication in 2010**, whose central figures were individuals. It highlighted their experiences, talents and relations, which constitute one of the company’s intangible assets.

What follows are several examples of the principal internal communication initiatives that the objectives described above aimed to achieve in 2010. The increasingly warm, empathetic style and greater production of video material characterise the entire programme of activity, which will be **further developed in 2011** through projects for **increasing involvement and development of employees**.

INTERACTION ON CORPORATE CHOICES AND STRATEGIC VALUES

Pirelli Business Plan channel open on the Intranet

The top management of Pirelli presented its **Business Plan** for the next three years with a vision on 2015 on **November 4** in Milan. This event was of primary strategic importance for the future of the company, for which a **direct channel between top management and employees** was opened on the Group Intranet.

Business Plan, send your questions: with this exhortative title, several days before the event a global announcement was made that the messages would be transmitted on the Intranet itself (delayed by several minutes) and especially the possibility of sending questions directly to top management by a set deadline.

Numerous messages were sent from various countries to the e-mail box created specifically for this purpose. A personal response was sent to each person that had sent an e-mail. This initiative was well-received by employees and top management.

It is expected that the format will be repeated in 2011, on the occasion of important events.

THE RETURN OF PIRELLI TO FORMULA 1

A multimedia leitmotiv

FY 2010 was characterised by a crescendo of news about the return of Pirelli to Formula 1. This is a model case of synergy between different and mutually complementary internal communication tools (intranet, house organ and projects) in presenting updates to different publics (blue collar and white collar staff), reach different targets and different times.

With the start of official tests and private tests, announcements and news were issued at a dizzying pace: video-interviews of the young engineers on the Pirelli Formula 1 team, shots of the “factory of champions” (the Turkish plant where racing tyres are made), film clips from various racetracks around the world, interviews with the Group heads of motorsport and R&D and with drivers. Employees also produced their own content, posting an extremely high number of comments on the intranet.

Formula 1 represents a strategic advantage for the company over the next three years. For this reason, it has dominated (and will dominate) communication channels with employees – intranet and house organs worldwide – with diversified content and formats, whose variety make it possible to achieve all objectives of internal communication.

‘INTERNAL COMMUNICATION IS US’

What’s my name

Let’s give a name to the Intranet

The global communication campaign to give a name to the intranet aimed to give it a more familiar and welcoming feel. This initiative was conceived as a sort of competition where all employees were asked to send in a suggested name and vote on the one they preferred, including in graphic terms. It attracted an extremely high level of participation: over 300 proposals were received, some of which complete with a graphic rendering of a logo, testifying to the intense level of creative involvement.

With a name and logo selected by near-unanimous vote (P.net), the intranet is embarking on a new period of information, communication and collaboration.

CORPORATE TESTIMONIALS A HERITAGE TO BE SHARED

The desktop on PCs recounts events and news from around the world

The desktop on PCs of all Pirelli employees around the world became the stage for words and images narrating big events: the 100th anniversary of Pirelli Argentina, launch of the new calendar and the Group’s return to Formula 1. A new form of communication was introduced for the events that mark company life – succinct, immediate and universal – reaching everyone simultaneously, thereby reinforcing the perception of belonging to a single international community, based on shared experiences and languages.

A WEEK FOR QUALITY

Quality represents the Group’s strategic commitment, where the involvement and contribution of everyone represents a fundamental requirement. This is why Pirelli dedicated itself to quality from November 8 to 12. A week of events, meetings at plants, visits to customers and suppliers, classroom days to illustrate quality and improvement projects, and showroom to present new product lines at production plants.

This programme has engaged thousands of persons, from South America to China, from Italy to Egypt, from northern Europe to the United States.

The project was strongly desired to encourage all Pirelli employees to help offer customers products and services satisfying their needs, and thus offer greater efficiency and attention in terms of transparency, safety and respect for the environment.

The week dedicated to quality ended with a web-based conference kicked off with a video message by Frances-

co Gori, CEO of Pirelli Tyre, which was broadcast live to 12 countries. Every country prepared a calendar of initiatives targeting employees.

Visits to various plants were organised in Italy (Bollate, Settimo, Figline and Milano Bicocca;). A chance to experience the excitement of the Vizzola Ticino test track with expert Pirelli test drivers was also offered, while every plant scheduled visits to customers and suppliers.

COMPANY INITIATIVES FOR THE INTERNAL COMMUNITY

For some time now, the Group has been implementing a series of measures in various areas to support its employees, from healthcare to company discount arrangements with various entities, from social to leisure time activities and assistance for families and their children. The company's initiatives for the Internal Community have always varied from country to country, to respond to the specific needs that are typical of the various social contexts in which the affiliates operate. They are aimed at all employees, regardless of whether they are unlimited term, limited term or part-time employees.

A specific survey conducted in 2010 has shown that the work/professional services and private/family services offered to the Internal Community can be broken down into the following four basic areas of action:

- healthcare;
- family;
- leisure time;
- workplace (facility, training and group celebrations).

Although there is no standard policy for all countries, the Human Resources and Organisation Department issued a number of **guidelines** to Group affiliates in 2010. The aim was to concentrate the attention of the services offered on the broad concept of **welfare for individuals and families**, and thus including culture (libraries, tickets to stage performances, company discounts at book stores) and operating support (scholarships for children, reimbursements for certain book expenses or school fees).

Among the **new initiatives taken in 2010**, mention should be made of “**Pirelli plus**” and “**Nasce una mamma**” (**A Mother is Born**) realised for the Milan area at the Bicocca centre.

“Pirelli plus” embraces the numerous services provided to Bicocca employees, including those tied to health at the Ambulatorio Polispecialistico (“Multi-specialty Health Clinic”), which typifies the company healthcare that has been offered for over 80 years and housed in

a new home since 2010. “Nasce una mamma” targets future mothers and fathers, giving them a series of important administrative information (specific laws and regulations, required forms) and information about the benefits offered by the company to families (terms and procedures for the parent's return to work, company discounts offered by day care centres, meetings of new mothers with a labour psychologist).

Open Days were organised as usual at various company facilities for **celebrations with employees**, their friends and families.

Three important plant anniversaries were commemorated in 2010: the **100th anniversary of the Merlo factory in Argentina**, the **50th anniversary of the steel cord plant at Figline Valdarno** and the **50th anniversary of Pirelli operations in Turkey**.

In the **healthcare area**, Pirelli has always offered infirmary services at its production plants that offer all employees with specialised health and medical services during working hours. These facilities provide first aid care, advice on health problems unrelated to work and health supervision for workers who might be exposed to specific hazards.

For example, the **infirmaries** at all **Brazilian** plants offered about **80 thousand healthcare services to a local staff of about 10,600 employees in 2010**.

Health promotion and preventive health campaigns are also supported at the infirmaries, being developed in the form of local programmes. Once again in 2010, Pirelli offered all its employees the opportunity to be inoculated with the seasonal flu vaccine free of charge. “**Health weeks**” were also sponsored, especially in South America, where all employees were offered preventive care and health education.

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 free trade union activities is one of the key values on which Pirelli bases its human resource management system.

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.

This activity achieved important results in 2010, including signing of the collective bargaining agreement for the new plant that is being built at Guanajuato, Mexico. That plant will employ about 1,200 workers when operations commence in March 2012. Collective bargaining agreements were also renewed at various Group plants in Brazil, Argentina, Great Britain, Germany, Romania and Turkey.

Trade unions also played a major role in renewal of the national collective bargaining agreement in the Rubber and Plastic sector and the signing of two important company agreements: the first at the new Settimo Torinese Industrial Centre, aimed at harmonising pay and regulatory conditions at the two car and industrial vehicle production units, and the second concerned revision of certain economic compensation for qualified blue collar workers of Pirelli Tyre, at the Bicocca area.

In 2010, the company continued the cost-cutting process of organisational and productive rationalisation that began in the second half of 2008 to attenuate the negative impact of the global economic crisis.

More specifically, efficiency improvement measures first implemented in 2009 continued in Germany and Italy.

In Germany, the corporate reorganisation and restructuring processes launched in November 2009 at the Merzig steel cord production plant were completed. An agreement was reached with labour unions on appropriate measures to manage approximately 150 redundancies resulting from closure of the Cord and Thin Wire departments with as little trauma as possible.

In Italy, the company continued the restructuring and reorganisation process undertaken in 2009 at the new Settimo Torinese Industrial Centre. Two separate staff reduction processes were undertaken in 2010 at the two Settimo Torinese production units, resulting in the redundancy of more than 90 persons together with other management tools.

In April 2010, another staff reduction procedure was launched in Italy at the steel cord production plant in Figline Valdarno.

Under the specific agreement reached with trade unions at the Figline Valdarno plants, agreement was reached on the operating procedures to be implemented for rendering 35 redundancies as little traumatic as possible. Fourteen employees have already left their positions on a voluntary basis, while the positions of the others will be resolved in 2011.

In compliance with local law and/or contractual regulations, these organisational and production streamlining measures designed to contain costs were implemented

by Pirelli by giving the trade unions and/or worker representatives advance and/or prompt notice at the national or local site level.

