

PIRELLI & C. S.p.A. – Milan

U. SUSTAINABILITY REPORT 2012



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AT DECEMBER 31, 2012

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

A NOTE ON METHODOLOGY





A NOTE ON METHODOLOGY

The Pirelli Group Sustainability Report, in 2012 at the eight edition is a comprehensive expression of a corporate culture based on the integration of economic, environmental and social choices, in line with the triple bottom line approach. For this reason, instead of being published separately, the description of Pirelli sustainable performance is included in the Pirelli Annual Financial Report at December 31, 2012, of which it is the third volume:

- Volume Y: *Annual Financial Report at December 31, 2012*;
- Volume O: *Annual Report on Corporate Governance and the structure of share ownership 2012*;
- Volume U: *Sustainability Report 2012*.

In light of this integration, note that:

- the Chairman's Letter at the beginning of Volume Y of the Pirelli Annual Financial Report addresses Group sustainability issues;
- the scope of this annual report is the same as the Group's Annual Financial Report at December 31, 2012 - Volume Y;
- this report gives a summary of the corporate identity, Group structure and operating performance in 2012, insofar as these topics are discussed in detail in Volume Y, to which reference is made for further information.

The Sustainability Report has been drawn up according to the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI – G3.1), 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-G3.1 indicators, the ten principles of the Global Compact (to which Pirelli adhered 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 Sustainability Report Study Group (GBS – Gruppo di Studio per il Bilancio Sociale).

In this report, we have concentrated on what we believe will be of most interest to the Group's wide variety of *stakeholders*, highlighting and explaining the progress made in 2012 in relation to the contents of the 2011 report, with an overview of trends during the past three years as well as the new 2013 and/or multi-year targets. The Summary Tables found at the end of the report refer to topics discussed in the text in compliance with the specific GRI-G3.1 indicators, as well as to the Global Compact principles.

This report includes the Assurance Statement by independent third party.

Finally, it is published – in Italian and English – in the Sustainability section of the website www.pirelli.com. To submit comments and ask for clarifications or further details, please refer to the Contacts published in the Sustainability section of the website.

The "Sustainability Channel" can be accessed from the Sustainability section. This is an interactive communication channel between Pirelli and the web community interested in sustainability news and events regarding the Group. Interested users may comment on the published information through the Sustainability Channel.

MAIN PERFORMANCE INDICATORS

ECONOMIC AREA (in millions of Euro)

	2012	2011	2010
Net sales	6,071.5	5,654.8	4,848.4
<i>of which tyre (%)</i>	99.3%	99.1%	98.4%
Gross Operating Profit	1,052.1	806.8	629.0
Operating income	780.8	581.9	407.8
<i>% on sales</i>	12.9%	10.3%	8.4%
Net income attributable to equity holders	393.8	451.6	21.7
Earnings per share	0.807	0.926	0.044
Capital expenditure	456	618	433
<i>% on sales</i>	7.5%	10.9%	8.9%
number of ordinary shares (millions)	475.7	475.7	475.7
number of savings shares (millions)	12.3	12.3	12.3
Stock market capitalisation*	4,257.5	3,219.6	3,010.7
Gross global added value	2,210.6	1,918.1	1,495.9
<i>of which external donations</i>	5.1	5.1	3.6
<i>% of gross global added value</i>	0.23%	0.26%	0.24%
Research and development expenses	179	170	150
<i>% on sales</i>	2.9%	3.0%	3.1%
Group ROE	17.39%	20.89%	0.19%
Gearing	0.50	0.34	0.22
Sales per employee (average)	167	181	160

* Calculated on basis of average market quotations for December.

ENVIRONMENTAL AREA

	2012	2011	2010
Energy specific consumption [GJ / ton _{FP}]	14.23	13.5	13.64
CO ₂ equivalents specific emission [ton / ton _{FP}]	1.05	0.96	0.98
Water specific withdrawal [m ³ / ton _{FP}]	13.10	12.61	15.28
Waste specific production [kg / ton _{FP}]	146.0	130.0	129.0
Waste recovery	76%	69%	64%
ISO 14001 certified tyre operating facilities	100%	100%	100%

SOCIAL AREA

	2012	2011	2010
Scope of Pirelli subject to application of SA8000 reference standard	100%	100%	100%
OHSAS 18001 certified tyre operating facilities	83%**	90%	90%
Accident frequency index - FI	0.8	1.1	1.5
Headcount at end of year	37,338	34,259	29,573
<i>of whom % women in managerial positions</i>	18%	18%	17%
Average number of training days per employee	5.1	6.2	6.3
ISO 9001 certified tyre operating facilities	100%	100%	100%
Whistleblowing reports	8	2	1
Number of independent audits on suppliers' sustainability	62	56	46

** The missing portion is comprised by the new Russian and Mexican plants, both with planned certification, and the Rome Plant in the USA which is not certified insofar as the management system applied pursuant to local law is similar to application of the OHSAS 18001 standard.

PRINCIPAL SUSTAINABILITY TARGETS FOR THE PERIOD 2013-2015

The following objectives are aligned with the 2012-2014 Industrial Plan announced in November 2011 with vision to 2015; they will be updated at the time of the new Industrial Plan, scheduled for release before the end of 2013.

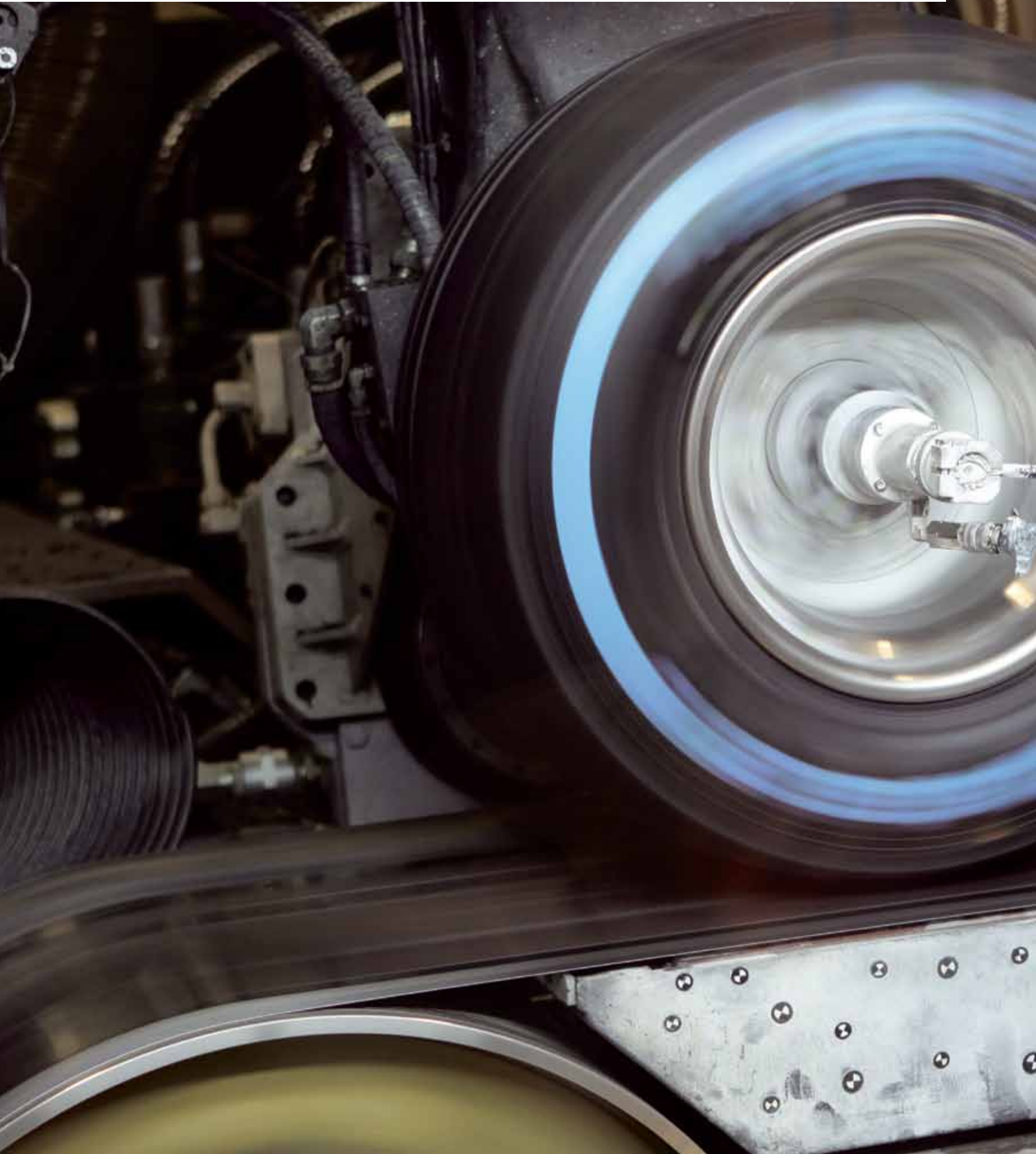
Economics	Deadline
Global leadership in the Premium market segment	2015
Green Performance revenues >45%	2013
Readjustment of production presence in rapidly developing economies (RDE), Latin America and mature markets, where each area will contribute 1/3 of Group earnings	2015
Technological upgrade: 64% of Premium Car production at new plants	2015
Plan for investments of up to 2.4 billion	2015
Maintenance of investments in R&D at about 3% of net sales, which represents one of the highest levels in the sector.	2013
Launch of 18 new car products: 57% of net sales from new products	2015
Refinement and strengthening of the ESG Risk Assessment system	2013
Investors and Financial Community	
Communication focused on highlighting the progressive implementation of the Business Plan	recurrent
Steady increase in road shows dedicated to Social Responsible Investors	recurrent
Suppliers	
Sustainability Training of Suppliers: new session with "security services" target	2013
New audits on Suppliers identified on the basis of 2013 Risk Assessment	2013
Supplier Award - sustainable performance integrated in rating	recurrent
Customers	
Market release of the second version of Cyber Tyre	2015
Extension to new markets of on-line training platform Tyre Campus - The Road to Success, devoted to Dealers	2013
New web-based platform for listening to Dealer feedback	2013/2014
Environment	
Specific energy consumption -15% vs. 2009	2015
Equivalent specific CO ₂ emissions -15% vs. 2009	2015
Specific water uptake -70% vs. 2009	2015
Waste recovery +15% vs. 2009	2015
Specific waste production -5% vs. 2009	2014
Specific consumption of solvents in production processes -15% vs. 2009	2013
Entire range of tyre products without highly aromatic oils worldwide	2013
Pirelli Group Carbon Footprint Calculation	2013
Green Sourcing Policy: definition and implementation of the operational guidelines.	2013
30% of silica utilized by Pirelli in Latin America of vegetable origin (rice husk)	2015
Employees	
Focus on employee welfare	recurrent
Reduction in incidence of accidents: -60% since 2009	2015
OHSAS18001 Certification Silao (Mexico), Voronezh and Kirov (Russia), Yangzhou Cord (China)	2014

Implementation and consolidation of Behaviour Based Safety (BBS), LockOut tagOut (LOTO), Point of Work Risk Assessment (POWRA) systems	2015
Employee training: 7 average days pro-capita	2015
Group Opinion Survey	2013
New International Mobility Policy - implementation in all Group countries	2013
Launch of new Training Model	2013
Welfare: launch of new portal - Italy pilot	2013
New Sustainability Audits at Pirelli sites performed by Group Internal Audit function	recurrent
External Community	
Continual pro-activity for the dissemination of good sustainability practices at the local and international level (through UN Global Compact LEAD Programme, CSR Europe, World Business Council For Sustainable Development, EU-OSHA, etc.)	recurrent
Information and training campaigns into road safety, in accordance with Program defined downstream of the signing of the EU Safety Charter and with contribution to "UN Decade of Action for Road safety 2011-2020"	recurrent

TARGETS 2012

Suppliers	
Extension of new Supplier Portal at Group level	ACHIEVED
Training of Strategic Suppliers in countries of concern	ACHIEVED
New audits on Suppliers identified on the basis of 2012 Risk Assessment	ACHIEVED
Customers	
Market release of the first base version of Cyber Tyre	ACHIEVED
Environment	
Replacement of timber pallets with plastic or metal pallets throughout Steel Cord Business Unit	ACHIEVED
Drafting of Green Sourcing Policy	ACHIEVED
Employees	
Settimo Torinese New Industrial Centre: provision of 11 training days pro-capita	ACHIEVED
Consolidation of new POWRA (point of work risk assessment) tool for maintenance activities	ACHIEVED
"Integration of Health, Safety and Environment model in Kaizen Engineer Process training path (target further extended with respect to the outlook for 2012, including HSE training in the new Operations Academy initiative)"	ACHIEVED
OHSAS18001 certification of the Guacara Plant in Venezuela	ACHIEVED
Release of the new Intranet version	ACHIEVED
Update of the Group Whistleblowing policy	ACHIEVED
External Community	
Strengthening of social and environmental responsibility partnerships with local ONGs and central and local institutional bodies	ACHIEVED
Sustainability Day - International Conference	ACHIEVED
Application of Whistleblowing Procedure to external community	ACHIEVED (2013)
Membership of Transparency International	ACHIEVED

1. CREATION OF SUSTAINABLE VALUE





1. CREATION OF SUSTAINABLE VALUE

Pirelli is the world's fifth biggest tyre maker, focused on the Premium segment where the company aims to achieve global leadership by 2015. Founded in 1872, Pirelli produces on four continents and sells its products in over 160 countries worldwide. It boasts a long industrial tradition, which has always been based on innovation, product quality and a strong brand that, according to the latest estimates of Interbrand, is worth euro 2.27 billion. That strength has been supported since 2002 by the PZero fashion and high tech project and has been further reinforced by Formula 1, to which Pirelli Tyre is the exclusive supplier for the three-year period 2011-2013.

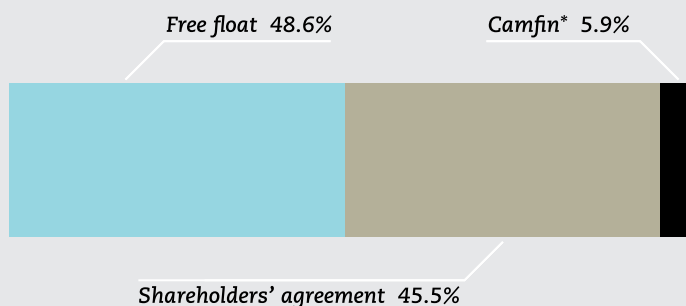
The business of the Pirelli Tyre Group is divided into two main segments, Consumer and Industrial. The Consumer business makes tyres for vehicles that are mainly used by private car, SUV, light commercial vehicle and motorcycle owners. The Industrial business makes tyres for vehicles used in professional transport (tyres for buses, trucks, earth moving and agricultural equipment) and steel cord, which is a key reinforcement component of radial tyres.

In line with its Premium and Green Performance strategy, Pirelli is focused on research and development while dedicating constant, increasing attention to quality, technology and low environmental impact products.

In pursuing its objectives, Pirelli aims to combine economic profitability and social responsibility. Carrying on the same industrial tradition for over a century, it continues to invest in international expansion projects while maintaining strong roots in the local communities where it operates.

The following graphic illustrates the Pirelli corporate structure at December 31, 2012.

CORPORATE STRUCTURE AS AT 31/12/2012



* Holding not assigned to the agreement. Camfin holds 26.2% of ordinary capital overall.

SALES BY GEOGRAPHICAL AREA

Net sales in 2012 totalled euro 6.07 billion, up 7.4% from 2011. The percentage breakdown of activities shows that 99.3% of sales were generated by the Tyre business (99.1% in 2011 and 98.4% in 2010). The following table shows the geographical breakdown of Group sales over the last three years. For a complete snapshot of Pirelli's economic performance in 2012, please see *Volume Y – Annual Financial Report at December 31, 2012*.

SALES GEOGRAPHICAL BREAKDOWN (in thousands of euros)

	2012		2011		2010	
Europe						
■ Italy	425,323	7.01%	479,838	8.49%	485,450	10.01%
■ Rest of Europe	1,448,734	23.86%	1,803,475	31.89%	1,503,531	31.01%
■ Russia	244,271	4.02%	40,605	0.72%	-	-
Nafta	936,929	15.43%	561,320	9.93%	477,394	9.85%
Central and South America	2,067,549	34.05%	1,915,467	33.87%	1,632,044	33.66%
Asia Pacific	528,278	8.70%	352,815	6.24%	286,922	5.92%
Middle East/Africa	420,450	6.92%	501,273	8.86%	463,077	9.55%
	6,071,535	100.00%	5,654,793	100.00%	4,848,418	100.00%

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES

The Pirelli headcount at December 31, 2012 was 37,338 employees (34,259 in 2011 and 29,573 in 2010), including 1,259 new employees following acquisition of the Voronezh plant in March 2012, and of the sales networks of Campneus in Brazil and Dackia in Sweden, which respectively contributed 534 and 394 new employees. Both of these acquisitions were completed in the second half of 2012. For a complete snapshot of employees, please see section 4.1 “Internal Community” in Chapter 4 “Social Dimension” of this report.

EMPLOYEES GEOGRAPHICAL BREAKDOWN

2012			
	TYRE	OTHER BUSINESS	PIRELLI TOTAL
Europe (Russia included)	15,519	251	15,769
NAFTA	994	0	994
Central America e South America	13,860	0	13,860
MEA	3,301	0	3,301
Asia Pacific	3,409	5	3,414
TOTAL	37,082	256	37,338

2011			
	TYRE	OTHER BUSINESS	PIRELLI TOTAL
Europe (Russia included)	14,095	280	14,375
NAFTA	490	0	490
Central America e South America	13,202	0	13,202
MEA	3,296	0	3,296
Asia Pacific	2,855	41	2,896
TOTAL	33,938	321	34,259

2010			
	TYRE	OTHER BUSINESS	PIRELLI TOTAL
Europe	11,007	294	11,301
NAFTA	285	0	285
Central America e South America	12,522	0	12,522
MEA	2,983	0	2,983
Asia Pacific	2,447	35	2,482
TOTAL	29,244	329	29,573

1.1 SUSTAINABLE GOVERNANCE

Sustainable governance at Pirelli means full integration of sustainability with the various aspects and ambits of business management. So, sustainability represents the management system adopted by the Company and translates in the mapping, control and sustainable management of the economic, social and environmental impact and opportunities connected with its own processes, products and services, in view of innovation and the awareness of its role as a multinational group in a global context.

THE PRINCIPLES UNDERLYING THE PIRELLI SUSTAINABILITY MODEL

The Pirelli sustainability model is inspired by the United Nations Global Compact and the ISO 26000 Guidelines, embracing the entire value chain to preserve and develop Group assets.

In October 2004, in a letter addressed to the Secretary General, Kofi Annan, Pirelli Group formally declared its adherence 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. This letter is published in the Sustainability section at www.pirelli.com. Compliance of the Pirelli Sustainability Model with the ISO26000 Guidelines was audited by a third party once again in 2012, as certified by the letter of assurance at the end of this report.

THE VALUES AND ETHICAL CODE

The document outlines Pirelli's sustainable approach to business, by imposing strict, uniform guidelines for professional practices that everyone working in, for and 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 who works on behalf or in favour of the Pirelli Group inside and outside Italy, or who have business relationships with it (the "Addressees of the Code") 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 the relationship with each one of them;
- imposes 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 of this chapter, "Group Whistleblowing Procedure."

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.

CODE OF CONDUCT

The Pirelli Group Code of Conduct was approved in its amended version in 2010 by the Board of Directors of Pirelli & C. S.p.A. and represents a guide to good practice in corporate conduct, compliance with the applicable law and regulations in the countries where Pirelli operates, to avoid creating environmental situations that are favourable to the commission of criminal offences.

The Code of Conduct sets out the operating application of the Group Ethical Code, specifically in regard to three ambits:

- in relations with the public administration;
- in corporate and market disclosures;
- in relations with internal parties and parties outside the Group.

The Code of Conduct outlines – extensively but not exhaustively – conduct in regard to what should and what should not be done, where what should be done imposes mandatory compliance with the laws and regulations in force in all countries where the Group operates, and the rules of conduct to be followed. The rules regarding what should not be done identify prohibited conduct.

The principles and undertakings described by the Code of Conduct also apply to relations with suppliers. For this reason, the Code is provided in the languages spoken by Pirelli Group employees and in those languages that most represent the panel of suppliers.

SOCIAL RESPONSIBILITY POLICY FOR OCCUPATIONAL HEALTH, SAFETY AND RIGHTS, 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 Code of Conduct and 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.

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 approach to diversity valorization. It lists the commitments made by Pirelli in this area, as also set out in The Values and Ethical Code, in the Policy on Social Responsibility for Occupational Health, Safety and Rights, Environment and – a priori – in the United Nations Global Compact and in the SA8000® Standard.

Suppliers are also formally required to comply with the principles and commitments stated in the Declaration, just as they must comply with the Code of Conduct, the Ethical Code and the Group Policy on Social Responsibility for Occupational Health, Safety and Rights, Environment.

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 Com-

munity. 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.

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.

The focus on the demands and interests of *stakeholders*, ethics, innovation, excellence and safety for sustainable competitiveness essentially correspond to "Corporate quality". Specific emphasis is given to personal involvement and the key role that individuals play in promoting the cultivation of 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.

GREEN SOURCING POLICY

Pirelli drafted and issued its Green Sourcing Policy in December 2012. This document, which was signed by the Chairman, aims to stimulate and promote environmental awareness throughout the supply chain, and promote choices that can reduce the environmental impact of the sourcing of goods and services by Pirelli.

The targets of this document are not only Group *buyers* but also the entire corporate population that can participate in the sourcing chain of a good or service.