Consistently with the company's sustainable approach to restructuring processes, professional reassignment policies were adopted through framework agreements with major international companies for outplacement plans.

As part of the announced strategy of focusing on the core Tyre business, the spin-off of Prelios S.p.A. (formerly Pirelli & C Real Estate S.p.A.), a real estate company, and Pirelli Broadband Solutions S.p.A., a telecommunication and media technology company, were completed in 2010.

The company informed its trade union partners about the corporate restructurings and any impact they might have on the affected employees, even when no specific regulatory or procedural obligations forced it to do so.

In view of focusing on its core business, statutory procedures for giving notice and consultation with labour unions and trade union representatives (pursuant to Article 47 of Law 428/90) were undertaken during the final months of 2010 in regard to three distinct transfers of business units from Group companies (Centro Servizi Amministrativi S.r.l. and Pirelli Sistemi Informativi S.r.l.) to Prelios Group companies for a total of 42 workers involved. Their employment relationship was transferred to Prelios Group companies without interruption and in compliance with applicable laws and regulations. These three procedures were all completed positively when the completion of procedure reports were signed with the trade unions and trade union representatives.

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, widespread 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.

At the annual meeting the Industrial Relations Department, the members of the EWC were informed of the

Group's annual operating and earnings performance and the contents of the 2011-2013 three-year plan submitted in November.

Following the spin-off of Pirelli Real Estate from the Group, the Committee currently has 13 members from the Pirelli sites located in the countries entitled to representation on it: Italy, Germany, Spain, France, Romania and Great Britain.

COMPLIANCE WITH STATUTORY AND CONTRACTUAL OBLIGATIONS GOVERNING OVERTIME, TIME OFF, AND BANS AGAINST CHILD AND FORCED LABOUR

Pirelli Group policy has always promoted 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, 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. The holiday period is generally agreed by the employee and the company.

Likewise, and as has been publicly declared in its "Social Responsibility Policy," Pirelli does not use child labour or forced or compulsory labour.

In accordance with, inter alia, the prescriptions of the SA8000® international standard, which was adopted by Pirelli in 2004 as the benchmark tool for management of social responsibility at its own affiliates, the labour rights described hereinabove are constantly monitored, both through coordination between corporate headquarters and its subsidiaries, and through independent audits. These issues have been specifically addressed in the first section of this Report, in the part entitled "Risk Management System."

LABOUR AND SOCIAL SECURITY LAWSUITS

In 2010, as in previous years, the level of disputes remained low, generating a very small number of labour and social security lawsuits that was virtually unchanged from the previous year.

The level of litigation remains high in Brazil, to the point of representing about 90% of all the labour lawsuits currently pending against the entire Group, just as in previous years. This remains a traditionally widespread phenomenon in Brazil, due to the local judicial culture, affecting not only Pirelli but also the other multinational companies operating there. 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 has made a major commitment both to prevent these disputes – to the extent possible within the previously mentioned cultural context – and resolve them, including use of settlement procedures.

UNIONISATION LEVELS AND INDUSTRIAL ACTION

It is impossible to measure the percentage of union membership at Group companies, since this information is not available in all countries where Pirelli has a presence (over 160 countries on four continents). 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 2010 (78%) remained largely unchanged from previous years. This information is largely the result of the historical, statutory and cultural differences between one country and another.

The total number of disputes recorded in 2010 was quite limited, in line with what was reported in 2009. The industrial actions that occurred during the year mainly affected Italy and were focused on issues strictly tied to operating and/or labour organisation matters and actions in support of political and union issues of national interest.

OCCUPATIONAL PENSION AND HEALTHCARE PLANS

During 2010, in compliance with the guidelines adopted by the Group in previous years that envisage abandonment of defined benefit plans in favour of defined contribution plans, the defined contribution plan was extended to all workers in the United Kingdom, effective April 1, 2010, following specific agreement between the company and members of the fund. This arrangement replaces the previous system, which limited defined contribution treatment only to workers hired after a certain date.

Defined benefit plans are in place in the United Kingdom (the fund was closed for all employees on the payroll at April 1, 2010), in the United States (these plans were closed a number of years ago to employees on the payroll, in favour of defined contribution plans; since then, they only apply to retired employees but are not tied to wage increases) and in Germany (this scheme was closed to new hires in 1982). Other defined benefit funds, whose liabilities are not particularly significant, exist in The Netherlands.

Group affiliates still provide occupational company medical benefits according to local requirements. 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 United States. For measurement of the liabilities and costs represented by

these benefits, reference is made to notes 23 (“Employee benefit obligations”) and 31 (“Personnel expense”) to the Consolidated Financial Statements of Pirelli & C. S.p.A. at December 31, 2010.

OCCUPATIONAL HEALTH, SAFETY AND HYGIENE

“The Pirelli Group safeguards health, safety and industrial hygiene in the workplace, both through management systems that are continually improving and developing and by promoting an approach to health and safety based on prevention and the effective handling of occupational risk.”
(Ethical Code – “Human Resources”).

*“The Pirelli Group pursues and supports compliance with internationally proclaimed human rights. Pirelli considers protection of the integrity, health and welfare of its employees and the environment as one of the primary needs to be satisfied in organising and developing its activities.
... (omitted)...*

The Pirelli Group is committed to:

- management of its activities by adopting occupational health, safety and rights and environmental policies in compliance with the highest international standards;
- the dissemination of occupational health, safety and rights and environmental information to its internal and external stakeholders, both by communicating with them and actively co-operating with national and international government and academic bodies;
- promoting use of the most advanced technologies to achieve excellence in occupational health and safety and environmental protection;

(Social Responsibility for Health, Safety and Labour Rights and the Environment Policy”)

“The Pirelli Group considers protection of the integrity, health and well-being of its employees as one of the basic and general elements in defining its own strategies and objectives, in view of obtaining ever-more competitiveness on the global market on a long-lasting and sustainable basis.”
(“Quality Policy”)

The management approach to Occupational Health, Safety and Hygiene is based on the principles and commitments set out in the cited Sustainability documents, which are discussed in the introductory section of this report and whose complete text has been distributed to all Group employees in their local languages as well as having been published in the “Sustainability” section of www.pirelli.com.

SAFETY MANAGEMENT SYSTEM

A safety management system structured and certified in accordance with the **OHSAS 18001:2007** standard at Pirelli Tyre S.p.A. (which also includes the plants for production of steel cord) has been established. At December 31, 2010, **19 out of 21** currently existing Tyre business production areas were **certified** according to this standard.

Another Tyre production plant in **Venezuela** will be certified in **2011**, in addition to the **Eco Technology** plant operating in **Romania**. The Safety Management System implemented at the Pirelli Tyre 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 identification of the key elements of occupational safety management and a uniform, shared mode of operations.

Beginning in 2011, although the current management systems are perfectly in compliance of the OHSAS 18001 standard, all compliance certifications will be issued in accordance with the **SAS** international accreditation system (SAS is the Swiss accreditation entity that evaluates and accredits compliance assessment bodies – laboratories, inspection and certification bodies – in accordance with international standards).

OCCUPATIONAL SAFETY: A MATTER OF CULTURE BEFORE ANYTHING ELSE

The **Safety Excellence Project** (launched in 2009) continued in 2010. It aims to introduce the DuPont method (best in class for decades) in our production units, beginning with the new Settimo Torinese Industrial Centre.

The **DuPont method** is characterised by emphasising safety as:

- a **strategic factor** that goes beyond the corporate dimension to involve the personal, family and social sphere;
- a **tool for motivation** and participation in corporate management that demands effort to maintain the high level of attention necessary to obtain results;
- a **culture** that develops tools and involvement to guarantee one’s own safety and other persons’ safety.

In 2010 the Excellence in Safety project of the New Industrial Centre developed various “pillars” including:

- integration of the Health and Safety concepts in the site vision;
- development of performance indicators with a special focus on leading KPIs, i.e. the indicators of activities that are performed to prevent accidents and involve the population;
- training and coaching of all managers, supervisors and blue collar workers on DuPont concepts;

- application of Safety Discussions and “10minutes” Informational Briefings;
- identification and training of Safety Champions amongst blue collar staff;
- development of other “pillars” in 2011, including management of contractors and “30minutes” Participation meetings.

On conclusion of the project (scheduled in 2011), DuPont will conduct a **re-assessment** to assess the progress of **safety culture**, which will be measured with the *Bradley Curve*.

The Project was also launched in **South America** in 2010. In particular, the five Brazilian product sites were assessed with the direct participation of DuPont.

The visits at these centres **involved** extensive participation by company employees (including the use of questionnaires and discussions with about 20% of staff) and provided indications about certain Quick-Wins and opportunities for improvement. The assessment output was shared with South American top management and a detailed **action plan** was then defined for implementation over the **two-year period 2011-2012**.

The principles and guidelines for Excellence in Safety have already been **distributed to the other operating units**.

The Group’s commitment on Health and Safety also included the participation of **Industrial Relations** through the **involvement of trade unions** in many of the companies where Pirelli has a presence and in compliance with local legislation. **Mixed company – union representative committees** have been set up at several plants, where current issues and awareness and action plans/programmes are periodically monitored and addressed, with the support of specialists.

Among the various initiatives undertaken, the Excellence in Safety project, being a particularly innovative accident prevention training plan, was the object of an agreement with the Turin Centre trade unions for its financing, translating into the offering of eight classroom hours and two practice hours for each employee in 2010.

In 2010 initiatives were taken to change internal culture, including the monthly newsletter *Safety Bulletin* and the periodic publication of significant events through traditional internal communication channels.

THE “PIRELLI HSE CAMPUS” AND SHARING OF BEST PRACTICES

Among the various health and safety education initiatives, the **Pirelli HSE Campus** – launched in 2009 – was also particularly successful in 2010. Training activities at this campus were increased from 2009 and involved by about 160 persons at the plants in **Turkey, Egypt, Romania, South America and China for a total of about 4000 classroom hours**.

The tests administered at the end of each module confirmed the validity of and satisfaction with the programme. Since 2010, the symbol **flag for our target is also distributed at the end of each training module: “TARGET ZERO INJURIES”**.

For 2010-2011 Pirelli is an official partner of the **Campaign for Healthy and Safe Workplaces** of the **European Agency for Health and Safety at Work (EU-OSHA)**, launched on April 28, 2010 by the European Commissioner for Work, Social Policies and Integration, László Andor. The object of the campaign was “**Safe Maintenance**”. Target: reduce the number of workplace accidents tied to maintenance practices.

This is Pirelli’s **second partnership with EU-OSHA**, after the partnership last year based on the “**Risk Assessment**”, which aimed to promote a participatory approach to the assessment of risks, based on consultation and participation by everyone at the workplace.

Another activity sponsored by the Group was the **Pirelli 2010 international HSE meeting**, held in Istanbul and at the Izmit Tyre and Steel Cord plants from November 9 to 12, 2010. In a context for sharing methods and best practices, classroom lessons and workshops at plants, the meeting was attended by **Heike Klempa**, Campaigns Manager at **EU-OSHA**, who presented values and objectives of the “Safe Maintenance” campaign.

The world HSE meeting, which has now been held for three years in a row, also aimed at sharing best practices applied to various world sites. Both theoretical issues and practical applications at production sites were dealt with at the meeting.

Activities involving the participation of maintenance personnel were held and specific training days were organised at various production sites.

The issues to be dealt with at the **first Pirelli HSE Week** to be held simultaneously at all production sites worldwide are being defined for 2011.

MONITORING OF PERFORMANCES AND SHARING OF EXPERIENCES

In parallel with the definition of specific guidelines and procedures for creating and implementing management systems, there is 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 HSE 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.

In particular, the HSE-DM system collects all information about accidents that occur in factories (accident analysis, adopted corrective measures, etc.). If the dynamics of the specific case are significant, all plants are not only provided with the information but also urged to conduct an internal audit as to whether conditions similar to the ones that caused the injury exist at their plants too and 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.

PERFORMANCE

The accident **frequency index (FI)** (the ratio of the number of reported accidents to the number of hours actually worked) **in 2010 fell overall by 13% from 2009.**

The gravity index (GI) was **reduced by 29% from 2009.**

The trend for the **frequency index** at Pirelli Tyre industrial was particularly significant. It **fell by 14% from the previous year and by 27% over the 2008-2010 period.**

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

Calculation of the aforementioned indices does not include the **accidents** that occur **during work-related travel**, which will be referred separately in the specific table below and that in 2010 confirm a positive trend of **reductions from 2008 (-22%).**

The following tables illustrate the performance of FI, GI and accidents occurred during work-related travel, broken down by business. The calculation of the indicators refers to the activities performed by both industrial and office employees. The frequency and gravity indicators regarding external enterprises are not calculable.

	Frequency Index (FI)		
	2010	2009	2008
SCOPE			
Tyre (Total: Industrial + Commercial)	1.60	1.87	2.18
Other Businesses (Corporate + Eco Technology + Ambiente + P Zero)	0.33	0.45	0.25
PIRELLI TOTAL (continuing operations)	1.57	1.83	2.15
Result of discontinued operations (PBS+PRE*)	0.27	0.10	0.21
PIRELLI TOTAL (continuing operations + discontinued operations)	1.53	1.76	2.06

* PBS+PRE = Pirelli Broadband Solutions+ Pirelli Real Estate, now Prelios, discontinued in 2010

	Gravity Index (GI)		
	2010	2009	2008
SCOPE			
Tyre (Total: Industrial + Commercial)	0.38	0.54	0.46
Other Businesses (Corporate + Eco Technology + Ambiente + P Zero)	0.12	0.13	0.01
PIRELLI TOTAL (continuing operations)	0.37	0.53	0.45
Result of discontinued operations (PBS+PRE*)	0.06	0.02	0.02
PIRELLI TOTAL (continuing operations + discontinued operations)	0.36	0.51	0.43

* PBS+PRE = Pirelli Broadband Solutions+ Pirelli Real Estate, now Prelios, discontinued in 2010

	injuries on business travel		
	2010	2009	2008
SCOPE			
Tyre (Total: Industrial + Commercial)	110	108	134
Other Businesses (Corporate + Eco Technology + Ambiente + P Zero)	2	5	3
PIRELLI TOTAL (continuing operations)	112	113	137
Result of discontinued operations (PBS+PRE*)	3	6	11
PIRELLI TOTAL (continuing operations + discontinued operations)	115	119	148

* PBS+PRE = Pirelli Broadband Solutions+ Pirelli Real Estate, now Prelios, discontinued in 2010

OUR BEST PERFORMERS 2010

At Pirelli Tyre industrial facilities, **two production sites achieved the Zero Accident target: Cord Romania, MIRS Rome (USA).**

These results were obtained thanks to the commitment made by head management and staff to engagement on HSE issues of all factory functions, constant training and awareness at all levels and, finally, research on the final causes in the analysis of Group accidents considered as potential near-misses at its own site.

FATAL ACCIDENTS

Once more in 2010, no Pirelli employee or employee of outside contractors working at the Group's operating sites suffered a fatal accident.

OCCUPATIONAL DISEASES

As can be observed in the following table, the **Frequency Index (FI)** of **occupational diseases** at the company **fell over the three-year period**, to 0.25 (-25%) in 2010.

SCOPE	FI occupational diseases		
	2010	2009	2008
Tyre (Total: Industrial + Commercial)	0.26	0.29	0.35
Other Businesses (Corporate + Eco Technology + Ambiente + P Zero)	0.00	0.00	0.00
PIRELLI TOTAL (continuing operations)	0.25	0.28	0.34
Result of discontinued operations (PBS+PRE*)	0.00	0.00	0.00
PIRELLI TOTAL (continuing operations + discontinued operations)	0.25	0.27	0.33

* PBS+PRE = Pirelli Broadband Solutions+ Pirelli Real Estate, now Prelios, d

HEALTH AND SAFETY INVESTMENTS

In 2010 health and safety investments by Pirelli Tyre totalled Euro 11 million.

PIRELLI TYRE INVESTMENTS	
2010	11
2009	10
2008	11.3

The expenditure made in 2010 targeted **improvements on machineries and plant** and, more in general, **workplace environment** as a whole (e.g. improvement of microclimate and lighting conditions, changes in layout for ergonomic improvement of activities, measures to protect the healthfulness of infrastructure, etc.).

ACHIEVEMENT OF 2010 ENVIRONMENTAL TARGETS

QUANTITATIVE		
2010	Reduction of Pirelli Tyre industrial FI by 10% vs 2009	WIDELY SATISFIED
2010	Increase in total number of HSE Campus training hours > 100 hours	WIDELY SATISFIED
QUALITATIVE		
2010	Monthly monitoring of training hours	SATISFIED
2010	Extension of HSE Campus activities to LATAM plants	SATISFIED
2010	Audit of level of application of Group Risk Assessment standard	UNDER WAY
2010	Targeted investments to resolve riskiest situations	SATISFIED

NEW SHORT AND MEDIUM-TERM TARGETS

QUANTITATIVE	
2011 - 2013	Reduction of Pirelli Tyre industrial FI: -40% vs 2009
QUALITATIVE	
2011	Organisation of first Pirelli HSE WEEK at all sites worldwide
2011	Definition of a new Group standard for maintenance activities
2011	OHSAS18001 certification of the Eco Technology plant in Bumbesti, Romania
2011	OHSAS18001 certification of Guacara plant in Venezuela
2011	"Safety Bulletin" focused on leading safety indicators
2011 - 2012	Consolidation of new POWRA (point of work risk assessment) tool for maintenance activities
2011 - 2012	Integration of HSE module in Process Kaizen Engineer training process
2011 - 2012	Definition of a Group standard for non-monetary rewarding for HSE

EXTERNAL COMMUNITY

RELATIONS WITH INSTITUTIONS AND PUBLIC AUTHORITIES

"Relations between the Pirelli Group and public authorities at local, national, and supranational levels are characterized by full and active cooperation, transparency, and due recognition of their mutual independence, economic targets, and the values in this Code."