The document encourages everyone to expand their perspective as much as possible by applying a method based on three key words – Reduction, Reuse and Recovery – and analysis of all related possibilities throughout the entire supply chain. This is why the Company decided to approach the issue in terms of *sourcing* and not just *purchasing*. This Policy highlights the active role taken by Pirelli in the supply chain, and thus by including what is conceived and designed in-house and then commissioned to sourcers.

The Green Sourcing Policy was defined in highly pragmatic and deliberately specific terms. It cites key words such as:

- "life cycle" – this is the only approach that the Company chooses to follow so that it can decide on the basis of complete and inclusive analyses;
- "Reduction, Reuse and Recovery" – are the macro-categories that determine how the impact of a good or service is reduced.

The Policy dictates the key principles of Green Sourcing, which are necessarily to be defined on the basis of specific guidelines. The latter will use metrics, possibly based on internationally recognised measurement standards, and when this is not possible, by defining internal indicators. All of this to monitor the degree to which the Green Sourcing Policy is actually implemented. In particular, the Company is taking action to identify the sourcing areas for which common environmental prerequisites can be established. Interdepartmental working groups will be set up to realise this project, led by the Procurement, Quality and Sustainability Departments, with the possibility of direct participation by Suppliers deemed to be representative.

Pirelli aims to create the Green Sourcing Guidelines by 2013.

THE MODEL

As shown in the following infographic, responsible management at Pirelli flows through the entire value chain. Every operating unit integrates economic, social and environmental responsibility in its own activity, while cooperating constantly with the other units, implementing the 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.

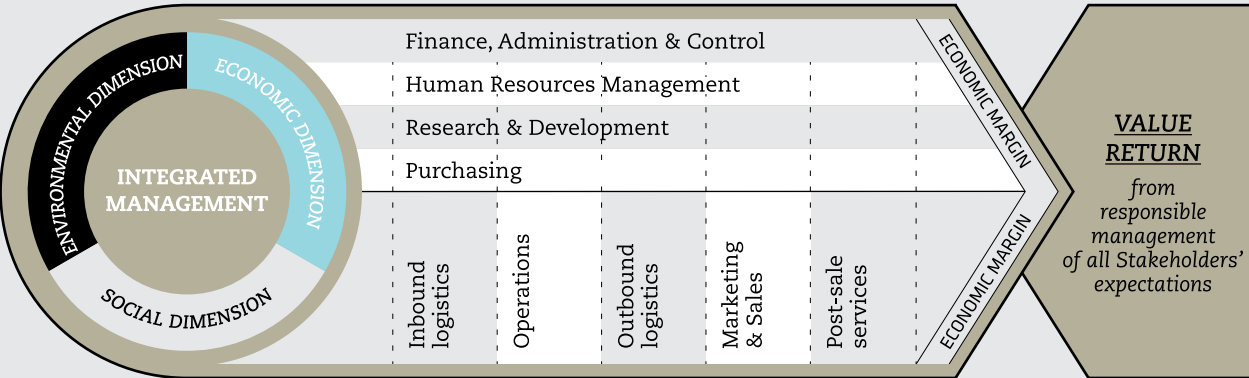
STAKEHOLDER ENGAGEMENT

Pirelli’s role in the economic and social context is inseparably tied to its capacity to create value with a *multi-stakeholder* approach, which means it pursues sustainable and lasting growth based as far as possible on the fair reconciliation of the interests and expectations of all those who interact with the Company, and in particular:

- shareholders, investors and the financial community;
- customers, since the Pirelli 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 it shares a responsible approach to business;
- competitors, because improved customer service and market position depend on fair competition;
- the surrounding environment, institutions, governmental and non-governmental bodies, and the communities around the world where the Group operates but also with an awareness of its own global responsibilities as a Corporate Global Citizen.

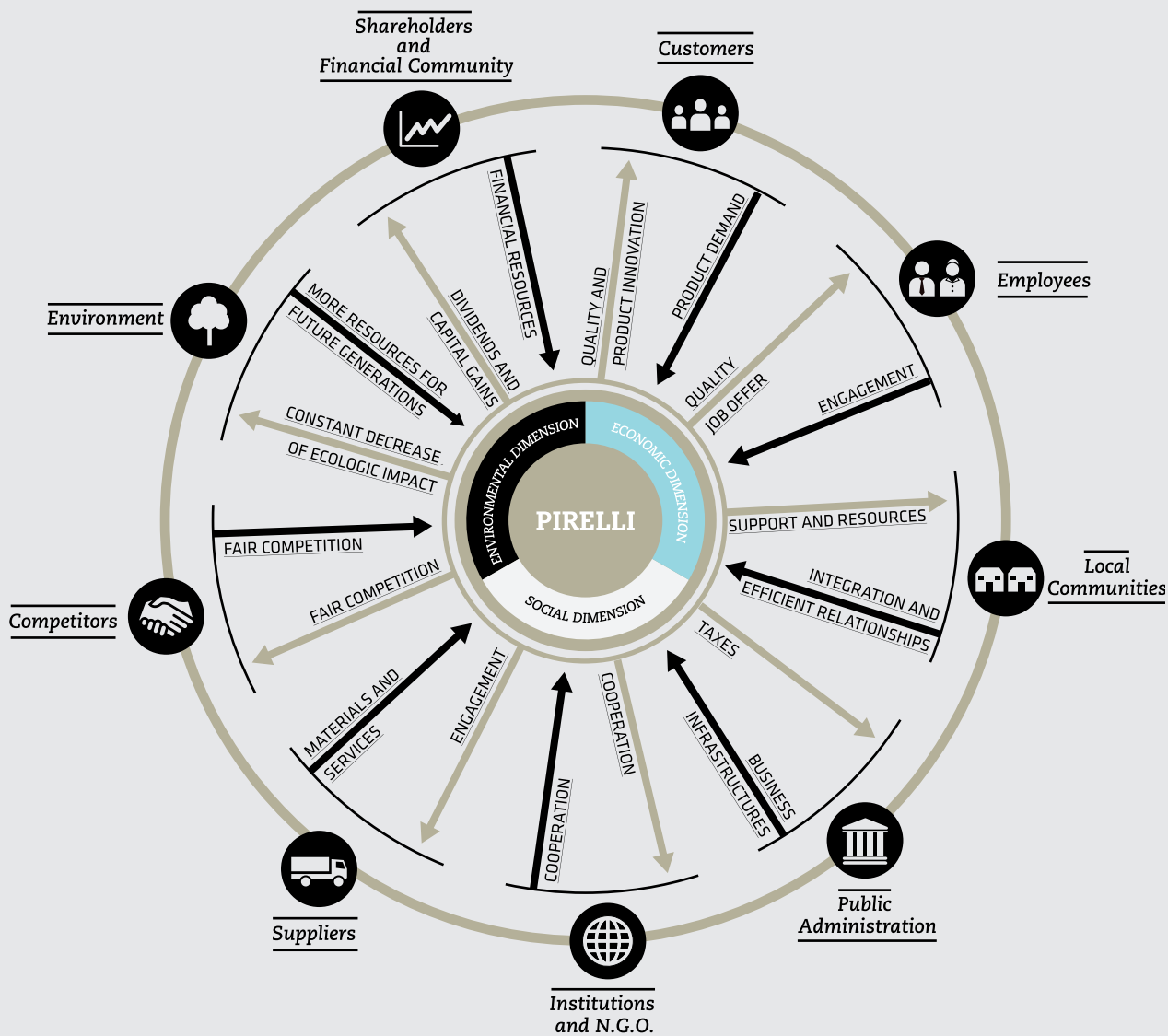
The following graphic illustrates the principal areas of value creation and return linked to individual stakeholders.

PIRELLI OPERATING APPROACH TO GENERATION OF SUSTAINABLE VALUE



PIRELLI MODEL OF STAKEHOLDER ENGAGEMENT

MAXIMIZATION OF VALUE FLOW FROM COMPANY TO STAKEHOLDERS AND VICE VERSA



STAKEHOLDER ENGAGEMENT ELEMENTS

Shareholders and Financial Community

Dialogue / Economic and Financial Performance / Transparency / Corporate Governance

Customers

Dialogue/Product Excellence (safety, performance, eco-efficiency) / Reliability / Full Customer Satisfaction

Employees

Dialogue/Fair remuneration / Talent attraction, development and retention / Care for diversity and equal opportunity / Health and Safety on the workplace

Local Communities

Dialogue / Job creation / Social and Financial contribution / Respect for Human Rights / Plants with low environmental impact

Public Administration

Dialogue / Compliance / Global citizenship / Business ethics / collaboration

Institutions and N.G.O.

Dialogue / Partnership / Support

Suppliers

Dialogue / Shared development partnership / Supply chain sustainability

Competitors

Loyal competition

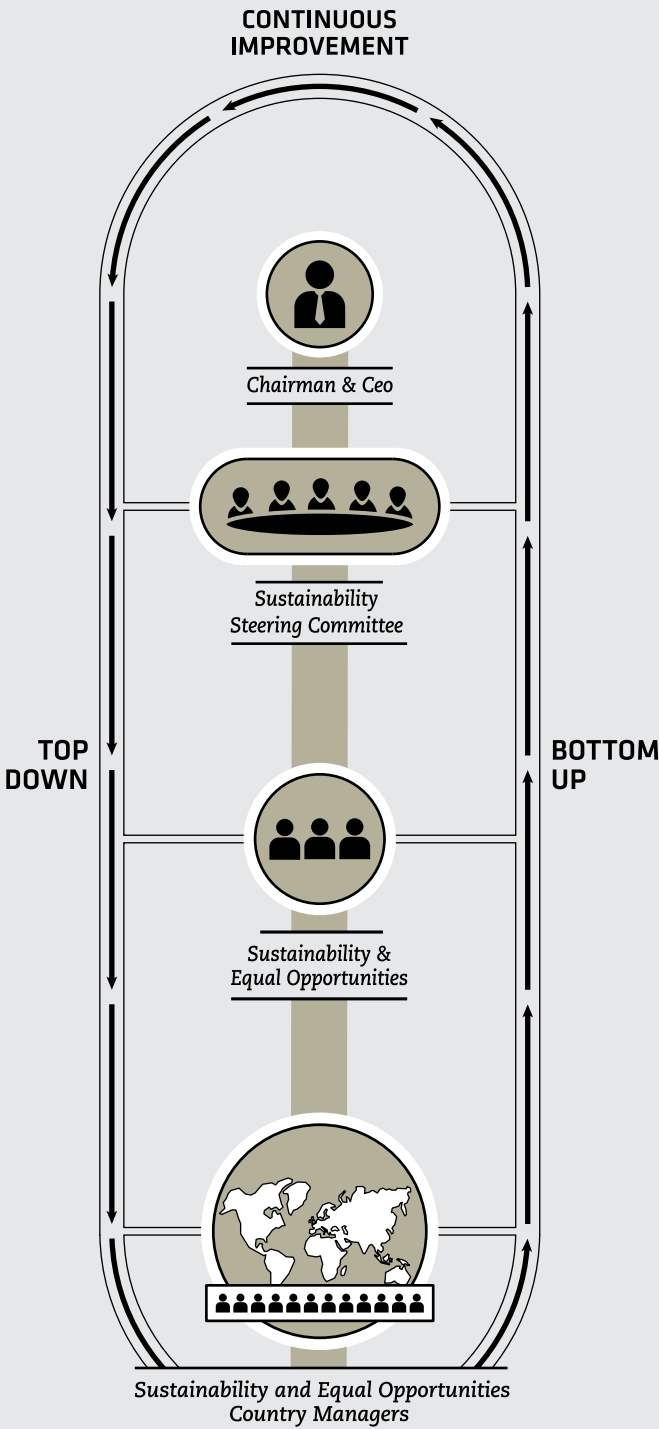
Environment

Product and process eco-efficiency / LCA management approach

SUSTAINABILITY
IN THE ORGANISATIONAL
STRUCTURE

The organisational basis of sustainability 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 is chaired personally by him, is responsible for setting policy and guiding the advancement of sustainability throughout the Group. Then, the organisational structure is made up of a Group Sustainability and Risk Governance Department, which reports directly to the Group General Counsel, and comprises the Group Sustainability and Equal Opportunities central function and the Country Managers, covering all Group affiliates.

SUSTAINABILITY ORGANISATIONAL STRUCTURE



SUSTAINABLE PLANNING AND MANAGEMENT

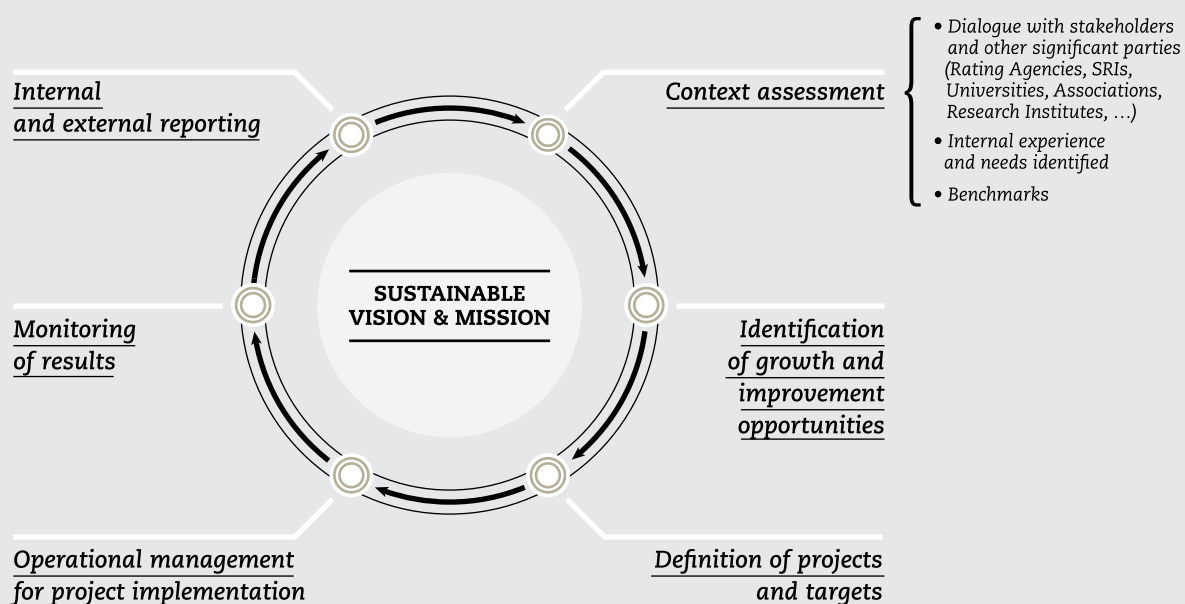
The infographic below illustrates the Pirelli operating steps focused on continuous improvement of sustainable performance.

1.2 SUSTAINABLE GROWTH STRATEGY: FROM CURRENT PLAN 2012-2014 WITH VISION TO 2015 TO THE NEW INDUSTRIAL PLAN

The Group Sustainability Plan complements, supports, accompanies and protects the achievement of Group Industrial Plan targets.

The new Industrial Plan that will be presented to the financial community and all *stakeholders* in 2013 will update the current Industrial Plan with Vision to 2015 previously presented by top management to the financial community on November 9, 2011. The current is an ambitious plan, of which sustainability policies are an essential part. Pirelli aims to become the Premium segment global leader by 2015, confirming the strategy focused on high-end tyres for both the original equipment and replacement markets. Besides maintaining a leading position in terms of market share for the prestige and premium segments, Pirelli has one of the longest roster of automaker approvals in the aforementioned segments. While continuing the develop-

SUSTAINABLE MANAGEMENT PROCESS



ment of Original Equipment tyres, Pirelli aims at the same time to assure customer loyalty when it comes to replacement tyres by dedicating increasing attention to local after-market service.

The Group will make an additional push in technological innovation that will lead to unprecedented expansion in its product line, capable of satisfying the increasingly sophisticated demand of mature markets like Europe as well as the nascent demand for Premium products in rapidly developing countries.

It is expected that over 200 new equipment approvals will be issued in the car segment alone, with a big product *roadmap* resulting from the launch of new tyres in all segments. This will lead the business unit to earn more than 50% of its net sales from new projects in 2015.

Pirelli Research and Development, which will continue to enjoy one of the highest budgets in the sector, will concentrate on:

- innovative materials through research in the field of polymers, *fillers* and chemicals;
- low environmental impact materials through research on biomaterials (silica from rice, natural rubber from sources that are alternative to the rubber tree) and recycling;
- cutting-edge modelling that, by using simulations, will allow further reductions in the “*time-to-market*” as well as projects quality and performance improvement, in line with the highest demands;
- the development of production processes like the new generation of MIRS, a robotized process owned exclusively by Pirelli, or extension of the PTSM process, which represents the evolution of the CCM – Continuous Compound Mixing System;
- electronics embedded in the tyre (like the microchip contained in the Cyber Tyre, which makes it possible to interpret

different road surface conditions by sending useful information to the vehicle).

In addition to its products and technology, Pirelli will further improve its productive organization and geographical scope, with more and more new factories (in the Premium car tyre segment, 60% of capacity will be produced at new plants by 2015) and located in countries with growing demand and favourable industrial costs. This expansion includes the industrial projects launched in Russia (Car), Mexico (Car), Argentina (Truck) and the new plant to be opened in Indonesia (Motorcycle).

The Motorcycle Business Unit aims at consolidation of its leadership in the Premium segment, particularly in Europe, confirming its role as technological innovator and maintaining high levels of profitability. The Industrial Business Unit aims at achieving technology driven leadership in key markets, with a focus on rapidly developing economies.

The strength of the brand, valued at euro 2.27 billion, will also support innovative marketing initiatives, targeted both at end customers and the trade, allowing it to segment, expand and develop the loyalty of its customer base. In 2013-14 Pirelli will further intensify the environmental, social and economic sustainability plan that it implemented in 2010. The key objectives of the plan are process and product innovation focused both on personal safety and environmental protection, extension of the Pirelli Sustainable Management System to the new industrial operations that will join the Group, the commitment to transform the driving safety education of end customers into a bona fide “safety culture,” the professional and personal development of its own employees and a major investment in training.

In its production processes, Pirelli is committed to using systems that will lead by 2015 to a 70% reduction in specific water withdrawal, a 15% reduction in specific emissions of CO₂ and a 15% reduction in the specific consumption of energy from 2009. Since 2012 this target has become even more challenging than it was in 2011, due both to the business cycle that impacts specific indices in the event of lower volumes and the start-up of major manufacturing sites, which tend to have a negative impact on specific indices until they attain full operating capacity.

In regard to products, the Group aims at intensifying its use over the next three years of low environmental impact raw materials and further improving the safety and eco-sustainability of Green Performance tyres, by extending

their benefits to the Latin American, Chinese, United States and Mexican markets. In the area of social responsibility, specific attention has been focused on workplace safety, in the form of prevention and training plans at plants, with the challenging goal, within 2015, of reducing the accident frequency index (FI) by 60% from its 2009 level.

Moreover, ethics, diversity, leadership, dialogue and welfare will be at the centre of programs for individual improvement in view of developing personal attitudes and skills, after making a growth-oriented investment in training by reaching an average of 7 man-days in 2015.

Activity will continue on monitoring the social and environmental sustainability of the supply chain, also thanks to a new and advanced management system.

The Pirelli Sustainable Management and Development System will be at the centre of integration of new production plants in Mexico, Russia and Indonesia. In relations with local and international communities, cooperation with governmental and non-governmental authorities will be reinforced to take joint initiatives targeting sustainable development, especially in the area of road safety.

Major benefits are expected from integration of the Industrial Plan and Sustainability Plan, from the intangible ones of becoming an “employer of choice”, with growing brand equity and perception as 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.

1.3 LONG-TERM GOVERNANCE TOOLS

CORPORATE GOVERNANCE

The Pirelli Corporate Governance system is based on:

- the central role played by the Board of Directors, in its capacity as the supreme body in charge of strategic policy and overall company management, with authority to set general management policy and to take direct action on a series of significant decisions that are necessary or useful to pursuing the corporate purpose;
- the central role of independent directors who represent the majority of members on the Board of Directors;
- an effective internal control system;
- an innovative system for managing risks proactively;
- a remuneration system, in general, and an incentive system, in particular, for managers tied to medium and long-term economic objectives, through the creation of strong link between remuneration, on the one hand, and individual and Pirelli Group performance, on the other hand;
- rigorous rules governing conflicts of interest and solid principles of conduct for executing transactions with related parties.

For the third consecutive year Pirelli has been recognised for the “Best Corporate Governance in Italy” as part of the Word Finance Corporate Governance Award 2013.

Pirelli & C. has adhered to the Corporate Governance Code of listed companies ever since it was first published by Borsa Italiana (in October 1999; Pirelli subsequently adopted the new July 2002 version, and then the March 2006 version). At the Board of Directors meeting on March 12, 2012, Pirelli announced its acceptance of the new version of the Corporate Governance Code (December 2011), published on the website of Borsa Italiana. Consistently with the provisions governing the traditional management and control system, 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 of Directors relies on the support of its own internal committees to perform its duties. These standing committees have investigative, policy mak-

ing 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, with which they collaborate on the definition of proposals to be made to the Board of Directors as a whole. Since 2004 the “slate voting” system assures non-controlling interests the right to designate one fifth of all Directors, if at least two slates of nominees are submitted. At December 31, 2012 the Pirelli Board of Directors had 19 Directors, who were elected by the Shareholders’ Meeting on April 21, 2011 (which had set the number of director seats at 20). Non-controlling interests were able to designate four directors, or one fifth of the total number. After it was renewed, the Board of Directors elected Mr Marco Tronchetti Provera as Chairman and Chief Executive Officer and Mr Vittorio Malacalza and Mr Alberto Pirelli as Deputy Chairman. Since 2006, the absolute majority of seats on the Board of Directors have been held by independent directors. Since November 2005, in view of further reinforcing the role of independent directors, the Board of Directors decided to introduce the position of Lead Independent Director as the contact person for coordination of motions and contributions made by the independent directors.