"The Pirelli Group intends to contribute to the prosperity and growth of the communities it operates in by providing efficient and technologically advanced services."

The Pirelli Group endorses and, where appropriate, gives support to educational, cultural, and social initiatives for promoting personal development and improving living standards. The Pirelli Group does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation."
(Ethical Code – The Wider Community)

The far-flung nature of Pirelli Group industrial and economic interests demands extensive articulation of institutional relations at the national and international levels.

For Pirelli, the establishment of stable relations with institutional authorities, always characterised by maximum transparency and mutual cooperation, represents a natural condition in all countries where it operates.

The primary aim of Group institutional relations is focused on the publication of information about its industrial identity. Investments, development of new processes and product technologies, employment indices and indices of environmental and social sustainability are at the centre of our relations with institutional interlocutors, in order to guarantee constant and exact comprehension of the Group's activities and the interests it represents. Every assessment of corporate issues having a material impact at the political and institutional level includes a careful review of their potential implications. This includes a complete and transparent engagement of all the institutional interlocutors involved in the public decision-making process.

To guarantee an approach consistent with Group requirements, special attention is devoted to analysis, not only of statutory and administrative issues but also the evolution of governmental conditions in the many areas where Pirelli operates industrial plants.

In Italy, the Group interacts in a system of relations involving numerous institutional bodies. At the parliamentary level, it monitors all legislation having an impact on the Group. It devotes special attention to the activities of the principal standing committees in the lower house of Parliament and in the Senate, and contributes information to lawmakers during the bill drafting process.

At the governmental level, Pirelli cultivates on-going relations with the Prime Minister's Office and the Ministers of Economic Development, Transport, Environment, Labour and Foreign Affairs.

During meetings with ministerial officials the greatest attention was devoted to projects for the re-industrialisation of national territory, procedures promoting road safety, employment, and various financing opportunities for investment, scientific and technological research.

In Rome on June 16, 2010, Pirelli and Autostrade per l'Italia presented "Safe&Go" to Altero Matteoli, Infrastructure and Transport Minister. Safe&Go was a summer road safety campaign conceived and created by the two companies. It targeted all motorists using the Autostrade per l'Italia motorway network, and involved a complete tyre check-up at the Pirelli inspection stations set up along the network.

The Pirelli Group also considers its relationship with European institutions – such as the European Commission, Council and Parliament – of fundamental importance to

define general objectives and European Union policies. The monitoring of legislative activity and active participation in the decision-making process on issues of greatest interest to the Group (including transport and sustainable development, commercial policy, urban mobility, industrial policy and research) is of key importance.

In 2010 Pirelli top management joined the official delegations that received the leaders of Russia and China, as well as an extensive series of institutional relations with Brazil, where Pirelli has been operating for over 80 years. During the visit made by Prime Minister Silvio Berlusconi in June 2010, the Italo-Brazilian Business Council was established with the participation of Pirelli.

The Group celebrated two important anniversaries in 2010: the 50th anniversary of operations in Turkey and the 100th anniversary of operations in Argentina. These represented two opportunities for reinforcing relations with these two nations and their institutions. Nihat Ergun, Industry and Trade Minister, and Egemen Bagis, European Affairs Minister, participated at the events in Turkey: the press conference held at the opening of the "factory of champions" in Izmit, where all tyres for Formula 1 and other motorsport activities are made, and a gala dinner in Istanbul with major Pirelli stakeholders in Turkey. In Argentina, President Cristina Fernández de Kirchner presided over the ceremony honouring a century of work and business in that country, and announced new investments to be made in the near future.

Institutional relations were particularly intense in Russia and Mexico, in anticipation of new industrial projects. Thanks in part to strong institutional ties, November was marked by the start of construction on a new high-end tyre production plant serving the entire NAFTA market and a comprehensive joint venture with Russian Technologies and Sibur Holding were announced. The purpose of the latter is the development of joint activities in the tyre and steel cord sectors, and the supply and high technology production of synthetic rubber derivatives in Russia. To underscore the importance of this latter agreement, Pirelli chose Russia as the location for launching the Pirelli 2011 Calendar, created by Karl Lagerfeld. This world-class event was attended by leading members of institutions in Moscow.

In December, the Group signed an agreement with Mara Carfagna, Equal Opportunity Minister, and Roberto Formigoni, Governor of the Region of Lombardy, to expand and renew until 2013 the international health cooperation programme launched in 2008 between the Milan Niguarda Ca' Granda Hospital and Slatina Hospital in Romania. This programme aims to support the professional training of Romanian medical and nursing professionals through a training course coordinated by

the Milan hospital. This initiative is part of Pirelli's commitment to social initiatives supporting the local communities where the company has production sites.

PRINCIPAL INTERNATIONAL COMMITMENTS FOR SUSTAINABILITY

Some of the main commitments made by Pirelli worldwide are illustrated hereafter. The list does not include the numerous activities and agreements existing at the local level with Group affiliates.

CHAIRMANSHIP OF ETRMA – EUROPEAN TYRE AND RUBBER MANUFACTURERS ASSOCIATION

Under the chairmanship of Francesco Gori, CEO and General Manager of Pirelli Tyre and serving his second three-year term as ETRMA Chairman, ETRMA worked intensively during 2010 in response to unprecedented regulatory changes in Europe, in order to complete drafting of the exact procedures for the implementation of new regulations.

More specifically, in order to implement the following initiatives taken by the European Commission for environmental protection, road safety and enhanced competitiveness:

- regulation of the general safety of vehicles and tyres, under which the tyre industry must make a major commitment to tyre noise abatement, improved performance on wet road surfaces and reduced fuel consumption;
- regulation of energy efficiency, which will require that tyres be sold with disclosure of information about the energy efficiency, road hold on wet surfaces and noisiness of tyres to buyers.

The Association, with the institutional support of the Group, is the principal partner of EU institutions for the development of the mandatory procedures for implementation of regulations, with the aim of harmonising their adoption in all EU countries. In parallel, ETRMA stimulates those countries to develop policies for monitoring tyre compliance in the EU market with EU regulations.

It also plays an active role in drafting the new “Europa 2020” strategy, aimed at defining EU economic and social measures for the next decade.

Three years after signing the European Road Safety Charter, which contains a commitment to halve the number of highway accident deaths by 2010, the ETRMA safe driving and sustainable mobility campaign continued.

Finally, ETRMA is successfully promoting sustainable practices for the management of end-of-life tyres, which has enabled Europe to recycle more than 95% of its tyres.

WBCSD – WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

Pirelli actively participated in the **WBCSD – World Business Council for Sustainable Development** once again in 2010. Headquartered in Geneva, this is an association of about 200 international companies based in over 30 countries that have made a voluntary commitment to link economic growth to sustainable development.

Pirelli Tyre is an active member of the **Tire Industry Project**, the project launched in 2005 to identify, from a sustainable development perspective, the potential impact on health and the environment of the materials associated with the manufacture and use of tyres. This project focuses on raw materials and tyre debris. It aims to further the development of knowledge and devise a new industrial approach that will not only meet but even anticipate the challenges of sustainable development.

The group members have also published a new manual for end-of-life tyre management. It is a compendium of best practices collected from around the world, to promote the recycling and reuse of tyres as a resource (secondary raw material) in emerging countries. This will make it possible to reduce the use of raw materials and environmental impact that this involves.

PARTNERSHIP WITH THE EUROPEAN OCCUPATIONAL SAFETY AND HEALTH AGENCY (EU-OSHA)



In 2010 Pirelli joined the “**Safe and Healthy Workplaces**” campaign of the **European Occupational Safety and Health Agency (EU-OSHA)**.

The 2010-11 campaign, launched on April 28, 2010 by the European Commissioner for Labour, Social Policy and Integration, László Andor, is based on the theme of “**Safe maintenance**” and aims to reduce workplace accidents tied to maintenance practices.

The campaign calls for conferences, seminars, workshops and training sessions for blue collar workers and all the stakeholders involved in maintenance work, especially in those sectors where workers are more exposed to hazards, such as construction, agriculture and chemicals. One of the activities promoted by the Group was the organisation of the **HSE Pirelli international meeting held in Turkey, in which participated the EU-OSHA delegation** and various activities of good maintenance practices. “It is estimated that 20% of the occupational accidents in Europe are connected with maintenance practices. In cer-

tain sectors, half of the accidents are caused by inadequate maintenance” said **Jukka Takala, director of the European Occupational Health and Safety Agency**. “This is why it is fundamental for maintenance to be performed correctly, especially if workers’ health and safety are at risk.” Another activity sponsored by the Group was the **international HSE Pirelli 2010 meeting**, held in Istanbul and at the Izmit Tyre and Steel Cord plants from November 9th to 12th, 2010. In a context for sharing methods and best practices, classroom lessons and workshops at plants, the meeting was attended by **Heike Klempa**, the head of communication at the **European Occupational and Safety Agency**, who presented values and objectives of the “Safe Maintenance” campaign.