After its renewal on April 21, 2011, the Board of Directors established four committees: the Internal Control, Risks and Corporate Governance Committee, the Remuneration Committee, both composed only of independent directors, and for the first time, the Nominations and Succession Committee and the Strategies Committee. For more details on the Corporate Governance System, please refer to the “Annual Report on Governance and Share Ownership” – Volume O of the Annual Financial Report at December 31, 2012.

RISK MANAGEMENT SYSTEM

The current macroeconomic situation, financial market volatility, complex management processes and continuous legislative and regulatory evolution force businesses 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 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 sustainability in corporate development plans.

In accordance with this philosophy, Pirelli has implemented an integrated risk management system (Enterprise Risk Management) aimed at:

- managing risks in terms of prevention and mitigation;
- proactively seizing opportunities;
- disseminating the “culture” of the value of risk inside the Company, particularly in strategic and operating forecast and planning processes and in the most important choices made by the Company;
- assure transparent disclosure of the assumed risk profile and implemented management strategies, through periodic and structured reporting to the Board of Directors and top management, and adequate disclosure to shareholders, as well as to all stakeholders in general.

Consistently with these aims, the Pirelli Enterprise Risk Management is characterized by being:

- enterprise-wide, i.e. extended to all potentially significant types of risk/opportunities;
- value-driven, focused on the most significant risks/opportunities according to their capacity to prejudice achievement of Pirelli strategic objectives or impair critical corporate assets (“Key Value Drivers”);
- top-down, insofar as top management establishes the guidelines for identifying the priority risk areas and

events having the greatest impact on business;

- quantitative, insofar as it is based, wherever possible, on exact measurement of the impact of risks on expected financial results according to the likelihood of their occurring;
- integrated in decision-making and business processes and, in particular, in the strategic and operating planning process.

In 2012 a change was made to the Risk Model, with that change being based on the identification of three macro-families of risk (external risks, strategic risks, and operating risks) that guide the objectives of risk management, the governance system and the governance bodies (as illustrated in the following section).

In 2013 the ESG (Environmental, Social, Governance) risk assessment and monitoring system will be refined and reinforced in terms of the number of monitored Key Risk Indicators.

The Board of Directors is supported by two Managerial Risk Committees in managing the various risk macro-families, with each committee monitoring specifically assigned areas of risk.

For more details on the Pirelli Risk Management System, please also refer to the “Annual Report on Governance and Share Ownership” – Volume O of the Annual Financial Report at December 31, 2012.

RISKS AND UNCERTAINTIES

The principal areas of risk to which the company might be exposed are illustrated in detail in the section Principal Risks and Uncertainties of the Directors’ Report on Operations – Volume Y of the Annual Financial Report at December 31, 2012, to which the reader is referred for detailed discussion of these issues.

The three risk macro-families, the risk man-

agement objectives, and the dedicated control system are described as follows.

Risks related to the external context in which the company operates, whose occurrence is beyond the Company’s control.

This category includes the risks related to macroeconomic trends, changes in demand, the strategy of competitors, technological innovation, new regulations, and country risk (and specifically economic, security, political and environmental risks). The aim of risk management is to monitor risks and mitigate their impact if they materialise. The Control Model is based on the adoption of internal and external tools to identify and monitor risks, stress tests to assess the robustness of plans, construct scenarios alternative to base scenarios, business case, studies to assess the impact of material changes in context, etc.

The year 2012 was dominated by a general slowdown in global economic activity, especially in Europe, where the sovereign debt crisis has undermined business confidence, affected the demand for goods and services, and impacted economic activity in general. As forecasted by leading analysts, Pirelli expects that the macroeconomic scenario in 2013 will remain highly uncertain, mainly due to the evolving debt crisis in the eurozone and in the United States of America.

Pirelli implements a “local for local” strategy by setting up production sites in rapidly developing countries to serve local demand at competitive industrial and logistic costs. In an economic slowdown scenario, this strategy improves Group competitiveness by allowing it to overcome the growing barriers raised by trading blocs and expanding protectionist measures (customs barriers or other measures such as technical prerequisites, product certification, administrative costs associated with import procedures, etc.). The Pirelli Group adopts this strategy for its operations in countries (Argentina, Brazil, Mexico, Russia, China, Egypt, Turkey, Venezuela and, in the near future, Indonesia) where the general political and economic context and tax systems might prove unstable in future. In particular, the geopolitical crisis that has flared up in Egypt interrupted production for about one month in both 2011 and 2012. The situation steadily returned to normal with full resumption of operations at the Alexandria plant and exports, which was made possible by the implementation of a crisis management procedure designed to protect personal safety and corporate assets.

In regard to market risks, competition continues to stiffen in the markets where Pirelli operates, especially in Europe and Latin America. In response to this pressure and to protect its overall profitability, Pirelli will be able to adjust the commercial price/mix component and internal component to recover cost efficiency. In 2013 natural rubber, synthetic rubber and petroleum based raw materials (especially chemicals and carbon black) might remain an uncertain factor in the Group's cost structure, due to the sharp volatility witnessed over the past several months and their impact on the cost of finished products.

Strategic Risks are those that typify the Group's specific business sector. Proper management of these risks is a source of competitive advantage or, on the contrary, a cause for failure to achieve plan targets (three-year and annual targets).

This category includes market risk, product innovation and process risk, raw material price risk, production process risk, financial risk, organisational risk, and M&A risk. Risk management aims to manage risk by means of specific tools and protections aimed at reducing its likelihood or limiting its impact should it materialise in a risk – yield perspective.

The Control Model is based on identifying and measuring PBIT/Cash Flow@Risk when strategic management plans are prepared, defining risk appetite and risk tolerance for principle risk events, introducing Key Risk Indicators in Group, monitoring of mitigation plans associated with material risks in the absence of specific, previously implemented and operational business protection measures.

The following risks have been specifically analysed in "Y" – Annual Financial Report at

December 31, 2012, to which the reader is referred for more details:

- transaction exchange rate risk;
- currency translation risk;
- liquidity risk;
- interest rate risk;
- price risk associated with financial assets;
- credit risk.

The identification of priority risk areas and their measurement in terms of their contingent impact and likelihood of occurrence is guided by the regions on the basis of the objectives and strategic policies outlined in the industrial plan (key value drivers). Central corporate functions coordinate the analysis of centrally monitored risks, such as raw materials and currency rates.

The use of quantitative metrics of impact permits the aggregation of risks and representation of the Group's comprehensive risk exposure ("Profit@Risk"), which the Board of Directors assesses before approving plan targets.

Operational Risks are the risks generated by the organisational structure, processes and systems of the Group.

The principal areas of risk in this category are information technology, security, business interruption, legal & compliance, and health, safety & environment risk.

The objective of risk management is reliance on prevention and internal control systems integrated in corporate processes.

The Control Model is based on the development of *ad hoc* methods for measuring risk, defining mitigation and prevention plans, and continuous monitoring of their implementation.

Specific analyses, as reported in greater detail in Volume "Y" – Annual Financial Report at December 31, 2012, were performed on:

- environmental risks;
- employee health and safety risks;
- product defect risk;
- litigation risks;
- risks associated with human resources;
- business interruption risks;
- risks associated with information systems;
- corporate criminal liability risks.

The analysis of operating risks is an integral part of the Group Internal Control System. *Ad hoc* methods are developed for each area of risk, and their objective is to measure the vulnerability of control systems and possible impact on the Group.

The vulnerable areas revealed by this analysis are the object of continuous *follow-up* activity by the Operating Risk Committee.

In 2012 the scope of operating risk analysis was extended to encompass the Pirelli supply chain. About 70% of expenditure on raw materials used in Group production processes and their criticality were analysed according to the possibility of substituting the supplier or material itself and the strategic importance of the related finished product (premium segment products / original equipment customers / motorsport activities). Each raw material was also analysed according to the risk associated with the applicable supplier(s) in terms of market risk, force majeure risk, quality risk, production capacity risk, environmental risk, social risk, and governance risk.

Environmental sustainability risk was analysed in regard to waste management and the prevention of water and/or air pollution. The social risk assessment focused on the protection of human and labour rights as well as health and safety. Finally, business ethics and corporate governance risk were analysed on the basis of scenarios involving bribery, fraud and unfair competition.

The analysis led the Group to undertake a series of mitigation activities to reduce the vulnerability of the supply chain, and in particular, an increase in the number of approved plants for each single supplier, approval of alternative materials or suppliers, an increase in *safety stocks* of critical materials, and supplier audits.

In 2013 the analysis will be extended to all raw materials used and then to industrial machinery, equipment and services.

INDEPENDENT AUDITS OF SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

As previously mentioned, risk management at Pirelli is enterprise-wide and includes the identification, analysis and monitoring of environmental, social and financial risks that are directly or indirectly associated with the Company, at Pirelli affiliates or in relations with them, such as sustainability of the supply chain.

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.

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 performed by specialised independent firms. Special attention is dedicated to the sustainability of Pirelli and supplier sites in “countries of concern” (as defined by EIRIS).

Since 2012 the Internal Audit function has been directly involved in performing sustainability audits at Pirelli affiliates, as well as in the process of monitoring undertaken recovery plans following audits by suppliers. The Pirelli Internal Audit function is exquisitely independent insofar as it reports not only to the Board of Statutory Auditors but also to the Pirelli Internal Control, Risks and Corporate Governance Committee, which is comprised solely of independent directors.

The three-year Internal Auditing Plan covers all Pirelli sites. On average, each audit is conducted by two *auditors* and lasts three weeks in the field. The internal audit team was trained on environmental, social and business ethics issues so that they could conduct efficient, clear and structured audits that would enable Pirelli effectively to control all sustainability risks.

Both the external and internal auditors conduct their audits on the basis of a checklist of sustainability parameters derived from the SA8000® standard (the reference tool officially adopted by the Group for the management of social responsibility since 2004), from the Pirelli Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment and from the Group Ethical Code.

Third party audits at Suppliers sites, each of which lasts an average of at least three days in the field, have included

SWITCHING PO

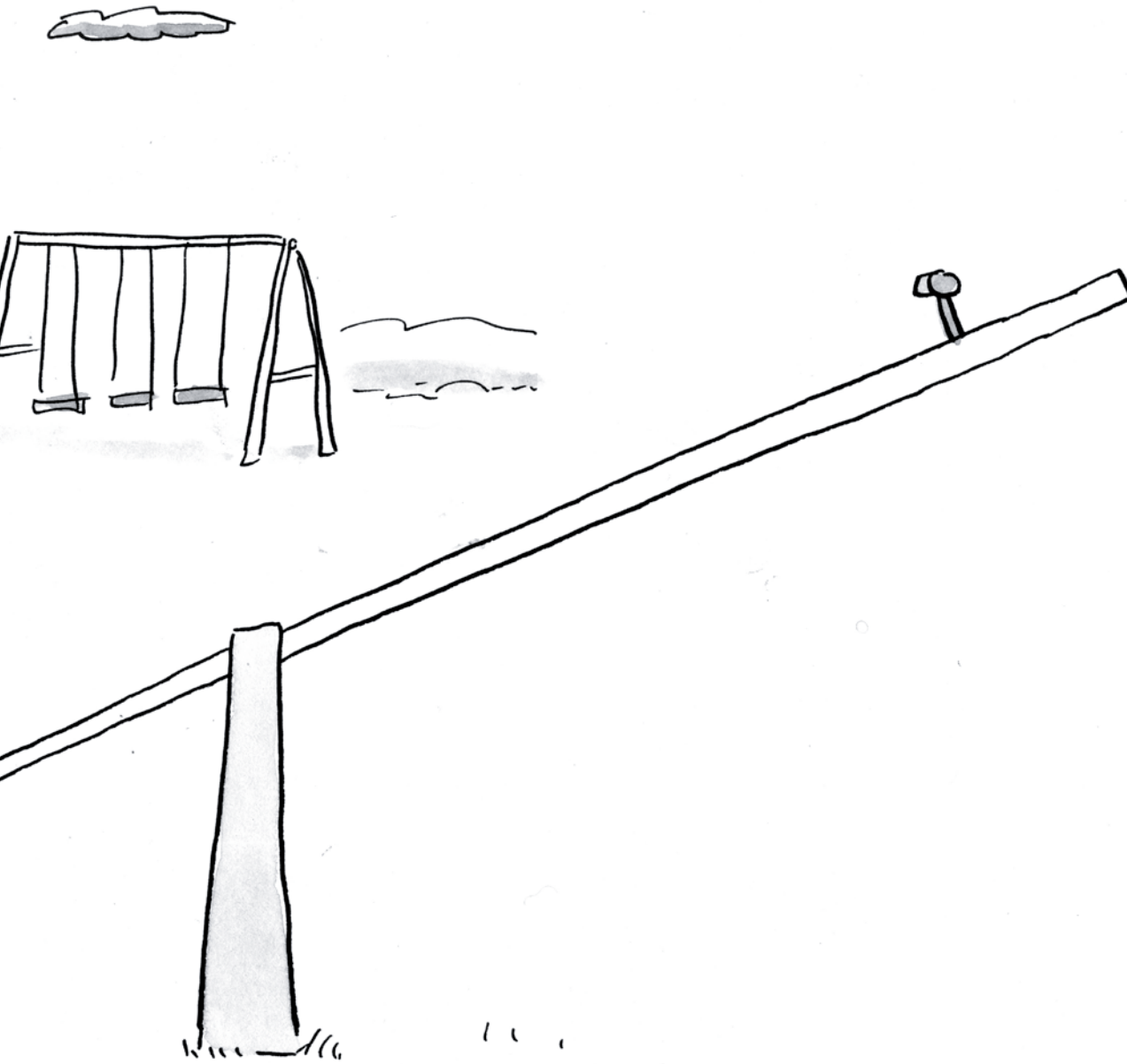
MEANS THE ABILITY TO THINK AS IF YOU WERE
OR EVEN YOUR OLD FATHER. IT MEANS CONSIDERING A
THROUGH SIMULATING OTHER
FULLY UNDERSTAND T
THEIR IDEAS AND OBJECTIONS. IN A FUTURE WHICH IS BECOMING M
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WITH WHICH MOST WOULD AGREE.
FLAWS AND ASPECTS YOU WOULD NEVER BE ABLE T
HETEROGENEOUS TEAM

POINT OF VIEW

BE YOUR CUSTOMER, OR YOUR COMPETITOR,
A THOUGHT EVEN IF YOU DON'T LIKE IT, BECAUSE ONLY
ER PEOPLE'S MINDS YOU CAN
THE REASONS BEHIND
MORE GLOBAL AND COMPETITIVE AMONG VERY DIFFERENT PEOPLE
FIND COMPROMISES AND WINNING IDEAS
IT MAKES IT POSSIBLE TO DISCOVER
O FIND OUT BY YOURSELF ALONE. IT'S LIKE A WHOLE
IN A SINGLE INDIVIDUAL.



*“Let’s try it
we’ll*



DONNELLY

*my way. If it doesn't work,
try it your way."*

extensive interviews of workers, management and labour representatives.

The Purchasing Managers and the Sustainability Managers that coordinated local audits of suppliers performed by third party were adequately trained and informed about the audit aims and procedures by the delegated headquarters functions: in this case, Sustainability and Procurement.

As far as Pirelli sites are concerned, in 2011 third party independent audits were performed at production sites Argentina, Venezuela, Brazil, China, Egypt, Turkey and Romania. In 2008 Group sites were audited in Turkey, Brazil, Venezuela, Argentina, Egypt, China, Romania, Colombia, Mexico and Chile. All managers of the audited affiliates were adequately trained and informed about the audit aims and procedures by the delegated headquarters functions: in this case, Sustainability and Industrial Relations. In 2012 the Internal Audit Function conducted sustainability audits at Group sites in Italy, Brazil, Argentina, Venezuela and Turkey.

No violation of the ILO Core Labour Standards was found during these audits in regard to forced labour, child labour, freedom of association and collective bargaining, discrimination. Internal Audit also audited the progress of implementation of recovery plans signed with the suppliers of Pirelli affiliates in Argentina, Germany, the United States, Romania, Egypt and Brazil.

With reference to Suppliers' sites, between the end of 2009 and the beginning of 2010, 72 audits were conducted, with another 56 being performed between the end of 2010 and the beginning of 2011. In the second half of 2012, 62 new audits began at suppliers of raw materials, logistics and services. In most cases, the audits involved Pirelli Tyre suppliers operating in the "countries of concern" (as classified by EIRIS) where the Group has a presence, i.e. Brazil, Ar-

gentina, Egypt, China, Romania, Turkey and Venezuela, or from which Pirelli purchases raw materials, such as Indonesia, India, Malaysia, Thailand, Japan, Russia and South Korea. In the western countries where Pirelli operates, audits were carried out at Pirelli Tyre suppliers in Italy, England, Germany, The Netherlands and the United States. The audits, which were conducted at the suppliers' facilities, involved workers, managers and trade union representatives. The most frequently reported instances of non-compliance found at supplier sites and in countries of concern related to the adequacy and degree of implementation of safety and environmental management systems. Compliance recovery plans were agreed directly by the local purchasing managers of Pirelli with non-compliant suppliers. These recovery plans detailed the compliance measures that had to be taken, specific responsibilities and implementation deadlines. In certain cases, the compliance recovery plans resulting from the latest audits (in the second half of 2012) have already been completed, while all the others will be fully implemented by spring 2013.

COMPLIANCE

Compliance management is managed by the Group Compliance Office, within the General Counsel, Corporate Affairs and Group Compliance Department, interacting on a cross-business basis with all corporate functions to ensure that internal rules, processes and corporate activities constantly comply with the applicable regulatory framework. The Group Compliance Office actively participates in identifying the risks of non-compliance with internal and external rules that might trigger judicial and administrative penalties, while also damaging Group's reputation.

During 2012 work continued on revision of the Legislative Decree 231 Compliance Programs adopted by Group companies, resulting in adjustments that were deemed necessary in light of the new "presumed offences" added to the list of offences envisaged by Italian Legislative Decree 231/2001. These include offences related to the "employment of citizens from other countries without proper residency and work permits." Risk analysis is underway in preparation for amendment of the applicable 231 Compliance Programs to account for "corruption between private parties."

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 continued. Specifically in regard to corruption, an anti-corruption program was launched at the end of 2011. The aim of this program is to assess the issue of corporate liability in relation to corruption offences and define specific safeguards as appropriate. This assessment focuses on ten areas deemed to be at risk of corruption (intermediaries; relations with government agencies; business transactions – purchasing/sales; gifts, travel and entertainment expenses; sponsorships and promotional activities; charitable activities; financing of political parties/politicians; human resources; petty cash; and facilitation payments) in 15 of the principal countries¹.

The program is fully consistent with the approach taken by the Company which, as set out in the Group Values and Ethical Code and Code of Conduct, 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”; and that it “condemns the pursuit of personal interest and/or that of third parties to the detriment of social interests.”

The anti-corruption program has been carried out in the following steps:

- Mapping of National and International Regulatory Framework applicable to corporate liability for acts of corruption;
- Risk Profile Analysis: complementary analysis on the basis of two scenarios:
 - ■ perceived risk stemming from

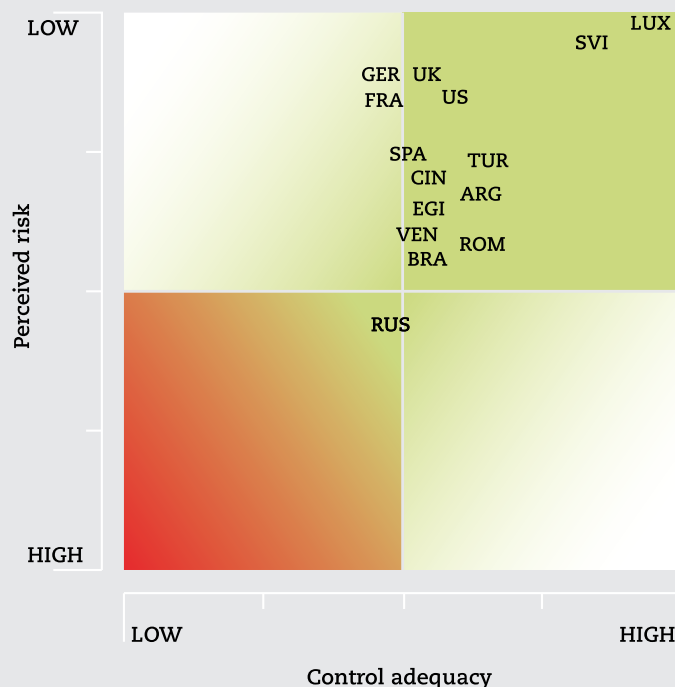
combination of the level of perceived corruption (associated with the Corruption Perception Index 2011 benchmark calculated by Transparency International) with management’s perception of the level of risk in each country;

- ■ safeguards against vulnerability derived from combination of the guaranteed protection in areas deemed to be exposed to contingent corruption risks (associated with the benchmark provided by the Internal Audit Function on the Internal Control System).

The risk profile analysis made it possible to rank the vulnerability risks of analysed countries in ascending order, as illustrated in the following figure.

A Group Anti-Corruption Compliance Program is currently being drafted. It will comprise a collection of principles

CORRUPTION RISK PROFILE ANALYSIS



¹ Argentina, Brazil, China, Egypt, France, Germany, Luxembourg, United Kingdom, Romania, Russia, Spain, United States, Switzerland, Turkey and Venezuela.

and rules that have already been adopted by Pirelli, as complemented by “new” and specific provisions aimed at preventing or reducing the risk of corruption by further reinforcing the Group anti-corruption rules and procedures, particularly in regard to the areas identified as being potentially at risk.

Pirelli will continue monitoring the risk of corruption, update its risk analysis if its scope changes following new inclusions of “high-risk” countries (as defined in the Transparency International index), and defining *education and awareness* programs as appropriate.

The Group Compliance Program may represent an organisational, management and control model that can guarantee the harmonisation of policies to manage potential risks.

In any event, all internal audits are also designed to monitor the risk of criminal offences, including corruption and fraud risk. No cases of corruption or fraud were found during the audits conducted in 2012. In 2012 training and communication of the administrative liability of companies continued, pursuant to Legislative Decree 231/2001. This activity has been substantially completed and affected 98% of 1,569 employees at 12 Italian companies.

A project to implement a Segregation of Duties (“SoD”) program was launched in 2012, aimed at further reinforcing the internal control system and preventing fraud. In 2013 Pirelli will continue to support the activities of Transparency International, of which it is a member.

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 is used 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 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 the 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 are managed at the corporate level by the independent Internal Audit Function and are to be used by all Group affiliates (as well as by suppliers). The Pirelli Internal Audit Department is responsible for:

- setting up, managing and updating 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 Com-

mittee 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, as well as legal action to protect itself and the Group, if necessary.

An updated version of the Whistleblowing Policy was approved during a meeting of the Board of Directors on March 11, 2013. This new version now allows the “external community” to file whistleblowing reports as well. The new version of the policy will be adequately distributed inside the Group and published on the Pirelli website for the convenience of the external community.

In 2012 eight whistleblowing reports were received from five different countries (Italy, Brazil, Egypt, Poland and Mexico). In particular:

- four reports were sent to the electronic mail address set up in accordance with the Group Whistleblowing Procedure (ethics@pirelli.com);
- three reports were filed directly with management, which in turn contacted the Internal Audit Department;
- one report was sent to the Legislative Decree 231/01 Compliance Program Supervisory Body of a Group subsidiary, which in turn contacted the Internal Audit Department so that the matter be investigated as necessary.

Three of the eight whistleblowing reports were received in anonymous form, while the remaining five were signed by the whistle-blower. It was impossible to conduct any investigation into two of the anonymous reports, given the absolutely generic details provided.

Instead, for the other six reports, the Internal Audit Department was able to conduct specific audits to properly investigate on what reported.

The examined reports concerned alleged misconduct by management, union claims, and a discriminatory conduct against a

whistleblower employee.

Following investigation of these six reports, no violations of the law, regulations, ethical principles or corporate procedures were found. However, in one of the cases, it was decided that the Human Resources Department had to be notified so that it could take the appropriate measures.

In all cases, the Internal Audit Department conducted specific audits of the corporate processes involved in the whistleblowing incidents, and revised or modified them as necessary.

The Internal Audit Department has systematically informed the Pirelli Internal Control, Risks and Corporate Governance Committee and the Board of Statutory Auditors of Pirelli & C. S.p.A. about all whistleblowing reports it has received and the progress of its analyses.

Group suppliers also have the Whistleblowing Reporting Channel – ethics@pirelli.com, as specifically indicated in the sustainability clauses included in every supply contract. It is confirmed that no whistleblowing reports signed by suppliers have been received. However, it is objectively impossible to confirm that absolutely no such reports have been received from suppliers, insofar as certain reports were made anonymously, as mentioned above.

1.4 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 for years. Pirelli is also substantially held in the portfolios of socially responsible investors, both inside and outside Europe. Specific road shows are dedicated to socially responsible investors, as illustrated in more detail in the section on relations with investors and the financial community in the second chapter of this report.

The major ethical finance indices on which Pirelli appears in 2012 are illustrated as follows.

DOW JONES SUSTAINABILITY INDICES



Pirelli has been included in the Dow Jones Sustainability indices since 2002. For the sixth year in a row, Pirelli was confirmed as global sustainability leader in the Autoparts & Tyres segment in September 2012, as part of the Dow Jones Sustainability World and Europe indices. Pirelli's overall rating for 2012-2013 was 86 points, compared with an industry average of 53. The Dow Jones indices are revised every year by RobecoSAM, a Swiss asset manager responsible for assessment, admission or exclusion of companies from the Dow Jones sustainability equity indices.

In January 2013 Pirelli was named world sustainability leader in the "Auto parts and Tyres" Sector and Gold Class Company for the sixth year in a row in the prestigious Sustainability Yearbook 2013, published by RobecoSAM in collaboration with KPMG. The Yearbook is one of the most complete and authoritative global reference tools for sustainable finance specialists. It includes only the top sustainability scoring companies, ranked as such by RobecoSAM in the Dow Jones Sustainability Assessment, or 15% of firms within 58 business sectors.

FTSE4GOOD INDICES



Pirelli has been included in the FTSE Global and European STOXX indices since 2002. Pirelli's 2012 rating in the Automobiles & Parts sector was 100 out of 100, up from 99 in March 2012 and 98 in September 2011. The semi-annual review is conducted by the independent agency EIRIS, and the benchmark is comprised of the FTSE All-Share Index and the FTSE Developed Europe Index, excluding tobacco and weapons makers, owners or operators of nuclear power plants, and uranium mining or production companies.

CARBON DISCLOSURE LEADERSHIP INDEX (CDLI)

CARBON DISCLOSURE PROJECT

Pirelli has been listed on the Carbon Disclosure Leadership Index (CDLI), being ranked as one of the top ten companies that comprise the 2012 index. Its score was 89, compared with an average score of 69 for the companies included on the panel.

Carbon Disclosure Project (CDP) is an independent non-profit organisation that is committed to reducing greenhouse gas emissions and to the sustainable use of water by businesses and cities. The CDP requests climate change related data on behalf of 655 institutional investors holding \$78 trillion. The gathered data and relevant ratings are then used by financial decision-makers for making investments and for the analyses about loans and insurances.

The CDLI selects companies from the FTSE Global Equity Index Series (Global 500) whose answers to the CDP questionnaire demonstrates that they take an effective strategic approach to reduction of climate changing emissions,

thereby mitigating the consequent risks. The presentation of the CDP Italy 2012 Report, held on November 14, 2012 at Borsa Italiana, featured Pirelli as one of the participants in the panel discussion “Strategic Agility Through Carbon Management”.

STOXX GLOBAL ESG LEADERS INDICES



Pirelli is listed on the STOXX® Global ESG Leaders Indices 2012-13, for the second year of a row after the 2012 assessment. The indices were compiled by STOXX Limited which, on the basis of sustainability performance, select 307 companies from among the 1,800 stocks included in an initial basket of international equities, the STOXX Global 1800 Index. These indices are characterised by their transparent selection criteria, which are based on the indicators suggested by EFFAS (European Federation of Financial Analysts Societies) and DVFA (Society of Investment Professionals in Germany), and the scores of the examined companies on the basis of ESG ratings given by the agency Sustainalytics.

ECPI INDICES



Pirelli has been included in the ECPI ethical finance indices since 2008. In particular, Pirelli is included:

- in the ECPI Ethical EMU 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.

The ECPI Italia SRI Benchmark and FTSE ECP 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.

According to the ECPI assessment, Pirelli is one of the firms that have a transparent long-term strategic outlook, good operating management and make a positive contribution to society and the environment.

AXIA ASI (AXIA SUSTAINABLE INDEX)

Pirelli has been included in the Axia indices since 2004 (the year they were created), being listed in the Axia ASI (Axia Sustainable Index). Pirelli has been awarded an A+++ rating for six consecutive years (i.e. the top score possible in terms of “ethical class”), with a 2011-2012 score of 89.6, up from 88.9 in 2011.

Axia Sustainable Index is comprised of 40 stocks that passed the Axia Financial Research screening and are listed on the Italian market. The companies that are included in the basket are ranked according to their capitalisation and have to have a rating of over 50, or A++.

1.5 PRINCIPAL AWARDS AND RECOGNITIONS

Pirelli received numerous awards and recognitions during 2012 and the first two months of 2013 for its sustainable performance accomplishments, the diversity of which reflects the sustainable approach throughout the entire value chain and towards all *stakeholders*. Principal awards it has received are listed below in reverse chronological order, from February 2013. To give an overview on the last three years period, principal awards and recognition received by Pirelli in 2011 and 2010 are also given.

FEBRUARY 2013

- For the third year in a row, Pirelli was recognised as having the “Best Corporate Governance in Italy” in the World Finance Corporate Governance Award 2013.

JANUARY 2013

- Mv Agusta, the prestigious Italian motorcycle maker, chose the Pirelli Diablo Supercorsa™ SP as original equipment on the base versions of the R and RR models of the F4 2013 line.

NOVEMBER 2012

- Pirelli was awarded the international SAP “Innovation” award in Madrid for its skill in combining technology with particularly innovative projects.

OCTOBER 2012

- Pirelli China received the “Sustainability Development in China 2011-2012” award, organised by the Chinese magazine “Economic Observer”, considered to be one of the three most important economic newspapers in China. The assessment criteria included economic performance, environmental protection and social responsibility.

- Pirelli was confirmed as the most famous tyre brand in Brazil for the tenth year in a row. This recognition comes in addition to the Top of Mind award.

Pirelli was also the most famous company brand in the “Top Male” category of companies in all segments. The survey was conducted nationwide by the Istituto DataFolha. The award was given on October 24 in São Paulo, by the Folha de São Paulo Group.

- In the United States, the website of Pirelli & C. won the top spot in the prestigious WMA (Web Marketing Association – WebAward) ranking, being defined as an “Excellent Site” according to the standards of the New Media Awards, as part of a research project conducted by Columbia University.

- In Europe, the website of Pirelli & C. was ranked third in the Digital Communication Award 2012, the top European public relations and communication award hosted by the Berlin University of Applied Sciences. Here again, Pirelli competed against the top European contenders before a jury composed of 30 experts.

- For the third year in a row, Metzeler was the Italian Champion in the 600cc Supersport class of CIV.

- On occasion of the 140th anniversary of the foundation of Pirelli in 1872, Chairman Marco Tronchetti Provera and the entire Pirelli top management were received by Italian President Giorgio Napolitano. “It is a great honour for me and all of us to have been received by President Napolitano on occasion of the 140th anniversary of Pirelli,” said Marco Tronchetti Provera. “We are celebrating this birthday,” he continued, “together with the 36,000 persons around the world who share the pride of belonging to a Group that has been a standard bearer for the excellence of Italian industry worldwide.”

- The semi-annual audit conducted by the independent agency EIRIS reconfirms Pirelli on the ethical finance stock indices of the London Stock Exchange FTSE-4Good (FTSE Global and FTSE4Good Europe), with a score of 100 points out of 100, up from 99 in March 2012 and 98 in September 2011. Pirelli, which has been on the FTSE4Good indices since 2002, has also been reconfirmed as the only Italian company in the auto-

mobile and parts sector to be listed on the index.

- On the basis of the Dealer Satisfaction Survey 2012, Pirelli Spain was recognised for the second year in a row as having the best customer service in that country. The analysis was carried out by Pirelli Marketing together with the statistical analysis company CREA.

SEPTEMBER 2012

- The Metzeler Roadtec Z8 Interact tyre won the “Tyre of the Year Award” given by *Motorcycle News*, one of the most prestigious awards in the motorcycle business.
- The Metzeler Roadtec Z8 Interact tyre was recognised as the Best Touring Tyre by the prestigious *German Motorrad Magazine*.
- Pirelli won the Marcos Confiables 2012 Award in Argentina for the fourth year in a row, proving to be one of the favourite tyres in Argentina according to the survey conducted by “*Selecciones*” (Reader’s Digest), a leading magazine worldwide with more than 100 million readers.
- For the sixth year in a row, Pirelli was confirmed as global sustainability leader in the Autoparts and Tyres segment, as part of the Dow Jones Sustainability World and Dow Jones Sustainability Europe indices. Pirelli’s overall rating for 2012-2013 was 86 points, compared with an industry average of 53. The results of the 2012 revision of the Dow Jones Sustainability Indices were announced on September 13, 2012 by Robeco SAM, the Swiss asset manager focused on sustainable investments, and by S&P Dow Jones Indices.

AUGUST 2012

- In China the Pirelli P1 won the most highly sought recognition in the tyre business. On August 2, 2012 the magazine *Motor Trend* recognised the Pirelli Cinturato P1 as the “Environmentally Friendly Tyre of China 2012,” by affirming that it has absolutely unique characteristics in terms of efficiency and sustainability. The judges examined how the tyre can play an important role in reducing harmful emissions and how firms can improve their ethical and social responsibility practices to promote sustainable vehicle use.

JULY 2012

- Porsche gave Pirelli its Supplier Award 2011 for the great results it achieved as supplier. Pirelli was recognised in the “Material for Production” category in Munich for its commitment and reliability in managing new projects. The crowning touch in development of the latest versions of the Porsche Carrera and Boxster, this award highlighted the extraordinary flexibility of Pirelli in satisfying Porsche’s requests.

JUNE 2012

- Pirelli received the “Best Enterprise Brand Image Award” for 2012 in China, at a finance summit that is one of the most important business events of the year. “The growing economic power of China” was the principal theme of the event, which was focused on four key aspects: green, innovation, reputation and development. Summit participants discussed the results and great improvements made by China, with a focus on the progress made in the green economy, business innovation and sustainable development.

MARCH 2012

- The March 2012 revision conducted by the independent agency EIRIS reconfirmed Pirelli on the ethical finance indices of the *Financial Times* “FTSE4Good,” with a score of 99 points out of 100, up from 97 in March 2011.
- The “Progetto Acqua” di Pirelli è premiato in Brasile: the Pirelli factory at Campinas, Brazil won a prestigious award from FIESP (São Paulo Federation of Industries). This award signalled the commitment by our Brazilian colleagues to treating water after it is used in production. This award marked a first for Pirelli Brazil, which beat

the tough competition fielded by several respected companies. The awarded project was the result of a gradual investment made over the last year, which allowed the reuse of 100% of the water treated in-house, plus a reduction of 35% in the volume of water drawn from the Capivari River. This important prize is the result of a series of analyses and tests conducted by public companies responsible for managing water resources.

JANUARY 2012

- The survey by Encircle Marketing, a firm specialised in post-sale automotive market research, Sell Out and Selling Way prices, declared Pirelli to be the most highly recommended tyre brand of the year, for the second year in a row, receiving 6.7% of all recommendations in the sector.
- Pirelli was named world sustainability leader in the “Autoparts and Tyres” Sector and Gold Class Company for the fifth year in a row in the prestigious *Sustainability Yearbook 2012*, published by SAM Group in collaboration with KPMG.
- The biennial study presented by the international rating agency Vigeo entitled *Non-discrimination and equal opportunities in the workplace* ranked Pirelli among the 20 most advanced European companies in terms of equal opportunity and workplace non-discrimination management. The survey covered 539 companies, 34 sectors and 18 countries, or 80% of European market capitalisation.

OCTOBER 2011

- Pirelli received the 82nd Tyre and Fast Fit Awards (TAFF) from the National Tyre Distributors Association (NTDA), an association that promotes the inter-

ests of tyre resellers in the United Kingdom. The various candidates that were selected by resellers, until they were narrowed down to the five most voted brands in 2011, were Continental, Michelin, Yokohama, Hankook and Pirelli. Product safety and reliability standards were the items that led to Pirelli being awarded.

- Pirelli was named the most famous tyre brand in Brazil for the ninth year in a row. This recognition comes in addition to the Top of Mind award, in the category “Top Male” Pirelli, and was the most famous company brand in all segments. The survey was conducted nationwide by the Instituto DataFolha. The award was given on October 25 in São Paulo, by the Folha de São Paulo Group.

SEPTEMBER 2011

- Following the 2011 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 Auto parts & Tires sector for the fifth year in a row, as part of the Dow Jones Sustainability World and Europe indices.

JUNE 2011

- Pirelli is one of the 100 companies with the best reputation in the world, being ranked 31 in the 2011 Global RepTrak™100, the most authoritative annual reputational survey of the world’s biggest companies conducted by the Reputation Institute. The ranking is the result of a survey conducted in April 2011 of 48,000 consumers in 15 countries who gave their opinion on a panel composed of the 100 top companies in the world.

MAY 2011

- The new Pirelli Diablo Rosso II tyres finished first in the annual comparative test of sports tyres conducted by two prestigious, specialised German publications: *Motorrad* and *PS*. The series of innovations developed over seven years as official supplier of WSBK enabled the Diablo Rosso II to beat the competition, with awesome track performance using highway tyres. It got the highest score for road hold and grip in dry conditions.

THE VALUE STATEMENTS
WERE IMPRESSIVE.

SELECTING THE TOP TEN WAS NOT EASY. I FINALLY CHOSE VALUES
WHICH I BELIEVE CAN MAKE A CRITICAL DIFFERENCE TO OUR FUTURE.

HONESTY IS

A KEY VIRTUE. AN ENVIRONMENT OF
EMPATHY AND FRATERNITY AMONG PEOPLE OF DIVERSE
CULTURES IS ESSENTIAL FOR PEACE AND HARMONY
IN THIS CONFLICT RIDDEN WORLD.

WITHOUT CURIOSITY AND PERSEVERANCE WE CANNOT FIND INNOVATIVE

SOLUTIONS TO THE

MANY PROBLEMS CONFRONTING US. THESE ENORMOUS TASKS ALSO REQUIRE

HUMILITY AND FLEXIBILITY,

AS WELL AS FORGIVENESS OF PAST WRONGS.

THE YOUTH OF TODAY WHO HOLD THESE VALUES ARE SURE

TO FORGE A BETTER TOMORROW. **BINA AGARWAL**

- In China Pirelli won the “best marketing award” during the China Auto After-sales Summit Forum Awards.

APRIL 2011

- Pirelli was awarded at the London Stock Exchange as the Italian business with the best corporate governance. This recognition took the form of the World Finance Award 2011, the prestigious international prize that since 2007 has selected leading businesses in the areas of corporate governance and financial activity management.
- The survey by The Boston Consulting Group (BCG), a global leader in business strategy consulting, ranked Pirelli in the top ten of value creators. In fact, the Company was one of the top ten Italian companies that posted the highest rates of stock earnings in 2010.
- At Moline, Illinois (USA), John Deere, one of the biggest makers of agricultural and construction equipment in the world, gave Pirelli Agro its highest recognition in the Hall of Fame sector, awarded every year only to those suppliers that over time (five years) have been confirmed as offering excellent products and service. For the fifth year in a row, Pirelli Agro Brasil won the world prize for excellence as best supplier.

FEBRUARY 2011

- In Tokyo Pirelli won the Toyota Regional Contribution Award as best supplier of tyres to this Japanese car maker in South America. The prize, awarded by the Chairman of Toyota, was given as part of the Toyota Global Contribution Award. Pirelli, the first tyre supplier to receive this prestigious Toyota award, was recognised for quality, price and prompt deliveries.

- PZero won the summer tyre tests organised by the specialised German magazine *Auto Zeitung*, which pitted 14 different tyres makers against each other in the 225/45 R 17 tyre category. In six tests under wet conditions, PZero proved exceptional in stopping from 100 km/h, safe driving and road hold, and very good in aquaplaning. In the seven tests under dry conditions, PZero stunned observers by its extremely fast speed in curves and directional stability.

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 noise 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 Illustrerte*, 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 2010

- 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 2010

- 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 under both dry and wet conditions; 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 and 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 2010

- 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 2010

- 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 2010

- **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 2010

- **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 2010

- **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.

2. ECONOMIC DIMENSION





2. ECONOMIC DIMENSION

“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”.

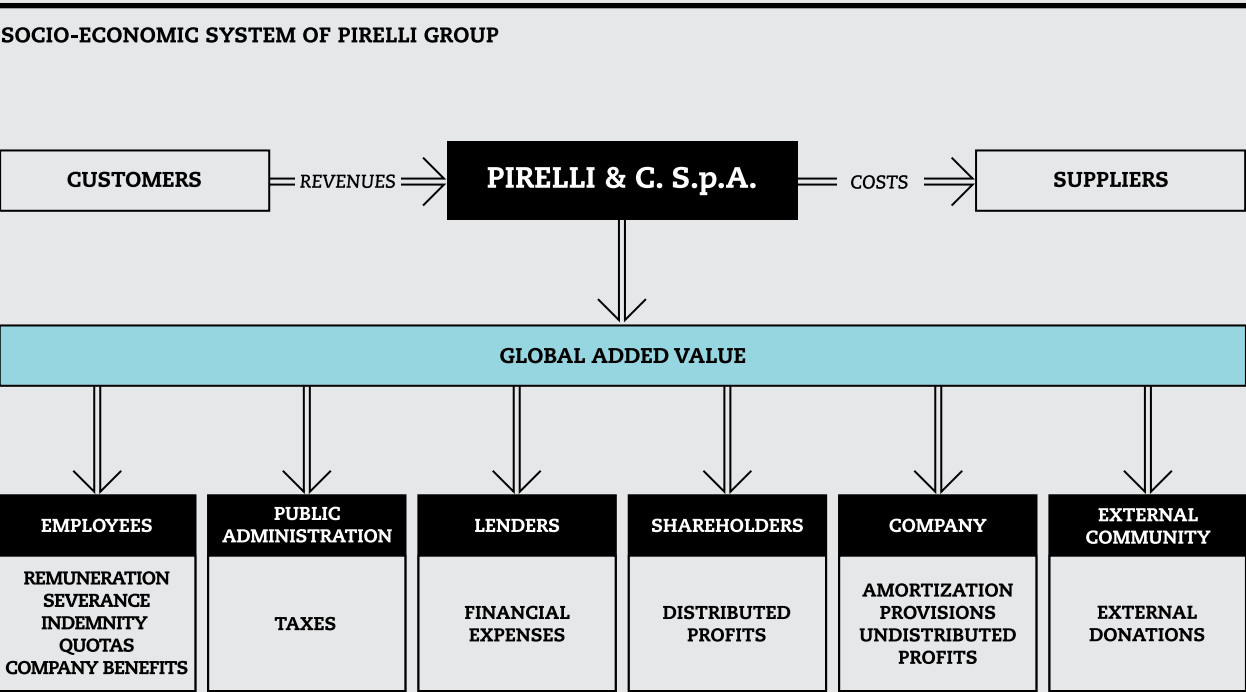
(The Values and Ethical Code – Sustainable Growth)

“The Pirelli Group endorses and, where appropriate, gives support to educational, cultural, and social initiatives for promoting personal development and improving living standards”.