This was Pirelli’s second partnership, after the one based on “**Risk Assessment**” in 2008-2009, which aimed to promote a participatory approach to risk assessment, based on consultation and participation by everyone present at the workplace.

With the participation of over 30 countries and about 4 million pieces of informational material distributed in all the official languages of the European Union, the European campaign has become one of the biggest annual public awareness initiatives.

More details about the campaign and commitments made by the Group can be found at: <http://osha.europa.eu>

PARTICIPATION IN THE EUROPEAN ALLIANCE FOR CSR AND CSR EUROPE

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 commitment to the initiative promoted by the European Commission in Brussels 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.

In 2009 the Multiculturalism Workshop created the toolkit *Multiculturalism, an Asset for Business. A Comparison of Experiences and Programmes: Stimulus for Improvement of Company Life*, presented in Milan on October 27th, 2009 by Pirelli and the other companies that co-authored the book, together with UNAR-National Office against Racial Discrimination, during the conference “Diversity Management: an Asset for Business.” The **Equal Opportunities Workshop** held in 2008 produced a toolkit entitled Practising Gender Equality in Careers, which was presented in Brussels on June 19th, 2008 at the CSR Europe General Meeting.

Attention remained focused in 2010 on the topics and workshops of CSR Europe, with a focus on diversity, responsible management of the supply chain, initiatives in

favour of the internal community, planning and improvement of initiatives in favour of the external community.

SIGNING OF THE CANCUN COMMUNIQUÉ



In 2010 Pirelli signed the **Cancun Communiqué**, an initiative sponsored by the British entity **Prince of Wales’s Corporate Leaders Group on Climate**

Change and supported by over 500 firms worldwide.

This programmatic document, to be presented at the next United Nations Climate Change Conference in Cancun, asks UN members states to implement strict energy policies, capable of generating efficiency in all sectors to promote human health and environment respects.

At the United Nations Climate Change Conference on Bali in 2007, **Pirelli Tyre** had already endorsed the **Bali Communiqué** together with 150 international firms. This document promotes the development of concrete strategies through joint action by governments on a comprehensive global climate accord. Afterwards, Pirelli Tyre signed the **Copenhagen Communiqué** in 2009, which required development of new policies – particularly for control of CO₂ emissions – to address the pressing issue of climate change.

COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY

Since it was founded in 1872, Pirelli has been aware of its major role in promoting civil progress in all communities where it operates. Consistently with the *Ethical Code* and the “Social Responsibility for Health, Safety and Labour Rights and the Environment” Policy, the Group developed a global strategy for protection of the territory, supporting health, education and training, environmental, cultural and sport initiatives.

SOCIAL SOLIDARITY, EDUCATION AND TRAINING AND HEALTH

The Group’s support for social solidarity has deep roots. It dates back to the very birth of an enterprise that immediately confronted the most diverse situations around the world on its own path towards internationalisation. This is the case of **Emergency**, an Italian humanitarian association that provides assistance to the civil victims of war worldwide and of which Pirelli is one of the founding members.

Group support for the Milan Institute for the Blind continues. Through the exhibition “**Dialogue in the Dark**”, it

disseminates the culture of integration, promoting the active role of blind people in society, breaking down prejudices and psychological barriers. Thanks in part to the support of Pirelli, the Institute was able to flank new activities with the now historic exhibition. Theatre, dinners, tactile exhibitions and experimental theatre performances in the dark were held with over 60 blind persons. This activity has enjoyed increasing public participation and involvement since 2005. In Brazil, where the Group has been historically active with social initiatives, support for the “**Projeto Guri**” continued. This project offers musical instrument and singing lessons to 200 children from disadvantaged families.

Pirelli also supports the “**Projeto Santa Cruz**”, which offers assistance to handicapped children, teenagers and youths, with diagnosis, rehabilitation and assistance for social integration in São Paulo. At Campinas, the site of a factory, Pirelli supports **FEAC**, a federation of 600 regional welfare institutions, in carrying out their administrative and financial obligations. In 2010 Pirelli contributed to remodelling of the **Hospital Pequeno Principe a Curitiba**, the largest paediatric hospital in Brazil, and supported the **Aliança da Misericórdia** in São Paulo for the care of about 150 needy youths and children.

Other assistance was given to two day care centres, **Asilo Nido Dr. Klaide** in Santo André and **AMIC** in Campinas, in addition to the schools **Educandario Imaculado Coracao de Maria** in Amélia Rodrigues, and **Scuola Cajueiro a Alter do Chao** in Amazonia.

The Group is committed to improving the life of needy and disadvantaged people not only in Italy and Brazil, but also in numerous areas around the world. In Turkey, it supports the **ZICEV** foundation for education and protection of mentally handicapped children, by assuming certain structural maintenance costs. Over the years, it has founded and helps support two schools near the production plant at Izmit, **Türk Pirelli Primary School** and **Türk Pirelli High School**.

In Argentina, Pirelli sponsored the paediatric ward of the **Heroes de la Maldivia** hospital and the marathon held by the **Italian Hospital** in Buenos Aires, collecting money for maintenance of the medical centre. In the United Kingdom, donations in 2010 were made to **Queens Hospital Burton** (for equipment), **St Giles Hospice**, **Marie Curie Cancer Care**, **Western Park Hospital**, **Transaid** (for Tanzania), **Alzheimers Society**, **Community Projects Carlisle** (for home-





less youth), **Teenager Cancer Trust**, **Diabetes UK**, **Eden Valley Hospice**, **Newcastle Children's Cancer Fund**, **Children in Need**, and others.

In Mexico, Pirelli supports the **Fundacion Teleton**, an important social project for rehabilitation of disabled children. In Romania, Pirelli assumed responsibility for the dental care of 110 children through the **Overland for Smile** project, in addition to the major programme for support of the **Slatina Hospital**, which includes the training of medical personnel at Niguarda Hospital in Milan. Other activities in Romania in 2010 included donations made for medical equipment to the **Fundatia Dan Voiculescu** Hospital, for the **Don Orione** physiotherapy centre, and to the **IMSAS** for medical support. Major **scholarships** are awarded to the children of employees, needy and worthy individuals in the local communities and directly or indirectly through Rotary Clubs, to local universities in many countries including Italy, Romania, Turkey, Venezuela and others. In Romania, Pirelli funded **technical training** helpful for landing a factory job, while in the United Kingdom, the "**Chance to Shine**" programme enables several youths to enter the working world.

Special mention must be made of major initiatives in which Pirelli employees directly participate with their efforts and commitment. In Mexico, they support "**Casa Hogar**" of the **Fundacion Familiar Infantil I.A.P.**, a social project that addresses the basic needs of children whose parents are jailed. Group employees make donations and visit them regularly. In Argentina, all paper used in the factory is collected and recycled, with the profits allocated to maintenance of the **Garrahan** hospital. Employees are committed to recycling other waste to support the "**Fundacion Ninos com Cancer**" foundation. In Romania the steel cord plant managers dedicated two days to the **paediatric neuromotor ward of Slatina Hospital**, remodelling interiors. Together with the hospitalised children, they painted and decorated the walls of the ward and cafeteria to transform them into friendlier environments, and then they installed furniture and equipment for rehabilitation. A final celebration was organised with the distribution of toys collected by the managers themselves. Finally, in the United Kingdom several employees dedicated themselves to sports activities for charitable fund raising. The most creative participants managed to collect donations by walking on burning coals and, incredibly, letting their moustaches grow (in spite of the protests raised by some wives).



Employees in various countries participated in making donations and collecting funds for victims of the natural disasters in Haiti and Moldova.



On January 13th, 2010, Haiti was struck by a disastrous earthquake (which left 222 thousand confirmed dead, 300 thousand injured, 600 thousand people who have left the capital Port-au-Prince to seek shelter elsewhere, about 100 thousand buildings destroyed and 190 thousand buildings damaged). Pirelli and its employees immediately decided to give their support for reconstruction, launching a collection of funds to support the “**My time for Haiti**” operation.

The culture of the Group, as a multinational company, holds that integration and support in favour of the communities where a company operates do not suffice to establish substantial “social responsibility.” Global needs and emergencies must also be considered and dealt with to the extent possible, regardless of whether the Group produces in a certain place or not. This is the case of Haiti: Pirelli does not operate locally, but it simply responded responsibly to a global emergency, to the extent of its abilities.

Every employee was able to choose whether and how much to donate in terms of their own working hours (which explains the title of the project, “My Time for Haiti”). The amount is then collected through deduction

of the donated hours from the wages or salary of the individual donors. The company matched the amount collected by the employees, doubling it. This permitted the reconstruction of three schools in Haiti, two in the city of Belladère (Ecole Atenoir Furmin and Ecole Congreganiste Marie Jeanne, filles de Marie) and one in Anse-à-Pitre (Anse-à-Pitre Liceum).

The employees were given frequent updates on work status, with photos and videos, both via intranet and in company newsletters. The external community was periodically updated with news on the “Sustainability Channel” of www.pirelli.com.