(The Values and Ethical Code – Community)

2.1 ADDED VALUE

Added value means the wealth created over a given reporting period, calculated as the difference between the revenues generated and the external costs sustained in the period. The distribution of added value between stakeholders enables the expression, in monetary terms, of the existing relations between Pirelli and the major stakeholders, thus shifting attention to the socio-economic system in which the Group operates (as shown in the diagram below). The added value created by Pirelli & C. S.p.A. Group in 2012, 2011 and 2010 is broken down as follows.



BREAKDOWN OF ADDED VALUE (in thousands of euro)

	2012		2011		2010	
Global added value, gross	2,210,618		1,918,054		1,495,881	
Remuneration of employees	(1,205,608)	54.5%	(1,123,507)	58.6%	(1,063,648)	71.2%
Remuneration of Public Administration	(200,837)	9.1%	(34,457)	1.8%	(137,358)	9.2%
Remuneration of borrowed capital	(129,471)	5.9%	(89,440)	4.7%	(65,793)	4.4%
Remuneration of risk capital	(132,382)	6.0%	(81,151)	4.2%	(81,151)	5.4%
Remuneration of the company	(537,259)	24.3%	(584,435)	30.5%	(144,306)	9.6%
External donations	(5,061)	0.2%	(5,064)	0.3%	(3,625)	0.2%

The growth of added value created was substantial: 15% in 2012 compared to 2011, and 21% in the last three-year period. Account must also be taken of the value generated by the price increase of Pirelli shares on the stock market: the Stock Exchange trend in 2012 confirmed Pirelli as one of the best stocks in the European Auto & Parts sector with +33%, thus significantly outperforming the Italian Blue Chip index (+25.3 pp compared to the MIB FTSE).

The trends of the captions that determine the global gross added value, as shown above, are explained fully in Volume Y – Annual Financial Report at 31 December 2012, to which we invite you to refer for details.

With reference to outside donations, the following table shows the amount of contributions and donations disbursed by Pirelli in the years 2012, 2011 and 2010, broken down by category.

BREAKDOWN OF OUTSIDE DONATIONS 2010-2012 (in thousands of euro)

Sector of action	2012	2011	2010
Education	714	674	770
Culture	3,523	2,616	1,035
Research	336	703	1,119
Charity, Sports	488	1,071	701
TOTAL	5,061	5,064	3,625

For the correct sizing and proportion of the expense in the various sectors of intervention it must be considered that the data are consolidated in euro even though the sums were mainly disbursed in the local currencies in the various different countries in which Pirelli works, many of which are emerging markets/developing economies. This is particularly true for the Education and Solidarity categories, for which the amounts recorded, which in absolute terms are less than the amount allocated to Culture, were instead used to finance a large array of development projects in the grant recipient countries. The value relative to Research decreased due to the rationalisation of spending aimed at achieving greater effectiveness and results. We invite you to refer to chapter 4 Social Dimension for descriptive details of the main initiatives correlated with the disbursements indicated above.

Finally, the Group *“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.”* (The Values and Ethical Code – Community).

2.2 LOANS AND CONTRIBUTIONS RECEIVED FROM THE PUBLIC ADMINISTRATION

In March 2012 the European Investment Bank (EIB) disbursed euro 10 million to Pirelli Tyres Romania S.r.l. under a loan agreement for euro 50 million granted to support the expenditure of 263 million euro relative to the expansion of the Pirelli plant in Slatina, Romania, destined for the production of car and light commercial vehicle tyres. The loan joins an analogous loan disbursed in 2007 to finance the construction of the same production plant.

In September 2012 Pirelli Tyre S.p.A. was granted euro 1.4 million from Italian Piedmont Region by way of a grant for the Next Mirs project.

In 2012 the associated companies based in Romania, S.C. Pirelli Tyres Romania S.r.l. and S.C. Cord Romania S.r.l. received, respectively, euro 7.0 million and euro 2.0 million from the Romanian government as incentives to stimulate local investment.

Finally, in 2012 Pirelli Neumaticos S.A. de C.V. received sinking fund contributions from the Government of the state of Guanajuato (Mexico) for investments and job creation in the amount of euro 4.5 million.

2.3 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.”

(The Values and 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.

Financial communication activities in 2012 were aimed at promoting the Pirelli Equity Story illustrated in the Business Plan presented in November 2011: Pirelli aims to achieve global leadership in the premium segment, the high end tyres segment associated with a high level of profitability, by 2015. The 2012-2014 Business Plan with Vision to 2015, submitted to the financial community in London on 9 November 2011, envisages in summary:

- further impetus in relation to technological innovation with an expansion of the product range;
- streamlining of the production organisation and geographical coverage with more new plants located in countries where demand is growing and industrial costs are favourable;
- new distribution and consumer marketing models to establish closer ties with customers and encourage customer loyalty;
- brand strength as a strategic asset;
- further impetus in relation to environmental and social targets, as already fully described in chapter 1- Pirelli and the creation of sustainable value - of this report.

Pirelli's new Business Plan will be presented to the press in 2013 in London.

FINANCIAL COMMUNICATION

In 2012 financial communication was aimed at strengthening dialogue with the main stakeholders: from institutional investors, who represent 72% of outstanding shares including also SRI (Socially Responsible Investing) investors – to individual shareholders (25% of outstanding shares), bond holders and financial analysts.

In 2012, meetings with institutional investors were intensified in the main financial centres in Europe (Milan, London, Paris, Frankfurt, Zurich, Amsterdam, Copenhagen, Stockholm and Helsinki), in the US (New York, Boston, San Francisco, Los Angeles, Chicago, and Kansas City), in South America (Sao Paulo and Rio de Janeiro) and in Asia (Shanghai, Singapore, Hong Kong and Beijing).

During the year the company met more than 600 institutions including shareholders and potential investors (20% more than in the prior year) through the organisation of dedicated roadshows and participation in industry conferences.

Moreover, Formula One motor racing provided an important opportunity to inform the financial community of Pirelli's business. In 2012, at the time of the main Grand Prix (Monte Carlo, Singapore, Monza, Austin Texas, etc.) Pirelli promoted meetings with financial analysts and with the main local investors, with detailed sections dedicated to technology, the product, the brand and distribution.

The roadshows, combined with the growing interest of investors in the Pirelli equity story in the international Tyre sector, led to a shift in the shareholder structure with a growing presence of international funds (70% of outstanding shares, +14 percentage points compared to 2011), mainly in the UK, the US, and in Scandinavian countries, with an "active" and growth-oriented investment approach.

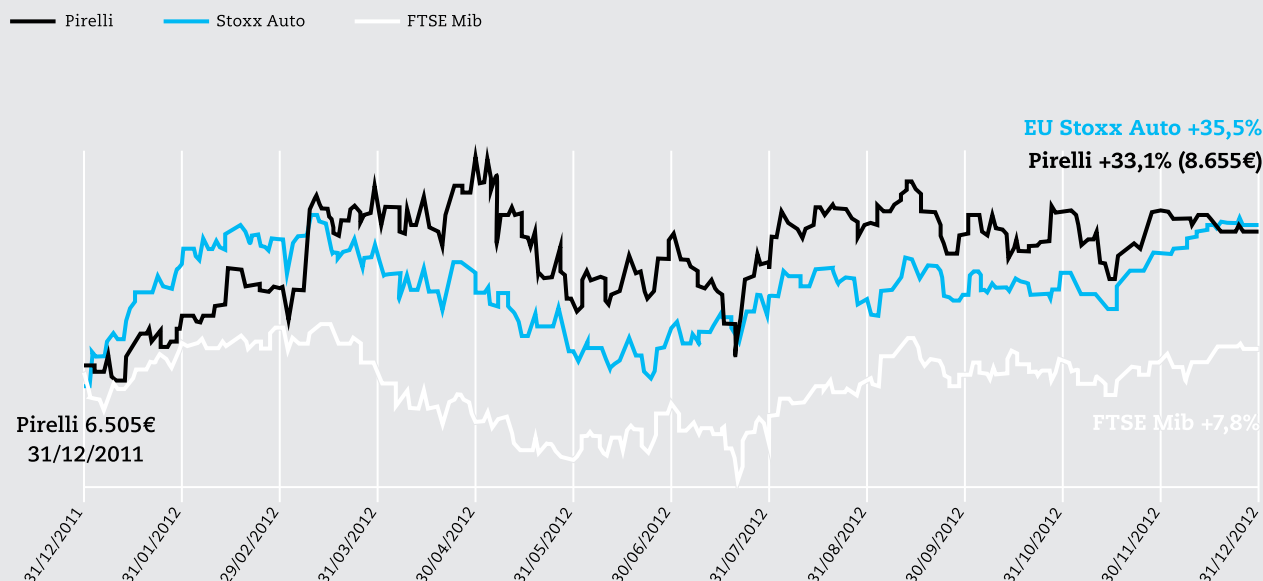
In 2012 the Company proceeded with its dialogue with ethical investors, the incidence of which is gradually increasing, making Pirelli one of the key protagonists in the sector. This result is also due to the activity of communication that led management to meet with SRI analysts and investors in the main financial centres with a series of dedicated roadshows. Pirelli also took part in the role of sponsor in the Annual Conference and General Meeting of ICGN (International Corporate Governance Network) held in Rio de Janeiro from 25 to 27 June, an important occasion for dialogue with international investors and the main companies in relation to the issue of Corporate Governance.

With the aim of strengthening ties with retail investors, 2012 saw the introduction of the Shareholders Club, a forum dedicated to individual shareholders and a direct communication channel with the company. Among the various services on offer: information on performance of the Pirelli share and the peers, updating of the business results and a focus on new car, motorcycle and commercial vehicle tyres, on PZero clothing products, news and events of the Pirelli world from culture to sport. The Shareholders Club is also a dedicated communication channel with the facility to follow events live, from conference calls on results to the General Shareholders' Assembly, sending questions by email. At the end of 2012 the Shareholders Club had 320 members.

In 2012 Pirelli intensified its dialogue with bond holders. After the 2011 issue of the 500 million Euro Bond, in 2012 the company successfully completed the *private placement* of a 150 million dollar bond addressed to US investors.

Finally, coverage of Pirelli shares by the main merchant banks was extended. At the end of 2012 the brokers who periodically publish details of Pirelli numbered 25 (24 in 2011) of which 52% global (43% in 2011). The share quotation reached 10 euro at year end (average target price) compared to 8.5 euro in December 2011; 80% of analysts have a positive appraisal of the shares.

The stock market trend in 2012, shown in the following chart, confirms that Pirelli is among the best stocks in the European Auto & Parts sector with growth of +33%, significantly outperforming the Italian Blue Chip index (+ 25.3 pp vs the MIB FTSE index). For more information we invite you to refer to the already-mentioned Investors chapter of the Pirelli website, which offers a comprehensive and constantly updated source of information on matters of interest to shareholders and the financial community.

PIRELLI & C. STOCK PRICE PERFORMANCE VS. MIB FTSE, EUROPE STOXX AUTO (1/1/2012 - 31/12/2012)


2.4 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".

(The Values and Ethical Code – Customers)

Pirelli Tyre's business is represented by two main segments: Consumer (tyres for cars, SUVs, light commercial vehicles and motorcycles) and Industrial (tyres for buses, trucks, agricultural machinery and steel cord).

These businesses are in turn pursued through two sales channels:

- Original Equipment, addressed directly to the world's leading car and truck makers;
- Replacement, for the replacement of tyres on vehicles already in circulation.

In the context of the "Replacement" channel we can make a macro distinction be-

tween "Specialized Resellers" and "Distributors". Specialized Resellers are tyre specialists operating on the market in the role of independent businesses; they constitute a fundamental point of contact between the Group and the end consumer. Particular attention is devoted to specialized dealers in terms of shared development to enhance the product offering integrated with a high quality level of service, in compliance with Pirelli values and consumer expectations. "Distributors" are fundamental partners in order to guarantee continuity in the supply of tyres to specialized resellers thanks to the offering of a capillary delivery and distribution service throughout the entire territory.

In addition to Tyre core business customers there is a mixed panel of customers associated with the other Pirelli business arms, namely a quality niche composed 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, a fashion design project supporting the tyre business focusing on the premium and prestige segment in which fashion exerts special appeal and that shares the principles of constant commitment to research, innovation and technology with the core business of tyres.

CUSTOMER FOCUS

Customer focus is a pivotal element of the *Values and Ethical Code of the Pirelli Group*, and it is based on Pirelli's 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, in addition to 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 provide an efficient response to 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 above commitments are also set out in the *General Conditions of Supply* applied by Group companies.

TRANSPARENCY

In the sphere of advertising communication, already since 2009 through the centralisation of all advertising activities Pirelli has defined a traceable and transparent process of all decisions relative to advertising campaigns and media coordination. In terms of both production and media planning Pirelli has defined specifications and central auditing and certification

structures that place the company at the highest levels in terms of transparency and traceability in its advertising investment strategies.

The Pirelli Group is a member of UPA (Utenti Pubblicità Associati - "associated advertising users") in which it also holds the office of Deputy President thanks to the unfailing commitment and primary role it has assumed in supporting UPA Code of Conduct.

Moreover, Pirelli is a member of IAB (Interactive Advertising Bureau).

The Group is also a member of IAP (Istituto dell'Autodisciplina Pubblicitaria - advertising self-regulation institute) and the Consumer Forum, an organisation set up by consumer associations and companies to safeguard and protect consumers.

Through the UPA, Pirelli is also a member of the WFA (World Federation of Advertisers), which commits participating firms to pursue honest, truthful and fair competition and communication in compliance with the Code of Conduct and Self-Regulation to which they adhere.

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

In terms of compliance, during 2012:

- no cases emerged of nonconformity with regulations or voluntary codes concerning marketing activities, including advertising, promotion and sponsorship;
- no significant final penalties were levied or paid relating to infringement of laws or regulations, including matters relating to the supply and use of the Group's products and/or services;
- no cases emerged of nonconformity with regulations or voluntary codes concerning information and labelling of products/services;
- there were no cases of nonconformity with regulations or voluntary codes concerning health and safety impacts of products/services during their life cycle;
- there were no documented complaints concerning both privacy violation and the loss of consumers' data.

INFORMATION AND TRAINING

Pirelli constantly supplies information to customers-distributors and to end consumers with reference both to the product and to the initiatives associated with it, through the use of a range of different tools, first and foremost the international Pirelli website, designed and developed with the aim of providing effective support to consumers in choosing the most suitable product for their needs. In 2012 the local versions of the site were completed and brought on line in concurrency with the season's Formula 1 Grand Prix races.

In addition, 2012 also saw the development of the new dealer locator, a tool that makes it possible to perform a simple and intuitive search for Pirelli service points, the services they offer and their opening hours.

GetTyre is in turn the e-commerce site of Pirelli and Metzeler for motorcycle and scooter owners. In collaboration with the network of dealers present in each region of Italy, GetTyre.it is the official online store that displays the range of tyres and special offers in a manner that is transparent for consumers. The site recorded 110,000 hits in 2012.

Keeping customers informed and meeting their needs, which are becoming ever more sophisticated through time, has always been an element of distinction for Pirelli: this approach was used to develop two mobile applications, one dedicated to Formula 1 and the other to the management of users' own vehicles and minor emergencies.

More specifically, the "Pirelli tyre click & find" configuration tool is a path that involves consumers starting from their personal characteristics and driving style and accompanies them step by step until finding the most suitable tyre through a series of virtual interactive tests.

Additional tutorial and configuration tools are provided in the sections devoted to the Car, Motorcycle and Truck businesses, each with its specific connotations aimed at the reference target. First of all is the tutorial relative to the introduction of the foregoing European labelling (European regulation 1222/2009). In addition to the technical explanation of each of the three classification criteria of the tyres (rolling resistance, wet braking and noise emissions) the consumer is guided by an innovative simulator that makes it possible to compare the performance data of the different *grading* classes and to discover the benefits available by choosing higher performing tyres.

In 2012 Pirelli also introduced a new digital newsletter for customers, entitled *Paddock News*. The main aim is to provide a new tool of communication and contact with the trade, composed of an international edition, coordinated from Milan, and a local language edition for each market in which Pirelli is present. *Paddock News* features a gallery of new products and news from the Company and its Business Units: Car, Motorcycle, Motorsport and Truck.

In the realm of traditional hard copy communication on the other hand, a key role is played by the corporate magazines *Pirelli World* and, for Brazil, *Giro*, in addition to publications for the international market including *Truck*, a magazine dedicated to the world of road transport available online and published in Europe in four languages (Italian, Spanish, German and English) and in two languages in South America (Spanish and Portuguese); for Pirelli the magazine is a constant appointment with dealers and professionals in the world of road transport and an important tool to disseminate information and updates concerning products and applications.

In 2012 the Group strengthened, at a local level, the Tyre Campus project, with which Pirelli aims to achieve excellence in terms of product training both in terms of contents and methods: from factory visits – more than 400 *dealers* from 16 countries visited the two plants in Settimo Torinese and Izmit and also the Vizzola test circuit – to tyre performance simulations. Information and training are therefore conducted with a global approach. The number of participants in the product training course in 2012 was up by 50% compared to the prior year, with more than 24,000 trainees on the international level and with highly positive feedback received from all markets.

In addition, the Tyre Campus "The Road to Success" online training platform was launched in 2012. The platform is

designed to increase the training coverage on an international level in an exponential manner and with a uniform approach worldwide. Product training is delivered in a captivating style and with the metaphor of a path towards the final goal of certification. Pirelli therefore certifies all its *dealers* who complete the proposed product training successfully. The status of certified dealer is shown in the dealer locator and by means of a plaque displayed in the point of sale so that the consumer has all the necessary elements to identify *dealers* who are the most informed with regard to the technical characteristics and benefits of all products in the Pirelli range.

The platform diffusion project is extremely challenging: during the year the platform was launched in five countries: US, Germany, UK, Canada, and Austria. The 2013 roll-out plan will cover all the main markets in which Pirelli is present with a sales organisation. At the end of 2013 the platform will count more than 20 localisations made in less than eighteen months. In 2012 two major new European regulations entered into effect having the purpose of improving the safety and environmental and economic efficiency of road transport through the promotion of safe tyres that improve fuel efficiency and reduce noise levels.

REGULATION ON GENERAL SAFETY OF MOTOR VEHICLES (EC 661/2009)

With this regulation, which came into effect on 1 November 2012, the European Commission aims to improve road safety through the adoption of an integrated approach benefiting users, the environment and industry. The regulation makes it obligatory to equip vehicles with several safety devices, such as the “electronic stability control system”; with regard to safety measures of tyres it requires the

obligatory adoption of the “inflation pressure monitoring system” on cars and also imposes new limits in terms of rolling resistance of tyres for cars and light, medium and heavy commercial vehicles. Also for vehicles of these types and with respect to the limits already in force since 2001 the regulation establishes new limits concerning exterior rolling noise and the wet grip performance of car tyres.

TYRES LABELLING REGULATION (EC 1222/2009)

From 1 November 2012 all new tyres for cars, light vehicles and heavy vehicles released on the European market must have a label on the tread that informs consumers of the fuel efficiency, wet grip and exterior rolling noise of the tyres they are about to purchase. Fuel efficiency and wet grip are rated on the basis of a scale from class “A” (green class, the best) to “G” (red class, the worst). This classification system resembles the one already in use for household electrical appliances.

The US on the other hand requires the Uniform Tyre Quality Grading (UTQG) disclosure: these prescriptions are currently being revised and integrated with the rolling resistance class. Anyway, all Pirelli products sold carry a *safety warning* on the tyre wall, even though this is not required by law.

Voluntary prescriptions for tyre labelling are already in force in Japan and came into effect at the end of 2012 also in Korea.

After six years of chairmanship of Pirelli, which brought ETRMA (European Tyre and Rubber Manufacturers Association) to the position of the main partner of EU institutions for the development of new regulations for the sector and the prescriptions for their implementation, the association, with the institutional support of the Pirelli Group, has worked ceaselessly also throughout 2012 on the development of prescriptions for implementation of the European Commission regulations on general safety of vehicles and tyres and energy efficiency.

In the role of Premium Tyre Company, Pirelli fully supported and continues to support the new regulation, especially because of the transparency it introduces to the benefit of the consumer, who can thus make an informed purchase in consideration of essential parameters.

And it's hardly a matter of mere chance that Pirelli was the world's first manufacturer present on the European market with a tyre, the P7 Blue, which in certain sizes carries the

prestigious double “A” rating.

The three indicators covered by labelling (rolling resistance, noise levels and wet surface braking), although essential, do not complete all the parameters that must be assessed by consumers when assessing a tyre to gain an understanding of its effective “value” in terms of performance and safety. A long list of parameters – including dry braking, aquaplaning and road holding – are essential and distinctive features of Pirelli tyres that the Company obviously tests with the utmost attention, without detracting from its continual drive towards innovation.

Not least is the importance of informing consumers of concepts whereby fuel efficiency and road safety depend greatly also on the driving style of each individual, and also on the correct maintenance of the tyres, from checking of the level of wear and tear to the correct inflation pressure.

LISTENING AND EXCHANGING IDEAS AS SOURCES FOR CONTINUAL IMPROVEMENT

Customer relationships are managed principally through two channels:

- the local sales organization, which has direct contact with the customer network and which, thanks to advanced information management systems, is able to process and respond to all information requirements of the interlocutor on site;
- the Pirelli Tyre Contact Centers, numbering 31 worldwide and are staffed by more than 200 employees developing activities of both IT support and order management (*inbound*), telemarketing and teleselling (*outbound*) with a CSI score of 97% in 2012.

Pirelli is present on Facebook both with an institutional page and with a page entirely devoted to motorsport activities. The Com-

pany is also present on Twitter and YouTube. Three constantly updated channels that show exponential growth in spontaneous participation of fans. The main goals are to promote greater involvement among users interested in the Pirelli brand and products, support for the communication delivered via the institutional website, the possibility of transforming customer feedback into opportunities of continual improvement, collection of *insights* for products and services, and *sentiment analysis* monitoring of the Pirelli brand online. Between 2012 and 2013 Facebook was the vehicle of the “Imaging the Future” project, aimed at encouraging students and young people to express their views on what they consider to be the values of the future. This project generated 8,281,710 contacts, involved 27 universities from 11 countries and collected 710 posts.

The German Metzeler brand is particularly active through a local web page in 9 countries (Italy, Germany, Spain, Brazil, UK, US, Switzerland, Austria and France) and the international site, all under the auspices of Metzeler.com.

2012 saw the creation of a new Facebook page dedicated to motorcyclists, with 175,000 likes at year end and content posted in 14 different countries in the various local languages. Other initiatives include the implementation of “Metzeler maps”, active participation in the Ridexperience blog and activation of a new “answers” function. In addition, an e-commerce function was integrated in the Italian language version of the Metzeler.com site. The multilingual blog Ridexperience, on which contributors offer details of extreme travel, technical advice and news features from the biker world, has continued to be extremely popular, as is the fan page dedicated to the Italy, Germany, UK, Spain, France and US markets and the YouTube channel dedicated to Metzeler.

Following customary practice, Pirelli performed a trade customer satisfaction survey (in the car sector) also in 2012. As has already occurred in prior years, the aim of the Dealer Satisfaction Survey was to identify the level of satisfaction of the *customer base* during the various stages of company-customer interaction in order to map the effectiveness of the action plans implemented throughout the previous years.

The 2012 survey involved 12 countries with a total of 2,400 interviews. Pirelli’s positioning with respect to the competition was found to be positive overall: in 6 of the 12 countries analysed Pirelli was among the top three brands with *best in class* in Spain and Brazil; in the remaining 6 countries

it was never lower than in fourth place. In terms of *overall satisfaction* the markets in which the most substantial growth was recorded compared to the prior year were: Germany, France and Spain (+6%), US (+7%). In terms of the level of satisfaction with respect to the various areas of company-customer interaction the *overall performance* was found to be particularly positive with regard to the Total Quality area (Quality of Manufacturing and Quality of Logistics) and higher than average for Business Relationship activities (Back office activities & Commercial).

Implementation of a customer listening project with the creation of a *web-based* platform to support the activities of research and collection of feedback from *Pirelli dealers* on the main European markets is in the pipeline for 2013. The project aims to guarantee contact with our customers in keeping with the times and based on the rapidity of contact.

With regard to the Motorcycle Business Unit the Dealer Satisfaction survey conducted in Europe in 2011 was repeated in 2012 also in the USA. The survey, conducted for the first time on a representative sample of more than 300 US *dealers*, achieved an extremely positive *overall performance* (the average *satisfaction* score was consistently above 8/10 for all the main distribution channels involved).

In the Consumer area the important activity of listening to end consumers was confirmed with two main lines of research: the Brand Tracking survey and the update of the Engaging the Consumer project, already carried out in 2011. Both surveys covered Pirelli's top 10 markets (Italy, Germany, Spain, France, UK, Brazil, China, US, Turkey and Russia), making it possible to refine and increase the accuracy of the business *insights* relative to the brand role, image profile and characteristics of the various *touch points* that affect the end

consumer's purchase decision.

Pirelli's attention to the end consumer is confirmed by the continual analysis of brand positioning throughout the various stages of the purchase process. This year in particular Pirelli confirmed its excellent positioning in relation to the main brand *awareness* indicators in Italy, Brazil and Spain, while its performance in China improved significantly. In general, the *understanding* of the main *outcomes* that emerged from the surveys performed guided and continues to guide the main *consumer marketing* activities, supporting media planning initiatives.

Also the Motorcycles Business Unit completed a survey in 2012 relative to the "consumer decision journey" in the markets of Italy, Germany, UK, France, US and Brazil. The survey led to the identification of five main *biker* segments according to the purchasing channel utilized and the relative consumption habits. Profiling each of the defined segments made it possible to develop marketing actions that are more focused on the specific needs of customers.

In addition, the main "*awareness*" and "*conversion to purchase*" indicators were identified for both Pirelli and for Metzeler. Specifically, with regard to conversion to purchase indicators the Pirelli brand is among the top three in Italy, Brazil and the UK, while Metzeler achieved the same result in Germany and Italy.

ISO 9001 QUALITY CERTIFICATION

Since 1970 the Group has had its own quality management system, which has been gradually extended to include all production centres. Since 1993 Pirelli has pursued a policy of certification of its quality system in compliance with ISO 9001. Today, 100% of existing Pirelli plants (cars, trucks, motorcycles, agricultural, *steelcord*, and anti-particulate filters) are certified in compliance with the most recent edition of the standard, as are the activities of the Manresa logistics *hub* in Spain. In 2013 ISO 9001 certification was planned for the new plant in Mexico that commenced the startup phase in April 2012. Also the Russian plants acquired in 2012 are currently certified in compliance with ISO 9001.

FLEXIBILITY | I

**FLEXIBILITY IS AN IMPORTANT VALUE OF THE FUTURE. F
ACCEPT NEW THINGS. WE
WHO COME FROM DIFFERENT BACKGROUNDS THAN
FLEXIBLE IS TO ACCEPT WHA
EVEN ADOPT IT IF IT FITS TO OUR BELIEFS. AND IN A WORL
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WE CAN GET EASILY BROKEN, BUT HAVING FLEXIB
OURSELVES TO MEET NEW DEMANDS AND
ARE THE ONES WHO SU
MUST ALSO BE FLEXIBLE IN ORDER TO FACE STRONG**

BELIEVE THAT

FLEXIBILITY MAKES US STRONGER TO FACE CHANGE AND

WE ALL MEET NEW PEOPLE

OURS AND MIGHT NOT THINK AS WE THINK, BEING

AT OTHERS ARE SAYING AND

AND THAT FACES CHANGE ON ALMOST EVERY ASPECT OF LIFE,

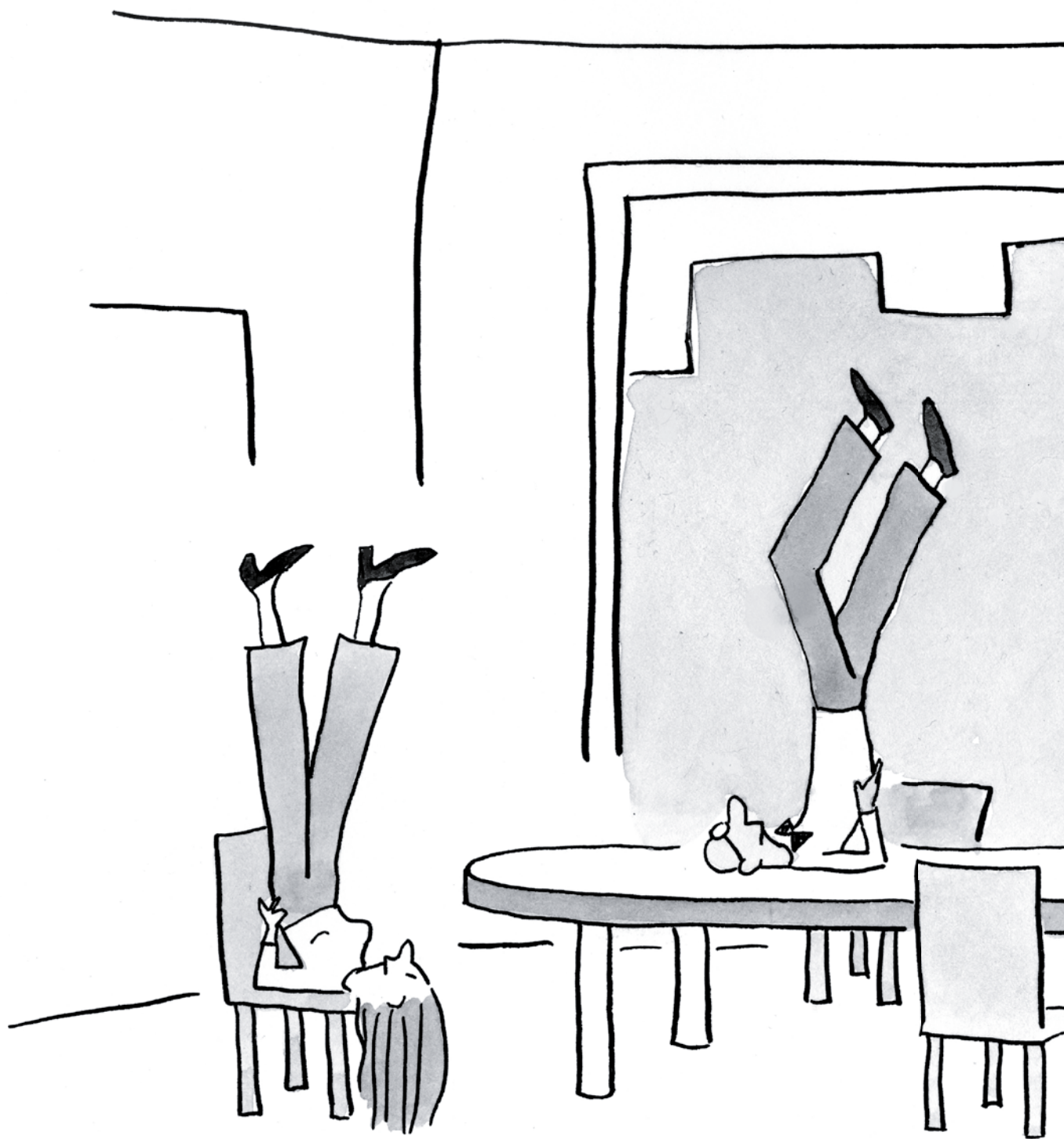
AINS AS IT IS, AND IF WE RESIST CHANGE,

BILITY IS TO ACCEPT TO CHANGE AND TO RESHAPE

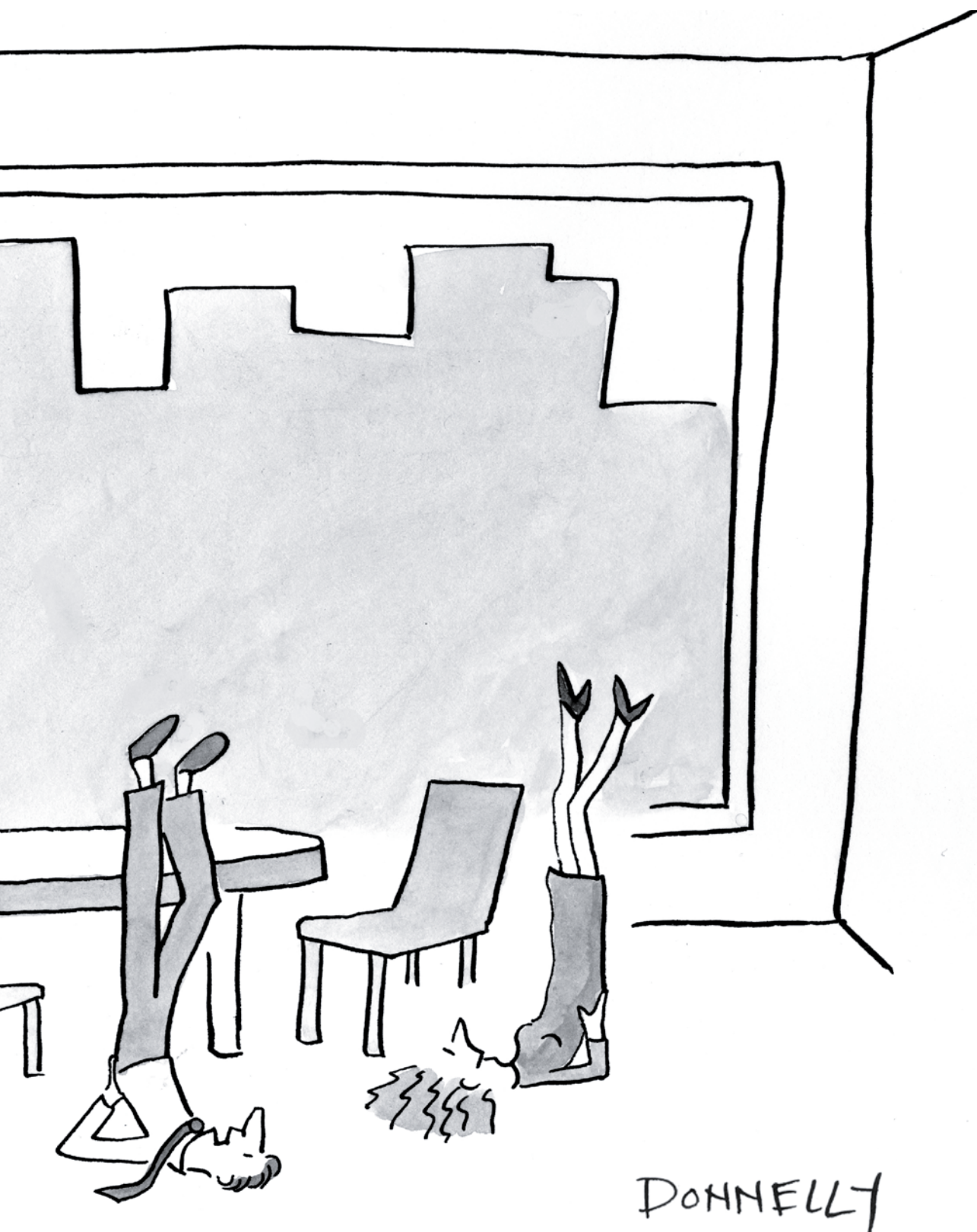
AND CIRCUMSTANCES. FLEXIBLE INDIVIDUALS

SUCCEED AND COMPANIES

COMPETITION AND EXCEL AMONG ITS COMPETITORS.



*“All in favor of acc
in position, sa*



cepting a change
y 'aye.'”

ISO/TS 16949

In 1999 the Group obtained certification for its quality management system in compliance with ISO/TS 16949 and it has since maintained compliance with the standard as currently applicable. All plants that supply automotive sector OEMs have secured this quality certification.

In 2013 certification in compliance with the automotive standard was planned for new or recently acquired plants.

ISO/IEC 17025

Since 1993 the Group's materials and experimentation laboratory, and since 1996 the Pirelli Pneus (Latam) Experimentation Laboratory, have implemented the quality management system and are accredited according to ISO/IEC 17025. This system is maintained in compliance with the standard in force and the capacity of the Laboratories to perform the accredited tests is assessed on an annual basis. The Laboratories participate in proficiency tests organized by the International Standards Organization, by ETRTO or by international circuits organized by car makers. With specific reference to car tyres, the quality focus is confirmed by Pirelli's supremacy in numerous product tests: it is also guaranteed by collaboration in terms of product development and experimentation with the most prestigious partners (automakers, specialized magazines, driving schools, etc.).

PRODUCT CERTIFICATIONS

Product certifications that allow the sale of products on various markets in compliance with the regulations in force in each country are kept regularly up to date. The main product certifications secured by the Pirelli Group concern the EMEA and NAF-

TA markets and Brazil, Argentina, Uruguay, China, India, Indonesia and involve all Pirelli plants. These certifications call for annual audits by ministerial institutions of the country in question or by organisations delegated by state institutions, which verify compliance of the product at the certified plant.

FOCUS ON HUMAN HEALTH AND THE ENVIRONMENT

All raw materials and auxiliary products used at Group operating units are carefully analysed before they can be used. The purpose is to identify any criticalities that substances or compounds might pose, thereby posing a risk for human health and/or the environment.

This approach is followed in all countries in which Pirelli operates, taking account not only of the requirements imposed by European regulations concerning the management of hazardous substances, but also of currently available worldwide know-how (specifications, databases, etc.). Monitoring also proceeds on producers and suppliers of the raw materials utilized by the Group, especially in relation to the processes of registration of such substances, for which producers/distributors/importers are responsible and in compliance with the matters envisaged by the EC "REACH" directive 1907/2006.

PRODUCT SAFETY, PERFORMANCE AND ECO-SUSTAINABILITY

Pirelli focuses its activities of research and development on the creation of products that improve safety and simultaneously reduce environmental impact, in compliance with its green performance business philosophy and product range. Road safety, together with the reduction of harmful emissions, is one of the pivotal points of Pirelli's strategy for increasingly sustainable mobility on which the industrial and commercial strategies are based. Research has made it possible to develop materials that are ecological while also assuring unbeatable performance in terms of safety. From Scorpion Verde, the first eco high-performance tyre for SUVs and crossover vehicles, to the Cinturato P1, a high-tech green tyre for small and medium-size cars, and the PZero Silver, an Ultra High Performance tyre derived

from Formula 1. Pirelli completed its tyres range by developing the new Cinturato P7 Blue, which in certain sizes carries the first AA grade in terms of braking distance in wet conditions and rolling resistance. The range also includes the Cyber Tyre, a further evolution in terms of safety thanks to its ability to “read” the road surface by means of an integral chip that transmits important safety information to the driver. Also in the Truck sector Pirelli has developed Cyber Fleet, a system that uses an electronic sensor and telematic tracking to provide truckers and fleet managers with real time information concerning the condition of tyres. In the drive to optimize fleet management costs, increase safety and reduce environmental impact, Cyber Fleet allows fleets to maximize the benefits offered by the energy efficiency and *wet grip* classes shown on the European label, which refer to tyres when maintained at the correct inflation pressure.

Safe, high performance tyres, produced also using raw material of vegetable origin: Pirelli’s Brazilian plants are already producing rubbers made with silica extracted from rice husks, an inedible and renewable substance that is not subtracted from the food chain. The use of husk derived silica concerns both high performance products and also low rolling resistance tyres – the product line that reduces fuel consumption thanks to reduced heating of the rubber in contact with the road. In general, the use of silica in tyres impacts road safety because it provides better wet grip and guarantees high performance levels. Rice husk silica makes it possible to produce tyres that are more environmentally friendly: extraction of the silica from the waste vegetable matter is achieved using less fossil fuel energy, resulting in clear environmental and cost benefits in a global ecological approach from the production chain through to the finished product.

Pirelli also collaborates closely with automakers in the Ultra High Performance market segment, in which special attention is devoted to safety and performance. Constant improvements of key performance parameters, such as dry and wet braking, make it possible to offer customers products at the top of their class in terms of road safety. There are tyres that are essentially designed to combine safety and innovation, such as Self-Supporting or Run Flat versions that guarantee mobility and control even in the case of a sudden pressure loss.

For more details about of the eco-sustainability of products please refer to Chapter 3 Environmental Dimension in this report.

ROAD SAFETY CULTURE AND INTERNATIONAL INITIATIVES

Pirelli is strongly committed to the diffusion of a culture of road safety, providing an active contribution to the global Decade of Action for Road Safety 2011-2020 plan sponsored by the United Nations and the World Health Organization. Pirelli is also highly focused on the road accident reduction objectives identified by the European Commission in the European Road Safety Charter, to which the company is a signatory.

According to research conducted by the World Health Organization, each year some 1.3 million people lose their lives in road accidents worldwide. In the absence of preventive actions, the figure is expected to rise to 1.9 million in 2020. Road accidents are the main cause of death in the 15 to 29 age group. This statistic must also be considered alongside road accident injuries, estimated at between 20 and 50 million a year, with a social and economic impact that is between 1 and 3% of GDP in some countries.

Genuinely sustainable mobility can be pursued when products that are safe for persons and the environment are accompanied by responsible and aware conduct by consumers. For Pirelli, working to disseminate road safety is an issue of substantial social responsibility.

Pirelli’s commitment to road safety is pursued through a large number of training and information activities combined with the Group’s core commitment to research and the continual application of innovative technological solutions designed to promote sustainable mobility.

Safety was among the central themes of Pirelli’s first “Sustainability Day”, an international conference held in 2012 that was addressed by representatives of institutions, as-

sociations, and the worlds of academia and business: in addition to Minister Corrado Clini the speakers included Antonio Tajani, Vice President of the European Commission, responsible for Industry and Entrepreneurship, Peter Bakker, President of the World Business Council for Sustainable Development (WBCSD), Nikhil Chandavarkar, head of Communication, Sustainable Development division, United Nations Department of Economic and Social Affairs, Carlo Fidanza, member of the European Parliament Transport and Tourism Commission, Toby Webb, founder and President of Ethical Corporation and Jeremy Rifkin, President of the Foundation on Economic Trends.

The initiative followed an important agreement, stipulated in Italy a few months beforehand between Pirelli, the Ministry for the Interior and the Ministry of Education, Universities and Research to identify and support combined projects and initiatives designed, through information and training campaigns, to raise awareness of road safety issues among Italian drivers and especially newly qualified drivers and pupils of middle and upper schools. A road safety training video was created within the project in collaboration with the Italian State Police department.