The direct positive impact of the project was as follows: **4,000 Haitian children** were able to return to school in just a few months (three schools had been entirely rebuilt by the end of 2010), in a new, secure and comfortable setting, a place for meeting and growth whose positive effects also impacted the **families of the children** themselves, for a **total of about 20,000 persons**.

The Project led to the establishment of a successful and effective partnership between the Group and the United Nations High Commissioner for Refugees (UNHCR), which coordinated local reconstruction activities together with the NGO Plan International. Pirelli has been an active member of the United Nations Global Compact since 2004, and the United Nations immediately played an active part in reconstruction. The UNHCR was on the



front line in Haiti immediately after the earthquake. Together with the UNHCR, the Group identified a concrete reconstruction project, which was immediately preferred over the mere donation of collected money.

In regard to the statements made about the project by UNHCR and Pirelli:

Antonio Guterrez – United Nations High Commissioner for Refugees – Washington:

“Following the devastating earthquake in Haiti last year, UNHCR appealed to the international community to help address the massive needs of the displaced. The management and staff of the Pirelli Group responded to that appeal. Thanks to their contribution, three schools in northern Haiti have been rehabilitated and furnished, restoring normalcy and hope to the lives of 4,000 schoolchildren”.

Marco Tronchetti Provera, Chairman and CEO of Pirelli – Milan:

“With the ‘My Time for Haiti’ project and thanks to the valuable, effective partnership with UNHCR, Pirelli and its employees once again translated Corporate Global Citizenship into practice. Children education is one of the most important values to be preserved and fostered in a reconstruction phase: a sustainable, responsible approach to enable them building a better future”.

The statements cited here will be published both by Pirelli and by UNHCR by the first half of 2011 in a “web story” dedicated to the project “My Time for Haiti.”

However, the format of the initiative was not new to employees. Following the tsunami that struck Indonesia in 2004, Pirelli launched the “My Time for Indonesia” Project, which has the same governance structure (an operating committee and a supervisory committee, the collection of employee work hours, and a company donation of more than double the amount collected from employees). Its partner was the Indonesian government, and the collected funds made it possible to reconstruct two schools in Banda Aceh, one of the areas most devastated by the tsunami.

However, Pirelli employees also took independent action in favour of the environment, collecting litter and cleaning forests in Romania, planting trees in England, fighting soil erosion in Turkey and cleaning beaches in Venezuela. Other projects in Venezuela include an environmental calendar, a museum dedicated to ecology and the reopening of a model farm with the donation of trees for sustainable production of cacao. In Mexico, the Group sponsors city gardens.





SPORT AND SOLIDARITY: A COMBINATION FOR GROWTH

There is a close link between solidarity and sport, in a virtuous circle where commitment to sports becomes synonymous with the commitment to promoting social solidarity and ethics, especially amongst young people. Two Inter Milan football players Esteban Cambiasso and Javier Zanetti, set up the project “**Leoni di Potrero – Calcio per tutti**” (Potrero Lions – Soccer for Everyone) a few years ago. It is a free training centre in Milan that is supported by Pirelli and targeted 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.

The Group also sponsors baseball in Venezuela with the **Pirelli Baseball School**, attended by over 300 children and teenagers; **basket and volleyball** in Brazil, and **football and cricket** in the United Kingdom, to mention just a few activities. However, mention must be made of the “**Inter Campus**” in Romania.

In July 2008 FC Internazionale Milano, the Group and Comunità Nuova brought the “Inter Campus” project to Slatina. Sports and recreational activities are organised for the whole year, with the participation of over 80 children from different social backgrounds. Through football, they have been learning the values of teamwork, social integration and the importance of friendship for over two years.

An annual football tournament is organised in July, at the end of the sports year, for children at the Campus and for children from Slatina. The second edition of the “**Millions of Smiles**” trophy was organised in 2010. Over 250 kids played for three days with famous personalities like the footballer Cristian Chivu, volunteers from Italy and trainers from Inter.

As part of the activities at Intercampus, Pirelli organised a photography course for children from July 14th to 31st in addition to the field trips that the children take over the year to learn and become better acquainted with history. Comunità Nuova, the local social partner, sent a photographer from Italy, who spent two weeks teaching children the art and basic techniques of his profession.

The “football tool” is so strong in the corporate strategy of establishing local roots that the Group has reformulated for application in the diverse and opportunity rich Chinese market. In 2010 it renewed its sponsorship of the **Chinese Super League**.

CORPORATE CULTURE: FONDAZIONE PIRELLI

The Pirelli Group has been recognised for over a century, both in Italy and around the world, as one of the most prestigious examples of “corporate culture.” The **Fondazione Pirelli** (Pirelli Foundation) was established in 2009 specifically in order to provide continuing, holistic and authoritative support for corporate culture. Its guiding principle is to promote the creativity of new generations of artists and researchers, offer a platform for the thought that links the tangible industrial experience and

memory conserved in the **Historic Archive** with the drive for design, while promoting the value of current experience as it gradually becomes history.

Inaugurated in April 2010 at the historic “Fabbricato 134” at Bicocca, the Foundation welcomed over three thousand visitors over the year, from schools, institutions, associations, company museums, foundations and customers. It organised meetings, conferences and seminars, training courses, exhibitions and events.

Management and improvement of the Group Historic Archive is one of the Foundation’s main purposes. Among the current archive activities, which began in 2010, mention should be made of the automated inventory system – based on the standardised GEA system – to handle over 2.5 kilometres of documents kept at the Archive, together with cataloguing and digitalisation of the immense photography archive, as well as collaboration with the Cineteca Italiana in Milan for restoration of about 200 feature length films and digitalisation of the complete collection of the magazine *Rivista Pirelli*. Special mention must be made of the start of restoration of about 150 original advertising sketches that will form the core of the exhibit to be held at the Milan Triennale – dedicated to the theme of Pirelli brand fashion.

At the same time as the Archive opening, the site www.fondazionepirelli.org went online in April 2010. This website will be developed and improved in 2011 in order to reach an ever-more diversified target of users through the systematic addition of new functions.

NARRATING WORK: FROM SETTIMO TORINESE TO BICOCCA

The Fondazione Pirelli promotes corporate culture, convinced that widespread and exact knowledge of the business world is the best tool for generating awareness of the value of a business, for shared economic and civil progress. Business lives in society and is an integral part of society: the common denominator is encapsulated in the word “work.”

“Narrating work” is one of the cornerstones of Foundation activity. This has been true since the beginning, when – in the summer of 2009 – the photography exhibit “Working. Uomini, macchine, idee” (“Working. Men, machines, ideas”) was organised at the Milan Triennale, as the ideal iconographic continuation of the book *Racconti di Lavoro* (“Work Narratives”).

This narration of workplaces continued in 2010, to the point where it concentrated on what is now a genuine symbol of the industrial vitality of the Group, the new Settimo Torinese Industrial Centre. The photography exhibit “**Workers**” was thus opened at the Giardinera space at Settimo Torinese in September 2010: seventy photographs taken by Carlo Furgeri Gilbert, which narrate the industrial adventure of Pirelli at these historic plants just outside Turin, which are now going to be transformed into one of the most advanced tyre manufacturing plants in the world. This is a narrative of both the past and the future, to be built with the faces of those men and women who have dedicated and dedicate their intelligence, energy and skills to the factory every day.



Also in September, music returned to the factory during the Workers photography exhibit. More than four hundred persons attended the concert given by **I Fianti di Torino**, sponsored by the Foundation as part of the MiTo festival. For an evening, the audience brought the Via Torino plant back to life: after 56 years of productive history, it was being decommissioned for replacement by a new, technologically advanced plant under construction five kilometres away. The Fondazione Pirelli won the **Culture Business Partnership Award 2010** for this concert, an award for businesses investing in cultural events thus becoming an integral part of the project itself.

Transformation of the industrial complex in Turin also involved the Foundation – together with the Centro per la Cultura d'Impresa – in a vast project to **collect oral source material** from employees at the factories located in Settimo Torinese. This research aims to go beyond the production of material “for future memory,” by digging deep into the relationships between work and technology, values, motivations, aspirations and behaviour of the new blue collar class, the symbolic and practical models of reference, work ethics and forms of identification with the firm. The project will conclude in 2011 with publication of the results of the research, in the hope of making valid contributions to the more general debate on business and work.

If Settimo Torinese is the paradigm for the capacity of a company to “give itself a future” in industry, the Bicocca area in Milan is part of a bigger industrial narrative intertwined with the very soul of the Group. In November 2010, the Fondazione Pirelli was the first venue for the project “**I luoghi del lavoro, tra memoria e futuro**” (“Workplaces, in History and in Future”). Sponsored by Assolombarda, it presented a series of cultural events to introduce citizens to several major businesses located in the Milan area. The first scheduled event brought over 150 people to the Foundation, who wanted to discover the firm through its history, values and the creativity that it has expressed over the years.