The training programmes on the role of tyres developed in liaison with driving schools in various European countries constitute one of the Company's main activities in relation to safety. In this context, activities include the "Safety First" project launched in Germany, which is one of the most intensive due to the participation of 51 driving schools nationwide that were provided with exhibition material and information kits by Pirelli. The training and awareness raising courses in Italy were addressed also to our most loyal dealers, for whom specific communication campaigns were promoted – for example the

Driver dealer Safety Campaign – and information and promotional materials were distributed widely, notably concerning correct replacement of tyres (e.g. the importance of or legal requirement to fit winter tyres in certain months or when temperatures fall below 7 °C).

In 2012 the first "Truck Safety Day" organized by Pirelli was held in Livigno. This event was promoted in the awareness that, even though there is no European regulation that distinguishes between specialized winter tyres and M+S tyres, it is important to guide users towards the use of the most suitable and safe product also in winter conditions. Participants at the event held in the Livigno Ice Drome (80, including dealers, fleet managers and journalists from Italy, Germany, Austria and Switzerland) watched various tests comparing winter W:01 and summer H88 tyres that showed the better performance of winter models on packed snow surfaces. Since safety is also a matter of correctly executed maintenance, Pirelli presented CyberTM Fleet, a system that uses a sensor incorporated in the tyres to monitor pressure constantly and inform the driver of any anomalies.

Another event held in 2012 in Italy was "Safety Day on Track" hosted by Metzeler, with the participation of 100 bikers, aimed at introducing novice motorcyclists to track riding.

In Turkey Pirelli is launching an extensive educational project at the university level in collaboration with the local World Health Organisation office, the Director General for Safety, and the universities, in order to create e-learning courses on road safety. The "Traffic Safety 101" course for university credits will last 14 weeks and will be accompanied by practical lessons with cars, tyres and instructors provided by Pirelli and by our partner Doğu Otomotiv Trafik Hayattır (Traffic is Life!). The initiative is part of the UN "Decade of Road Safety" programme managed by the WHO.

During the three-year period 2013-2015 all the countries in which Pirelli is present, especially developing countries, will host national campaigns aimed at raising individual awareness of the value of safety for themselves and for society.

2.5 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”.

(The Values and Ethical Code – Suppliers and Outside Workers)

“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. Pirelli Group activities are governed by the Code of Ethics approved by the Board of Directors and comply with the Sustainability Model envisaged in the United Nations Global Compact that was signed in 2004. The Group’s sustainable development strategies pursue various objectives, including continuous improvement in the environmental and occupational health and safety conditions affected by its own activities, in firm compliance with and support of the “Universal Declaration of Human Rights,” the “International Labour Organization’s Declaration on Fundamental Principles and Rights at Work,” the “Rio Declaration on Environment and Development” and the “United Nations Convention against Corruption”.

To these ends, the Pirelli Group is committed to: [...]

- establishing and maintaining appropriate procedures to evaluate and select suppliers and subcontractors based on their commitments to social and environmental accountability; [...]
- (Pirelli Policy “Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment”)

The Pirelli Group considers: [...]

- strategic co-operation with suppliers [...] to be basic and general elements in defining its own strategies and objectives, in view of obtaining evermore competitiveness on the global market on a long-lasting and sustainable basis.

The following tools are key to supporting implementation of this Policy: [...]

- the adoption of measures to assess and monitor Supplier performance from the selection phase on, in terms of competitive advantage, qualitative performance, possibility of shared strategic development, their economic, social and environmental sustainability and in their relationship with the Group. [...]
- (Pirelli Quality Policy)

“These principles have become an integral part of the Group Sustainability Policies according to which Pirelli undertakes, inter alia, to assess and reduce the environmental impact of its own activities and products throughout their life cycle, as well as to use materials and natural resources responsibly, with a view to contributing to sustainable growth for the environment and future generations. [...] Pirelli seeks further to reduce the company’s environmental footprint related to the sourcing of materials, products and services. [...] Pirelli aims to maximize the benefits of this Green Sourcing policy by encouraging its Suppliers to apply it to their own sourcing process and throughout their own supply chain. [...]

(Pirelli Green Sourcing Policy)

Sustainable management is fully integrated in relations between Pirelli and its suppliers. In the light of continual improvement Pirelli has developed the procedures needed to assess and select suppliers and sub-suppliers on the basis of their commitment in terms of economic, social and environmental responsibility.

The model of sustainable management of the supply chain was assessed by a third party utilising a high level audit method, in accordance with the AA1000 Assurance Standard (2008) in both 2009 and 2011.

SUPPLY CHAIN SUSTAINABLE MANAGEMENT SYSTEM

Starting from the supplier selection stage, the social, environmental and ethical responsibility of the business are assessed together with the quality of economics and of the product or service to be supplied. Potential suppliers seeking approval in the Pirelli register must use the Pirelli portal dedicated to this procedure. On logging onto the portal potential suppliers must first answer a pre-assessment questionnaire that addresses elements of economic, social and environmental sustainability. Filling out the questionnaire is one of the essential conditions required

for qualification. The rating relative to ESG elements (Environment, Social, Governance) has an incidence of 33% in the final rating of candidate suppliers. The portal has also been designed to support the realisation of communication, awareness raising and training campaigns for suppliers, for which sustainability is an essential element, with special reference to aspects of social and environmental responsibility. With regard to the contractual stage, from 2008 the sustainability clauses have been introduced systematically in contracts and orders for the purchase of goods and/or services and/or works, both with private suppliers and with the Public Administration (or institutes/enterprises under public control) or NGOs, worldwide. In 2012 the clauses were improved in the drive to achieve greater syntactical simplicity, although while maintaining the pivotal elements of social and environmental responsibility and business ethics currently present, and also the facility for verification by Pirelli by means of audits.

In particular, the clauses:

- call for awareness, on the part of our suppliers, of the principles, commitments and values set down in the Pirelli sustainability documents, namely “The Values and Ethical Code”, the “Code of Conduct”, and the “Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment”, published and accessible on the Web, which enshrine the principles on the basis of which Pirelli manages its activities and contractual or non-contractual relations with third parties;
- require that Suppliers confirm their commitment to:
 - ■ not using or supporting the use of child labour and forced labour;
 - ■ ensuring equal opportunities and freedom of association, promoting the development of each individual;

- ■ opposing the use of corporal punishment, mental and physical coercion, and verbal abuse;
- ■ compliance with the laws and industry standards concerning working hours and ensure that wages are sufficient to cover the basic needs of personnel;
- ■ establishing and maintaining the necessary procedures to evaluate and select suppliers and sub-suppliers on the basis of their commitments to social and environmental responsibility;
- ■ not tolerating any type or bribery in any form or manner and in any legal jurisdiction, even where such practices are effectively permitted, tolerated, or not subject to prosecution;
- ■ assessing and reducing the environmental impact of their own products and services throughout their entire life cycle;
- ■ using resources responsibly with the aim of achieving sustainable development in compliance with the principles of respect for the environment and the rights of future generations;
- ■ imposing the foregoing principles, values and policies on any subcontractors and sub-suppliers, regularly monitoring the effective respect of this obligation.

On the basis of these sustainability clauses Pirelli is entitled to conduct audits at any time it deems fit, either directly or through third parties, to assess the supplier's effective compliance with the obligations it has assumed (a more detailed examination is given further ahead in this heading).

The sustainability clauses have been translated into 24 languages in order to ensure the utmost clarity and transparency for suppliers in terms of the contractual obligations they enter into not just in their relations with the company but also at their own facility and in their relations with their own suppliers.

To provide the maximum guarantee, the Group's suppliers are provided with the Whistleblowing Procedure (ethics@pirelli.com), expressly indicated in the clauses and available to report, in the utmost confidentiality, any violation or suspected violation they become aware of in relations with Pirelli and with reference to the contents of the “Values and Ethical Code”, “Lines of Conduct” and the “Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment” of the Group. With reference to the number of concerns raised by Group suppliers using the whistleblow-

ing procedure, we confirm that at the time of writing none have been received. It is not objectively possible to confirm with absolute certainty that no whistleblowing reports were received from suppliers because several concerns were raised anonymously, as specified in the heading “Group Whistleblowing Procedure” in the first chapter of this report.

In addition, each purchase contract gives the name of the reference buyer so that the counterparty always has access to a company channel to use to transmit any feedback. Monitoring of the supplier is performed through the Vendor Rating procedure, aimed at defining the quality level of supplies, the quality of the commercial relationship, the technical-scientific collaboration and performance in relation to safety in the workplace, the environment, and social responsibility by means of on-site audits and periodic monitoring of the state of completion of the actions set down in any improvement plans signed with the supplier. The results of the Vendor Rating are reviewed periodically and commented on by the Purchasing Department at the time of meetings organized with the suppliers, in order to identify any corrective or performance improvement actions required. The Vendor Rating covers all the goods and geographical purchasing areas and utilized as an integral part of commercial negotiations.

The suppliers sustainability audit activity is discussed in a heading further ahead in this chapter, to which we invite you to refer for further details.

In the aim to achieve shared development, interaction with suppliers is subject to continual improvements of the process in both qualitative and instrumental terms. The Group Purchases Portal, which is complete with purchasing standards and procedures, ensures uniformity of the process and a guarantee of transparency, in

addition to functioning as a communication, continuous training and *knowledge sharing* tool. The new version of the portal, the implementation of which started in 2011, was made fully operative over all industrial units in 2012, thus constituting the reference platform for both Group suppliers and for company purchasing managers.

The portal allows the maximum level of information sharing among the various countries in which the Group operates and tracks the alignment of suppliers with the Group Sustainability Model, starting from the approval stage and proceeding up to the uploading of the implementation status of any recovery plans agreed between Pirelli and its suppliers resulting from third party audits into the sustainability of the supplier in question.

GREEN SOURCING POLICY

In December 2012 Pirelli issued the Green Sourcing Policy with the aim of further stimulating and incentivising an environmental conscience throughout the entire chain of supply and promoting strategies capable of reducing environmental impact of the activities of procurement of Pirelli goods and services.

Specific internal guidelines for implementation of the principles dictated by the Policy will be drafted within 2013 on the basis of internationally recognized measurement metrics and standards and, where this was not possible, through the definition of internal indicators.

The contents of the Green Policy are discussed in depth in the third chapter of this report, to which we invite you to refer.

TREND OF PURCHASES

The incidence of the Pirelli Tyre core business in relation to Group purchases is 96%.

The following tables show the value of purchases made by Pirelli Tyre and the percentage of the relative suppliers divided by geographical area. From the information it emerges that the value of purchases in OECD areas is approximately the same as the value of purchases in non OECD areas, while the number of suppliers is slightly higher in OECD areas.

Note that 78%¹ (vs 76% in 2011) of suppliers operate locally with respect to the supplied Pirelli Tyre affiliates, in accordance with a “local for local” supply logic.

¹ This classification does not include raw materials suppliers.

PERCENTAGE VALUE OF PIRELLI TYRE PURCHASING BY GEOGRAPHICAL AREA

		2012	2011	2010
OECD Countries	Europe	42.70%	43.20%	50.00%
	North America	2.70%	2.60%	2.40%
	Others	2.60%	1.30%	2.50%
Non-OECD Countries	Latin America	26.80%	27.00%	18.20%
	Asia	15.50%	18.90%	20.80%
	Africa	1.00%	1.00%	1.50%
	Others	8.70%	6.10%	4.60%

PERCENTAGE OF PIRELLI TYRE SUPPLIERS BY GEOGRAPHICAL AREA

		2012	2011	2010
OECD Countries	Europe	51.60%	59.20%	58.70%
	North America	3.60%	3.30%	3.20%
	Others	1.90%	0.30%	0.20%
Non-OECD Countries	Latin America	30.10%	25.50%	26.70%
	Asia	4.50%	5.20%	4.70%
	Africa	2.10%	1.20%	3.00%
	Others	6.20%	5.30%	3.50%

The following table shows a breakdown of the percentage value of Pirelli Tyre purchases by type. It emerges that the largest and most significant purchasing category concerns raw materials, with an incidence on total purchases in 2012 of 58.40%, substantially in line with the figure for 2011 and higher than in 2010 due to the increase in prices that characterized evolution in 2011 compared to 2010.

For details on the 2012 trend of raw materials prices refer to the chapter “Commodities” – Volume Y of Annual Financial Report at December 31, 2012.

PERCENTAGE VALUE OF PIRELLI TYRE PURCHASES BY TYPE

	2012	2011	2010
Raw materials	58.40%	58.50%	55.40%
Supplies	4.40%	4.60%	4.60%
Services	26.50%	23.80%	28.70%
Capital goods	10.80%	13.10%	11.40%

With reference to the percentages of Pirelli Tyre suppliers by type and number as at the following table, already from 2010 the consumables and services suppliers categorisation criteria had been defined. The sum of the number of operators in the two categories remains in excess of 80% of the total, even though the incidence on total purchases is significantly lower than, for example, that of raw material purchases. The fragmentation of consumables and services suppliers is clearly visible compared to the substantial concentration of raw materials purchases over a small number of operators.

PERCENTAGE OF PIRELLI TYRE SUPPLIERS BY TYPE AND NUMBER

	2012	2011	2010
Raw materials	3.00%	2.80%	3.00%
Supplies	38.90%	40.50%	38.90%
Services	46.10%	46.20%	47.30%
Capital goods	12.00%	10.50%	10.80%

Finally, the following table shows the percentage breakdown by value of the mix of raw materials purchased by Pirelli Tyre in 2012, 2011 and 2010. With respect to 2011, in 2012 we see an increase in the incidence of synthetic rubber, chemicals and textiles versus a reduction of natural rubber due to the general price of rubber and the production mix. The volume of raw materials utilized for the production of tyres in 2012 amounted to approximately one million tonnes, of which approximately 6% derived from recycled materials with respect to the 7% of 2011 and approximately 6% in 2010. The 1% reduction in 2012 with respect to 2011 is due to two factors: a slightly different production mix in 2012 compared to 2011, and lower production in the Truck segment, which therefore used a smaller percentage of recycled steel.

PURCHASED RAW MATERIALS BY VALUE

	2012	2011	2010
Natural rubber	26%	35%	33%
Synthetic rubber	31%	27%	24%
Carbon Black	12%	11%	11%
Chemicals	14%	12%	14%
Textiles	10%	8%	10%
Steel cord	7%	7%	8%

TRAINING ON SUSTAINABILITY ISSUES

In 2012 Pirelli organized a series of training sessions for strategic suppliers. The sessions concerned aspects of occupational law, human rights, environmental respect and business ethics, which form the basis for the Pirelli policies detailed in the sustainability clauses.

Training involved 100% of the suppliers identified as strategic further to the 2012 Risk Assessment, from Italy, Germany, UK, Romania, Turkey, US, Brazil, Chile, Singapore, China, Thailand, Indonesia and Malaysia. The training sessions were conducted in English and envisaged an obligatory test, in the form of self-assessment, aimed at establishing and monitoring the effectiveness of the training action.

2012 SUPPLIER AWARD

The first edition of the Supplier Award was held in the Pirelli headquarters in Bicocca in the presence of the Chairman and CEO and the Purchasing Manager. Pirelli rewarded 9 suppliers that excelled in 2011 in terms of quality level, innovation, rapidity, sustainable performance, global presence, price, and level of assistance and service. The award instigated by Pirelli will be assigned every year to suppliers of excellence and it is aimed at achieving constant improvement of relations with partners in the outlook of shared development.

2012 SUPPLIER CONVENTION

The 2012 annual Supplier Convention was held in China.

The Asia Pacific Supplier Convention was attended by 260 suppliers, most of whom from Asian countries, who were presented with Pirelli's plans of growth towards Global Premium Leadership, achievable thanks also to the substantive quality of suppliers viewed globally and hence including the relative social, environmental and ethical profile, apart from the purely economic aspect.

Sustainability was therefore addressed in a specific session in which Pirelli shared the Company's sustainable growth plans with its suppliers, the role of suppliers and the expectations in relation to them.

ENGAGEMENT

Pirelli reduced its environmental impact associated with transportation of raw materials by optimizing packaging. The improvements were obtained by switching from classic packaging that can be handled by human resources to dedicated packaging that reduces the use of plastics and personnel for loading/unloading and the relative risk of accidents, and that guarantees improvements in terms of logistics and the reduction of emissions thanks to the smaller number of vehicles utilized for transport.

INDEPENDENT AUDITS OF VENDOR SUSTAINABILITY

With reference to the audit into the ethical, social and environmental sustainability of Pirelli suppliers, as planned also in relation to the sustainability clauses included in all purchase contracts, the Company commissions third party audits to be conducted by primary specialized companies. Special attention was devoted to the sustainability of suppliers working in the so-called countries at risk (from the EIRIS definition "Countries of Concern").

On the central level a team composed of the Group Sustainability and Purchasing Departments defines the Guidelines for the selection of suppliers to be audited, supporting the corresponding local functions that manage the process on an operational level. The Purchasing and Sustainability managers who coordinate the supplier auditing activity locally are suitably trained and sensitized in relation to the subject and method of auditing by the central functions in charge, namely Sustainability and the Purchasing Department.

The external auditors perform their work on the basis of a checklist of sustainability parameters taken from standard SA8000® (the reference instrument officially adopted by the Group for management of social responsibility since 2004), from the Pirelli Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment, and from the Group Ethical Code.

The third party audits, each of which proceeds for at least three days in the field, include extensive activities of interviews conducted with workers, management and trade union representatives.

Starting in 2012, the process of monitoring the status of implementation of suppliers' recovery plans saw the direct

involvement of the Pirelli Internal Audit function, which has marked connotations of independence because, apart from reporting to the Board of Statutory Auditors, it also reports to the Internal Control, Risks and Corporate Governance Committee of Pirelli & C. S.p.A., composed exclusively of Independent Directors.

72 audits were carried out between the end of 2009 and the start of 2010, a further 56 were conducted between the end of 2010 and the start of 2011 and in the second half of 2012 some 62 new audits on suppliers of raw materials, machinery, logistics and services were started. In the majority of cases the audits involved suppliers of Pirelli Tyre operating in countries of concern, namely Brazil, Argentina, Egypt, China, Romania, Turkey, and Venezuela, or countries from which Pirelli purchases raw materials, such as Indonesia, India, Malaysia, Thailand, Japan, Russia and Korea. Among the Western countries in which Pirelli conducts its business audits were carried out on Pirelli Tyre suppliers in Italy, UK, Germany, the Netherlands and the US.

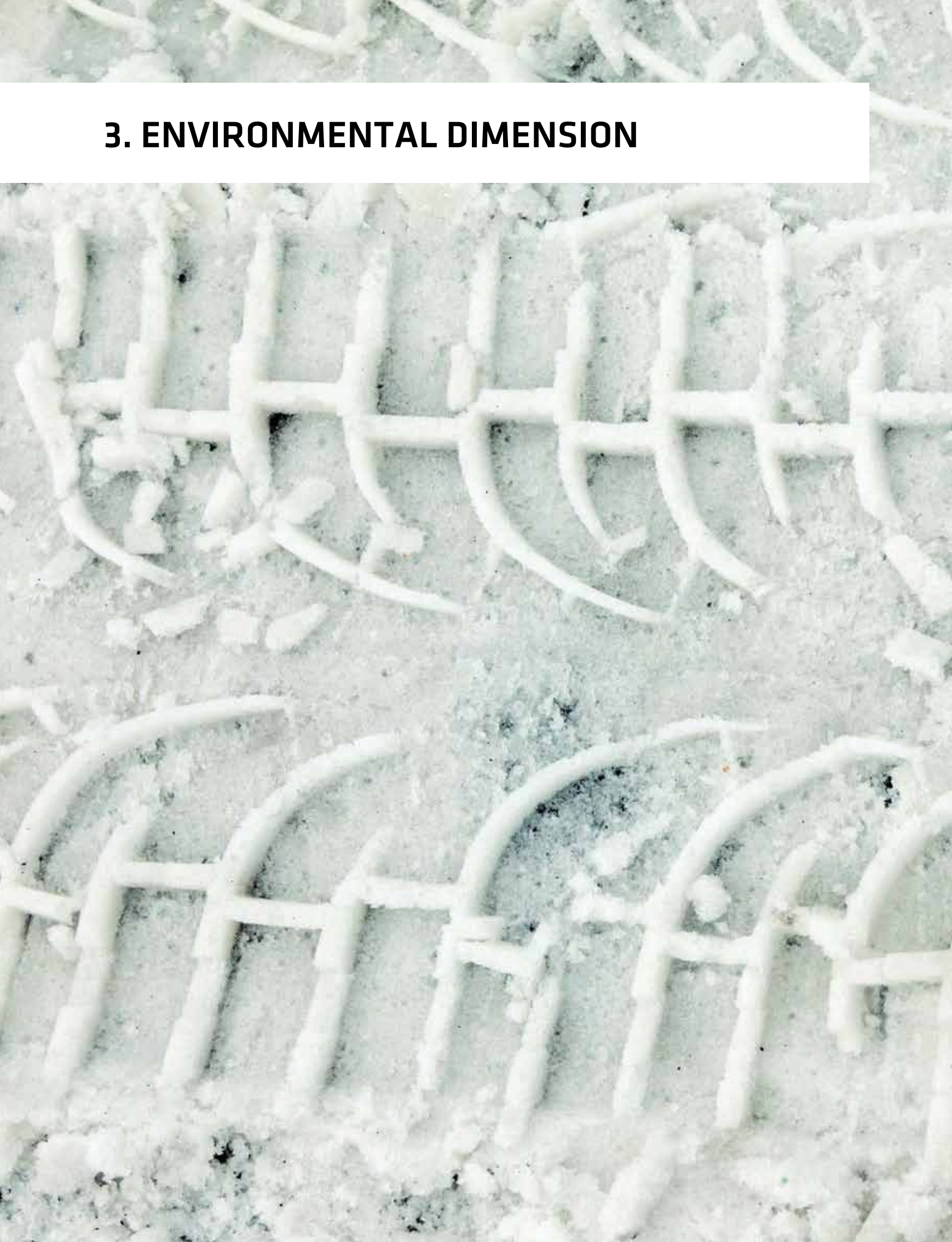
In response to recorded nonconformities a series of recovery plans were drawn up directly with suppliers to define the necessary adjustment measures, clear responsibilities and time horizons within which the recovery actions are to be performed. Following the latest audits (2012 second half) the recovery plans, the majority of which concerned the refinement of workers' health and safety plans, have either already been completed in some cases or in other cases will be fully implemented by the end of spring 2013.