THE PROMOTION OF KNOWLEDGE

Investigating the cultural situation of the nation, its creativity and its innovative capacity, leading to creation of a permanent Observatory, was the aim of the conference **Idee Italiane**, organised in October 2010 by the Foundation for the Italian Institute of Human Sciences and the Fondazione Corriere della Sera, with the support of the Fondazione Cariplo and the Fondazione Pirelli. The observatory on the status of culture in Italy focused on architecture this year. Its primary objective was the conservation of Italian cultural monuments. Over 150 per-





sons attended, including the Minister of Cultural Affairs, Sandro Bondi, Walter Veltroni, Umberto Eco, Gae Aulenti, and others.

The Fondazione Pirelli also plays a major role in school education. Since 2009 it has been a partner, together with the Fondazione Agnelli and the Fondazione Edoardo Garrone, of the Associazione per la Formazione d'Eccellenza (Association for Training in Excellence). This is a non-profit association whose purpose is to promote and encourage excellence in education and training to meet the demands and prospects of the working world, research and business. Its first initiative was the opening of the **Scuola di alta formazione al Management** (Top Management School) in collaboration with the Collège des Ingénieurs, one of the most authoritative European institutions in that field.

But before arriving at the summit of learning, Pirelli believes that attention should be dedicated to basic education and the right to education from early childhood on. Since 2010, the Foundation has had a seat on the board of trustees of the **Scuola Materna "G.B. Pirelli"**, a nursery school in Varenna, Province of Lecco, and it has played an active role since 2009 at the **Istituto di Istruzione**

Superiore "Leopoldo Pirelli" high school in Rome.

Then, two scholarships for graduating high school students at the **Liceo Classico Giosué Carducci** in Milan were established in 2007 by the alumni association – with support from the Group – and dedicated to the memory of Leopoldo and Giovanni Pirelli. With a value of Euro 10 thousand each, they are earmarked for students who wish to pursue studies in the humanities ("Giovanni Pirelli" scholarship) and the sciences ("Leopoldo Pirelli" scholarship).

ART, THEATRE AND MUSIC

Active support for art, and cultural initiatives in general, are part of the Group's tradition. Company support for art now takes the form of collaboration with some of the biggest international institutions. For over three years, the Pirelli Group and the **Triennale di Milano** have belonged to an institutional partnership for the systematic and shared analysis of strategies that promote "design culture" and "product culture." This is an alliance between two of the most important historic institutions in Milan: the Triennale – one of the most important institutions in Italy in the field of visual arts and architecture – is profoundly Milanese by birth but now, like Pirelli, has a strong international vocation. The Pirelli

Group in turn is one of the firms that has contributed the most to the growth and development of graphics in the international field. The Triennale is the institutional symbol of graphic culture.

Other international partnerships with great artistic institutions include the partnership with the **Fondazione Peggy Guggenheim** foundation in Venice. Thanks in part to this support in 2010, the Guggenheim Collection received 332,375 visitors during its 312 museum opening days, with an average daily attendance of 1,065 visitors. In addition to these visitors, there were 5,459 students and 417 teachers who participated in the museum education programme “A scuola di Guggenheim” (At school with Guggenheim), the 1,300 children from the Sunday “Kids Day” workshops, the 11,600 persons who visited the collection during exhibit openings, special visits, institutional and private events, for a grand total of over 350,000 visitors.

Aside from previously mentioned cited base requirements of authoritativeness and prestige, the support given by Pirelli to a cultural project must consider the consistency of that project with the Group's core business. In other words, it must respond to the Group's vocation to innovate, promote research, develop new technologies and invest in young people. The Group's partnership with the **Pinacoteca di Brera** art museum, dating back more than ten years, is emblematic of the vocation to innovate. Moreover, it is not limited to financing an extremely important series of restoration projects but has also led to the development of an innovative, highly advanced restoration technology implemented in the apparatus designed by Ettore Sottsass, which enables gallery visitors to view the lengthy restoration of an art work.

The distance between art and support for the environment is short. The Group has long been a member of the **FAI-Fondo per l'Ambiente Italiano** (Environmental Trust for Italy), with which it has collaborated on various initiatives, including the organisation of art and architectural history courses for the public. Under its auspices, 30 lessons on the masters of the Italian Renaissance were offered in 2010, and dedicated to Leopoldo Pirelli. The events organised at FAI sites also enjoyed great success: cultural encounters, market exhibits and musical events dedicated to the environment attracted about 73,000 visitors all over Italy, aged from 18 to 60.

The comprehensive approach of Pirelli to culture is also realised in its collaboration in the fields of theatre and music. In 2009 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 es-

tablished to support the growth of one of the most active, firmly rooted theatres in Milanese cultural life.

The participation of Pirelli, as supporting partner, at the **Piccolo Teatro di Milano**, confirms the Group's focus on local culture topics. The partnership between Pirelli and the Piccolo Teatro dates back to 1947, when Pirelli became a supporting member of the first permanent public theatre in Milan. The Piccolo Teatro is now an internationally recognised institution, travelling on tour to 37 countries, giving performances in 20 different languages. Between 1999 and 2010, a total of 3,657,825 spectators attended 9,759 performances in Italy and around the world. Of these spectators, a little less than 2 million were young people between the ages of 3 and 26. A total of 3,229 artists, set designers, costume designers and directors contributed to this success.

The “**Milano '900**” course was held between April and June 2010. It offered ten free lessons dedicated to the most important events that marked the history of Milan in the 20th century. Conceived by the publisher Laterza Agorà with the support of Milanese sponsors including Pirelli, the “Milano '900” course attracted over 8,000 spectators to its venue at the Basilica di Santa Maria delle Grazie.

Pirelli promotes culture elsewhere in the world as a key value of society. In Brazil, the company exhibits one of the most important collections of photography at the **Museu de Arte de Sao Paulo (MASP)**, and supports the **Museu de Arte Moderna (MAM)**, one of the most important exhibition centres on the whole continent. In 2010, the Group was dedicated to the promotion of national culture in Brazil, through sponsorship of the **Italian Cinema Week**, and the performance **Mambo Italiano** at a theatre in São Paulo. Giving additional support to film, the Group made three donations of mobile cinema (“**Cineco**”) with collections of 150 DVDs: the first at an educational centre, the second at a communal living centre and the third at a



sugar cane processing plant. Also in Brazil, Pirelli financed another theatrical work, entitled *Tempo de Comédia*.

In Mexico Pirelli decided to give prominence to film culture, in this case sponsoring the film *21 Dias* for promoting local culture. In Romania the Group collaborated with the city of Slatina with the sponsorship of a new theatre, as part of the project “**Masca Theatre**.” In Romania it participated in the promotion of Italian culture, supporting the **Festival Italiano** in 2010 with the Italian Embassy in Bucharest, and an **economic forum** with the association of Italian companies in Romania.

Music is another key value for Pirelli, not only in Italy. In the United Kingdom, it sponsored a **Christmas concert**, and the “**Concerto Dante Alighieri**” of Italian music in Mexico. In Argentina the Group hosted the 20th edition of a classical music concert, “**Italia Canta en Merlo**.” On occasion of the celebrations for its 100th anniversary in Argentina, the 102nd anniversary for the famous Teatro Colon, reopened after a major restoration, and the 200th anniversary of this great South American nation, Pirelli financed a magnificent tour of musicians from the **Teatro alla Scala of Milan in Buenos Aires** with a concert version of Verdi’s *Aida*. Music is also supported in Brazil through a variety of means: from concerts of large international orchestras in the programme **Mozarteum Brasileiro**, to those of the **Orchestra Brasileira dell’Auditorio dell’Ibirapuera**, and finally the project “**Opera na Escola**” for public schools in São Paulo, the staging of “**Os Boemios de Adoniran**” and the **Projeto Guri** for teaching music to disadvantaged children.



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 of Volume 1 / 2 / 3*
Strategy and Analysis		1.1 - 1.2	Volume 1 pages 12, 13; Volume 3 pages 17÷30
Organisational Profile		2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10	Volume 1 pages 10,11; Volume 2 page 14; Volume 3 page 17
Report Parameters	Report Profile	3.1, 3.2, 3.3, 3.4	Volume 1 page 3; Volume 3 page 9
	Report Scope and Boundary	3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11	Volume 1 page 3; Volume 3 page 9
	GRI Content Index	3.12	Volume 3 pages 116,117
	Assurance	3.13	Volume 3 pages 118,119
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	All Volume 2 Volume 3 pages 25÷30
	Commitments to External Community	4.11, 4.12, 4.13	Volume 3 pages 39, 40; 102÷115
	Stakeholder Engagement	4.14, 4.15, 4.16, 4.17	Volume 3 pages 19, 20; 40, 41; 43, 44; 47, 48; 89÷91; 93÷95; 97; 102, 103

* **Volume 1:** “Annual Financial Report at December 31, 2010”; **Volume 2:** “Annual Report on Corporate Governance and Shareholdings”; **Volume 3:** “Sustainability Report”.

KEY PERFORMANCE INDICATORS

Area	Aspect	Indicators	Page of Volume 1 / 2 / 3*
Economic	Economic Performance	EC1, EC2, EC3	Volume 3 pages 22, 23; 52; 97
	Financings from P.A.	EC4	Volume 3 page 40
	Local Suppliers expenditure policies	EC6	Volume 3 pages 45, 46, 47
	Hiring procedures and percentage of local senior management	EC7	Volume 3 page 87
	Indirect economic impacts	EC8	Volume 3 pages 39, 40
Environmental	Raw materials	EN1, EN2	Volume 3 page 47
	Energy-water	EN3, EN4, EN5, EN6, EN7, EN8	Volume 3 pages 74; 56÷71; 76, 77
	Biodiversity	EN11, EN12, EN13, EN14	Volume 3 pages 54; 75
	Emissions, Effluents and Waste	EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24	Volume 3 pages 74÷79
	Products and Services	EN26	Volume 3 pages 56÷71; 75
	Packagings	EN27	Volume 3 page 78
	Compliance	EN28	Volume 3 page 54
	Transport	EN29	Volume 3 page 75
	Overall	EN30	Volume 3 page 81
Labour Practices	Employment	LA1, LA2, LA3	Volume 3 pages 85÷89; 95
	Industrial Relations	LA4, LA5	Volume 3 pages 95, 96, 97
	Occupational Health and Safety	LA6, LA7, LA8, LA9	Volume 3 pages 98÷101
	Training and Education	LA10, LA11	Volume 3 pages 91÷93; 98÷100
	Diversity and Equal Opportunities	LA12, LA13, LA14	Volume 3 pages 87÷89

Area	Aspect	Indicators	Page of Volume 1 / 2 / 3*
Human Rights	Procurement Practices	HR1, HR2, HR3	Volume 3 pages 29, 30; 45÷48
	Non Discrimination	HR4	Volume 3 pages 29, 30
	Freedom of Association and Collective Bargaining	HR5	Volume 3 pages 24; 29; 45, 46; 48; 95÷98
	Child Labour	HR6	Volume 3 pages 24; 29; 46, 47, 48; 97
	Forced or Compulsory Labour	HR7	Volume 3 pages 24; 29; 46, 47, 48; 97
Company	Community	SO1	Volume 3 pages 20, 21; 39,40; 108
	Corruption	SO2, SO3, SO4	Volume 3 pages 24, 25; 29, 30; 46,47,48
	Political contributions	SO5, SO6	Volume 3 pages 24; 40
	Compliance	SO8	Volume 3 page 40
Product Responsibility	Consumer Health and Safety	PR1	Volume 3 pages 43; 45; 56÷70
	Product Information	PR3	Volume 3 page 43
	Information and Product Labelling Information	PR4	Volume 3 page 43
	Customer Satisfaction	PR5	Volume 3 pages 43, 44
	Compliance with voluntary Codes on marketing and advertising activities	PR6	Volume 3 pages 42, 43
	Instances of non-compliance with regulations or voluntary codes applicable to marketing activity, including advertising, promotion and sponsorship	PR7	Volume 3 page 43
	Product Supply and Use Compliance	PR9	Volume 3 page 40

* **Volume 1:** “Annual Financial Report at December 31, 2010”; **Volume 2:** “Annual Report on Corporate Governance and Shareholdings”; **Volume 3:** “Sustainability Report”.

THE GLOBAL COMPACT PRINCIPLES AND GRI INDICATORS

Global Compact Issues Areas	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
Human Rights	Principle 1 - Business should support and respect the protection of internationally proclaimed human rights in their respective spheres of influence	HR1, 2, 3, 5, 6, 7	SO1
	Principle 2 – Business should ensure that they are not, though indirectly, complicit in human rights abuses	HR1-2	
Labour Standards	Principle 3 - Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	HR5, LA4-5, LA9	
	Principle 4 – Business should uphold the elimination of all forms of forced and compulsory labour	HR7	HR1-3
	Principle 5 - Business should uphold the elimination of the effective abolition of child labour	HR6	HR1-3
	Principle 6 – Business should uphold the elimination of discrimination in respect of employment and occupation	HR4, LA2, LA12, LA13, LA14	HR1-2, EC5, EC7, LA3, LA4
Environment	Principle 7 - Businesses should support a precautionary approach to environmental challenges	Profile disclosure 4.11	EN1, EN3, EN4, EN7, EN8, EN11, EN12, EN16, EN17, EN19, EN20, EN21, EN22, EN23, EN24, EN27, EN28, EN 29, EN30, EN2, EN5, EN6, EN10, EN18, EN26
	Principle 8 – Business should undertake initiatives to promote greater environmental responsibility	EN1, EN3, EN4, EN8, EN11, EN12, EN13, EN16, EN17, EN19, EN20, EN21, EN22, EN23, EN24, EN27, EN28, EN 29, EN30	EC2
	Principle 9 – Business should encourage the development and diffusion of environmentally friendly technologies	EN2, EN5, EN6, EN10, EN18, EN26	
Anti-Corruption	Principle 10 - Businesses should work against corruption in all its forms, including extortion and bribery.	SO2, SO3, SO4, SO8	SO5-6

ASSURANCE STATEMENT



ASSURANCE STATEMENT

ASSURANCE STATEMENT OF PIRELLI & C. S.p.A. 2010 SUSTAINABILITY REPORT

SGS Italia S.p.A. was commissioned to conduct an independent assurance of Pirelli & C. S.p.A. 2010 Sustainability Report.

The information 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 any of the material included in this document.

The responsibility of SGS Italia S.p.A. is to express an opinion concerning the information, the graphs, the tables and the statements included in the Report, within below mentioned assurance scope, with the purpose to inform all the Interested Parties. SGS Italia S.p.A. affirms its independence from Pirelli & C. S.p.A., being free from bias and conflict of interests with the Organization, its subsidiaries and stakeholders.

Scope of Assurance

The scope of assurance agreed with Pirelli & C. S.p.A. includes the verification of following aspects:

- evaluation of the report against the Global Reporting Initiative Guidelines (GRI-G3), with reference to level A+;
- evaluation of content veracity;
- Type 2 evaluation of the Accountability Principles and of the Performance information against AA1000 Assurance Standard (2008).

Furthermore, the paragraph related to "Risk Governance System", within the chapter "Governance tools for long-term development", has been subject to a high assurance level.

SGS Italia was also commissioned to give a feedback on the adherence of the sustainability model adopted by Pirelli & C., in comparison to the requirements of the Guidance on Social Responsibility UNI ISO 26000.

Assurance methodology and limitations

The verification was performed by a pre-assurance research activity, examination of registrations and documents, interviews with personnel and management, and analysis of policies, procedures and customs of the Organisation. The texts, graphs and tables included in the Report have been verified by selecting, on a sample basis, qualitative and/or quantitative information, with the aim to confirm the accuracy and reliability of the process of collection and consolidation of data.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment.

Audit activities were carried out during March 2011 at Italy's Head Quarters and in several sites of the Group in Brazil, Romania, Turkey and China.

Financial data, drawn directly from independently audited financial accounts at 31st December 2010, has not been checked back to source as part of this assurance process.

Assurance Opinion

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within Pirelli & C. S.p.A. 2010 Sustainability Report verified are accurate, reliable and provides a fair and balanced representation of Pirelli & C. S.p.A.

sustainability activities, and in addition represents a key communication tool with Stakeholders.

With regards to the AA1000 principles, the Audit Team provides the following opinion:

- **Materiality:** as already underlined in previous evaluations, we believe that Pirelli & C. S.p.A. is deemed to have focused, in a adequately and extensive way, the material issues of interest for their Stakeholders.
- **Inclusivity:** we believe that Pirelli & C. S.p.A., through a constant dialogue with their stakeholders and through different communication channels, meets the principle of Inclusivity. It is now in action a process with the aim to structure in a more systemic way the mechanism of involvement and collection of the topics from the stakeholders, to be addressed to the attention of the Board.
- **Responsiveness:** the Pirelli & C. S.p.A. commitment to the sustainability issues, addressed and formally in charge and discussed by the Sustainability Steering Committee, is assurance of continuous revision of systems and processes in order to address and to effectively manage all the fundamental matters of interest for the Stakeholders.

With reference to the assurance of specified performance sustainability information, the audit team believe that the information stated in the paragraph "Risk management" are reliable and in compliance with the AA1000 principles; the methodology applied is a best practice of governance and offers, to the top management, adequate tools to support strategic decisions in the respect of the strategic objectives, included those related to the sustainability.

Furthermore, it is confirmed that the planning of the sustainability model adopted by Pirelli & C. is in line with the requirements of the Guidance on by the Social Responsibility Guidelines UNI ISO 26000. The Governance of the sustainability, through the specific support of the Sustainability Department, guarantees, at Group level, the spreading and the monitoring of the engagements taken and the relative improvement targets in theme of sustainability.

It is also confirmed that the report is aligned with the requirements of GRI-G3 A+ application level with the following recommendations and opportunities of improvement:

Reporting principles for defining content and for ensuring report quality of the information are satisfying. The audit team recognizes the continuous and progressive level of reliability of the process of collection, elaboration and aggregation of the data; the Organization is invited to continue in the constant process of revision and qualitative extension of the indicators.

Milan, March 31st 2011

SGS Italia S.p.A.



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