The management model adopted is proving to be a clear win-win both for Pirelli and for the suppliers in question, in a vision of substantial shared growth in which collaboration produces benefits for all.

2013 TARGETS

- Green Sourcing Policy: definition and implementation of the operational guidelines.
- “Sustainability” Training of Suppliers: the next session will involve security service suppliers.
- New audits on Suppliers identified on the basis of the 2013 Risk Assessment, *follow-up* of the previously completed audits.
- Supplier Awards 2013: once again this year Pirelli will reward suppliers that have excelled during 2012 in terms of quality level, innovation, rapidity, sustainability, global presence, price, level of assistance and service.

3. ENVIRONMENTAL DIMENSION





3. ENVIRONMENTAL DIMENSION

“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.”

(The Values and the Ethical Code – Environment)

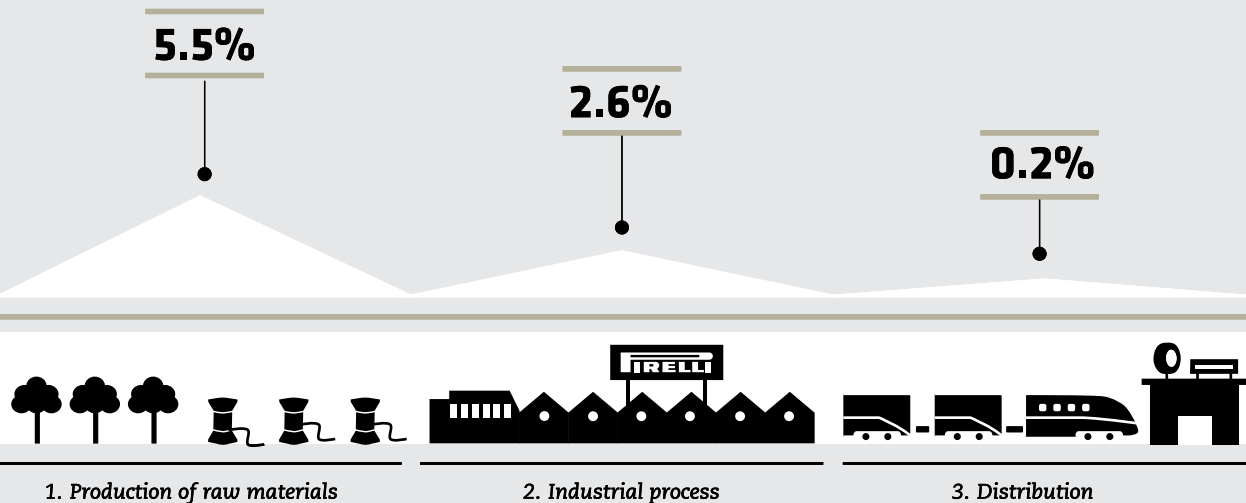
The Pirelli approach to sustainable environmental management is set forth in accordance with the Sustainability System envisaged in the United Nations Global Compact, signed in 2004, and pursuant to the “Rio Declaration on Environment and Development.”

The above principles are illustrated in the Group Occupational Health, Safety, Rights, Environment and Social Responsibility Policy, according to which Pirelli undertakes to:

- manage its environmental activities in compliance with the highest international standards;
- communicate and provide material information to internal and external stakeholders;
- promote use of the most advanced technologies to achieve excellence in environmental protection;
- assess and reduce the environmental impact of its own products and services throughout their entire life cycle;
- use material resources responsibly, in view of achieving sustainable growth that respects the environment and the rights of future generations;
- establish and maintain appropriate procedures to evaluate and select suppliers and subcontractors on the basis of their commitment to environmental accountability.

In its Group Quality Policy, Pirelli specifies that continuous innovation, product excellence and safety, and environ-

**PERCENTAGE RATE OF THE GLOBAL WARMING POTENTIAL
FOR EVERY PHASE OF LIFE OF THE CINTURATO P7**



mental protection throughout the product life cycle represent one of the principal sources of sustainable competitiveness on the global market.

In view of reinforcing the principles listed above, in 2012 Pirelli issued a new document, the "Green Sourcing Policy." Through the adoption of this policy, all Group employees undertake to consider environmental aspects in all of their design choices and sourcing of goods and services.

The documents cited above have been distributed to all employees in their local languages and are published in the Sustainability section of the Pirelli website, and not just in the languages spoken by employees but also in those that are most representative of the panel of suppliers.

3.1 PRODUCT FIRST: THE APPROACH AND PREMIUM STRATEGY OF PIRELLI

The heart of Pirelli operating strategy is its product. So, the product is the focal point for all Group activities, including its environmental commitments. The Product First strategy dovetails perfectly with the Premium strategy that has been pursued for years by Pirelli, and the fusion of the two concepts is the natural evolution of a Company that aims to distinguish itself by the quality of its product.

In environmental terms, focusing on the tyre means integrating one's point of view with all possible interactions between the product and the ecosystem. From this perspective, the claim that "you can only manage what you can measure" is exact. Awareness of its own environmental impact was the leitmotiv for all Group activities in 2012, the year when plunging demand in the automotive market impacted classic environmental indicators, which are weighted by production volumes.

Using concrete, reliable and replicable tools, Pirelli studies the interactions between its own products and the various environmental media throughout all phases of their life cycle.

89.5%

2.2%



4. Use

5. End of life

- > Recovery of material
- > Recovery of energy
- > Landfill

The Life Cycle Assessment method is capable of assessing strategic decisions as objectively as possible. It has thus been adopted in full and used as the basis for the Group's calculations. The series of environmental interactions identified with this method facilitates optimal Group decision-making, guiding it to make the best choices for reducing its overall environmental impact according to the individual impact that each of its actions might have. This method gives exact measurements, rendering the Life Cycle Assessment an integral part of our product design and creation process.

For example, the following infographic shows the potential impact on global warming by the Cinturato P7, one of the Group's most representative products. We see how the weight of each individual phase is profoundly different. In particular, the use phase is by far the most significant. This sort of analysis justifies and corroborates the focus dedicated by Pirelli to research and development of tyres with ever-lower rolling resistance, which is the feature that determines the weight of this phase.

The information given in the section "Process environmental sustainability", as required by the applicable reporting standards, refers instead to the processing phase, which is the second step illustrated in the infographic. Therefore, the slowdown in improvement of the related indices, due to the previously mentioned market trends that are explained in detail in another dedicated section, should thus be considered in the context of the entire life cycle of a tyre, as well as in the context of the huge progress already made in the most impacting of the life phases.

3.2 THE NEW GREEN SOURCING POLICY

Pirelli drafted and issued its Green Sourcing Policy in December 2012.

This document, signed by the Chairman, aims to stimulate and encourage environmental awareness throughout the supply chain, and to promote changes that can reduce the environmental footprint related to the sourcing of materials, products and services by Pirelli.

The targets of this document are not only Group buyers but all Group employees who are authorised to outsource materials, products or services.

The document strongly urges everyone to broaden their perspective as much as possible on the basis of a method that is summed up by "Reduction, Reuse and Recover", and analysis of all the possibilities for reducing their associated environmental impact throughout the entire supply chain. This is why the term "*sourcing*" is preferred to "purchasing." The policy highlights the active role taken by Pirelli in the supply chain, and thus including what is conceived and designed internally before being outsourced.

The Green Sourcing Policy has been defined in extremely pragmatic terms that deliberately avoid any generalisations. Thus, it uses key words such as:

- "life cycle" – which is the only approach taken by the Group so that it may decide on the basis of complete and inclusive analyses;
- "reduction, reuse and recover" – which are the macro-categories that determine how the impact of a product or service is reduced.

The Policy establishes the fundamental principles of Green Sourcing, whereby specific operating guidelines are drafted for implementation. These guidelines will use metrics, including internationally recognised measurement standards whenever possible. If that is not possible, internal indicators will be defined. All this for monitoring the effective level of implementation of the policy. In particular, the Group is in the process of identifying the sourcing areas for which common requirements to reduce environmental impact may be established. Interdepartmental working groups will be set up to carry out this project, coordinated by the Procurement, Quality and Sustainability Departments, and possibly with the direct participation of representative outsourcers. Pirelli aims to issue these guidelines by the end of 2013.



Green Sourcing Policy

December 2012

The Pirelli approach to environmental management is set forth in accordance with the United Nations Global Compact, of which Pirelli has been an active member since 2004, and pursuant to the "Rio Declaration on Environment and Development".

These principles have become an integral part of the Group Sustainability Policies¹ according to which Pirelli undertakes, inter alia, to assess and reduce the environmental impact of its own activities and products throughout their life cycle, as well as to use materials and natural resources responsibly, with a view to contributing to sustainable growth for the environment and future generations.

With this *Green Sourcing*² Policy, Pirelli seeks further to reduce the company's environmental footprint related to the sourcing of materials, products and services.

Pirelli aims to buy materials, products and services whose environmental footprint can be proved to have a lower impact than the equivalent market average, considering all phases of the life cycle of any sourced material and focusing in particular on end-of-life management, in accordance with the *Zero Waste to Landfill* philosophy.

This policy will be implemented by means of specific internal operating guidelines for each sourcing and purchasing area.

The concepts of *Reduction*, *Reuse* and *Recovery* are integrated in the Pirelli Sourcing Model for materials, products and services, including the design of what is conceived in-house but outsourced for manufacturing.

Pirelli aims to maximize the benefits of this *Green Sourcing* policy by encouraging its Suppliers to apply it to their own sourcing process and throughout their own supply chain.

This policy is published and distributed to all Pirelli Affiliates in their local language.

THE CHAIRMAN

Marco Tronchetti Provera

¹ Group Sustainability Policies refer to: *The Values and Ethical Code*, *Social Responsibility Policy for Occupational Health, Safety and Rights*, *Environment*, and the *Quality Policy*.

² By "*Green Sourcing*", Pirelli means the practice of sourcing products and services that are conceived, made and used with a lower impact on natural resources than the equivalent market average.

3.3 PRODUCT ENVIRONMENTAL SUSTAINABILITY

In designing its tyres, Pirelli draws on forty years of experience in the Premium segment, original equipment partnerships with leading prestige car makers, and a specific budget dedicated to research and development of this segment. Pirelli research centres are staffed by over 1,200 full-time researchers. This number is doubled if the persons participating in *open innovation* projects with external entities are counted. Pirelli formally collaborates with 14 university research institutes and numerous outsourcers around the world, and also has over one hundred partnerships with Premium car makers. More than 150 research projects on materials, processes and software are currently under way with these partners. Formula 1 represents another important source of innovation, driving research on model prototypes, compounds and processes, and contributing experience and know-how that can be transferred to highway models.

Pirelli Premium products – including the famous Green Performance product family – are characterised by their high safety performance and their reduced environmental impact.

This involves creating products that are Safe for People, Safe for the Planet, on the basis of an innovative approach that affects all phases of the tyre life cycle, particularly in regard to:

- research and development of environmentally innovative materials;
- reduction in tyre weight;
- definition of forecasting models for tyre-vehicle interaction that are essential to designing ever-better products;
- development of innovative production technologies where efficiency plays a key role;

- creation of devices that help drivers use tyres so that they can fully exploit their potential and reduce their environmental impact;
- identification and realisation of methods for reuse of materials derived from end-of-life tyres (ELT).

RESEARCH AND DEVELOPMENT OF RAW MATERIALS

The research and development of innovative materials are key to the design and fabrication of ever-more sustainable tyres that guarantee reduced environmental impact, greater driving safety and improved production efficiency. For this purpose, Pirelli has entered several Joint Development Agreements, such as the study of new polymers for rolling resistance, performance in low temperature conditions, durability and grip.

In accordance with the *Open Innovation* Model, Pirelli works with universities to develop a natural rubber obtained from sources other than the rubber tree. Research is aimed at diversifying the potential supply sources, thereby reducing pressure on the biodiversity of producer countries and allowing the company to manage the potential scarcity of raw materials more flexibly.

Studies are also under way on a new technology for selective de-vulcanization to recycle the materials resulting from end-of-life tyres. This would significantly reduce tyre production costs and environmental impact.

Pirelli Research & Development also focuses on:

- biomaterials, such as silica from renewable sources;
- high-dispersion silica for wet grip, rolling resistance and durability;
- high-performance carbon black derived from racing competition applications for extreme grip;
- *nano-fillers* for more stable compounds, lighter structures and highly impermeable liners;
- new silanes to guarantee performance stability and processability.

SILICA FROM RICE HUSKS

Silica is used in tyres to reduce rolling resistance, improving vehicle efficiency without reducing its road hold, especially under wet conditions.

In its research on ever-more sustainable materials, Pirelli has concentrated on this raw material by seeking an alternative source for traditional processing methods. The Group has developed a process at its plant in Santa Catarina, a renowned rice producing centre in southern Brazil, which can extract silica from rice husks.

Rice husks are the external shell of the rice grain. Rice husks account for 20% of the weight of raw rice, and represent the principal scrap material of rice processing. Given the volume of global rice production, rice husks are available in huge quantities in many areas of the world.

Rice husks already have many applications that are more or less sophisticated: from bedding for livestock to organic fertilizer, to solid fuel for electric power generation. In fact, rice husks have a significant energy content, amounting to 14 MJ/kg. However, it is not yet appreciated in less developed areas of the world, and is burned in the field without exploiting its potential.

Aside from its interesting level of energy content, rice husks have another exploitable property, represented by its high silica content, which accounts for about 18% of its weight.

In the traditional process, silica is made with a chemical process where crystalline silica, typically sand, is dissolved in a solution of water and caustic soda (NaOH). The result of this first step in the process is sodium silicate. Then an acid is added (typically sulphuric acid) to obtain silica precipitate as the principal product and sodium sulphate as the by-product. The reaction of crystalline silica with caustic soda requires a huge amount of thermal energy.



But when rice husks are burned, the resulting ash is composed of non-crystalline silica that has a maximum residual carbon content of 8%. Compared with crystalline silica, this silica requires much less energy in the initial reaction. It is easy to imagine that this biomass may thus constitute an ideal raw material for the production of silica precipitate. All the thermal energy necessary for production can be generated if the rice husks are burned in the right way, and, at the same time, the non-crystalline silica reacts at far lower temperatures than in the traditional method. Since the production process is thermally self-sufficient, the production of silica from rice husks not only allows energy recovery but also a significant reduction in CO₂ emissions, precisely because all the necessary thermal energy is derived from the combustion of renewable biomass. As illustrated in the “Greenhouse gas emissions” section, this activity has been included in a research project conducted in collaboration with the Italian Ministry of Environment. The *carbon footprint* of this new technology as compared with traditional technology will be reported in 2013.

The production of silica from rice husks by Pirelli stands as a clear example of how innovations in the area of materials can contribute both to the exploitation of by-products that would otherwise be only partially reused, and the eco-

sustainability of production processes. All of these benefits are accompanied by economic advantages that can be immediately related to the efficiency of the process. This project was also reported in one of the most prestigious newspapers in the world, *The Economist*, at the beginning of 2013. In an article dedicated to Pirelli, this periodical mentioned the environmental benefits resulting from use of a substance obtained from renewable sources.

Thirty per cent of the silica used by Pirelli in Latin America will be derived from vegetal sources by 2015.

PRODUCT AND USE PHASE

The decision to focus on the Premium segment forces Pirelli to develop and introduce increasingly sophisticated products on the market in a macroeconomic scenario that is undergoing constant, rapid evolution.

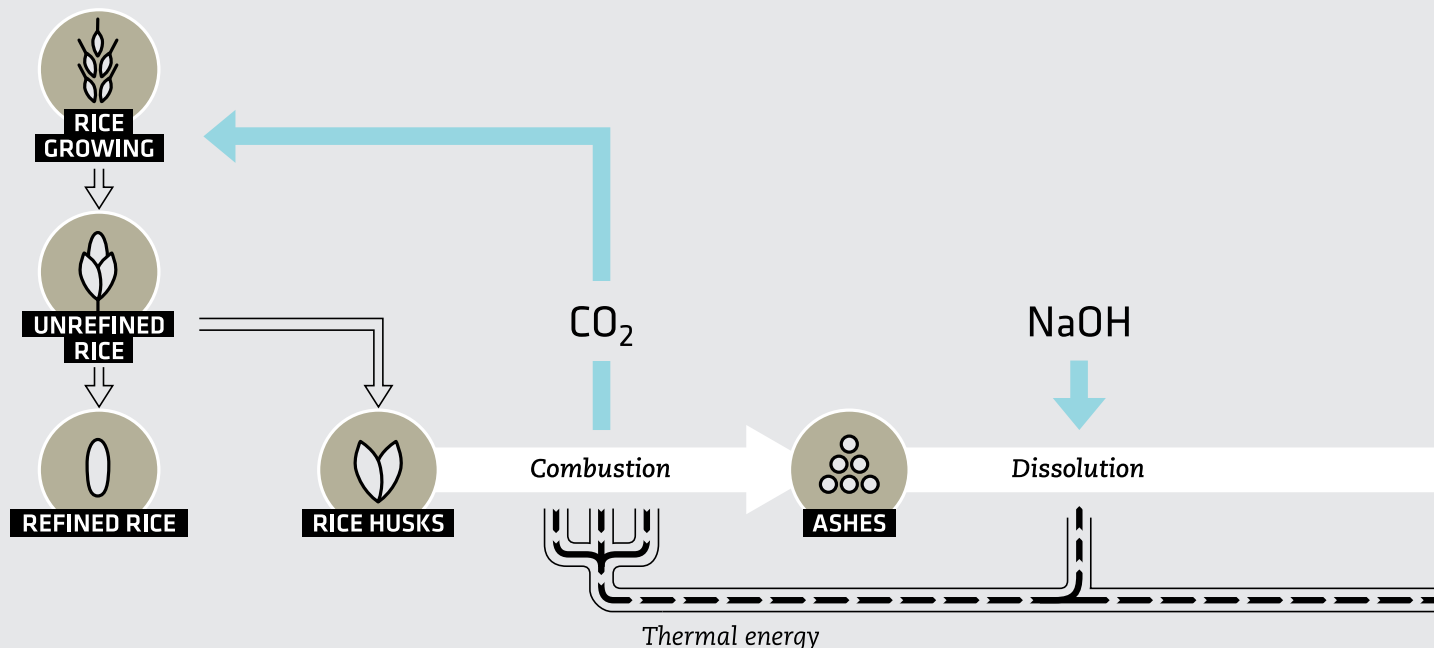
The major corporate investment in research and development on ever-more innovative compounds, structures and tread patterns allows Pirelli products to achieve extremely high performance in terms of braking under dry and wet conditions and, at the same time, improved environmental performance:

- less rolling resistance – lower CO₂ emissions;
- less noise – reduced noise pollution;
- greater mileage – longer tyre life;
- improved retreadability – less waste to be disposed of;
- reduced weight – less use of raw materials and lower impact on natural resources.

These are the characteristics of Pirelli Green Performance tyres.

As previously mentioned in the Customers section of this report, the European Union replacement tyre labelling regulations came into force in 2012. This regulation re-

SILICA FROM RICE HUSKS



quires that tyre makers apply a label (the “Eurolabel”) informing consumers about key product characteristics, such as rolling resistance (an indicator of energy efficiency), *wet grip* (a safety indicator) and external rolling noise (environmental impact indicator). Energy efficiency and safety are ranked by classes that run from “A” to “G”, while external noise is measured in decibels and is shown with the sound wave symbol. The Eurolabel is applied to car tyres (C1) and light and heavy commercial vehicle tyres (C2 and C3).

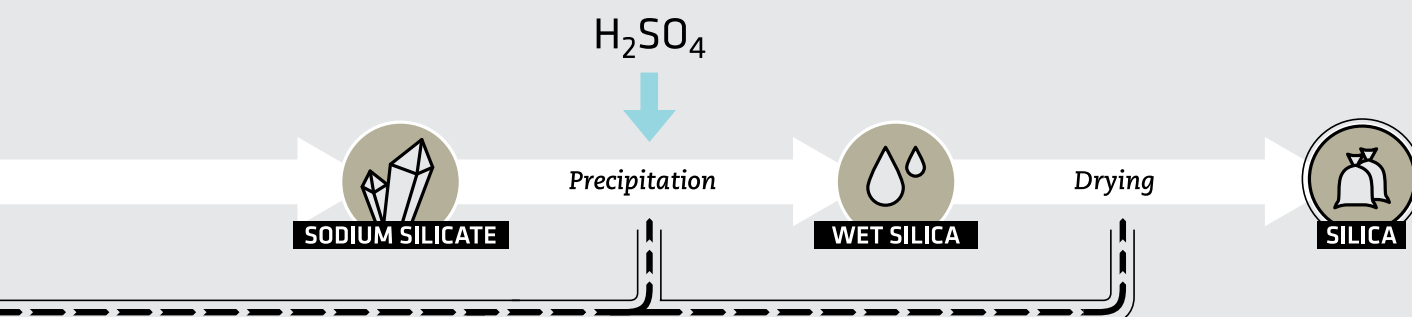
CAR TYRES

Two new major products were launched in 2012: the Cinturato P7 Blue and the Scorpion Winter.

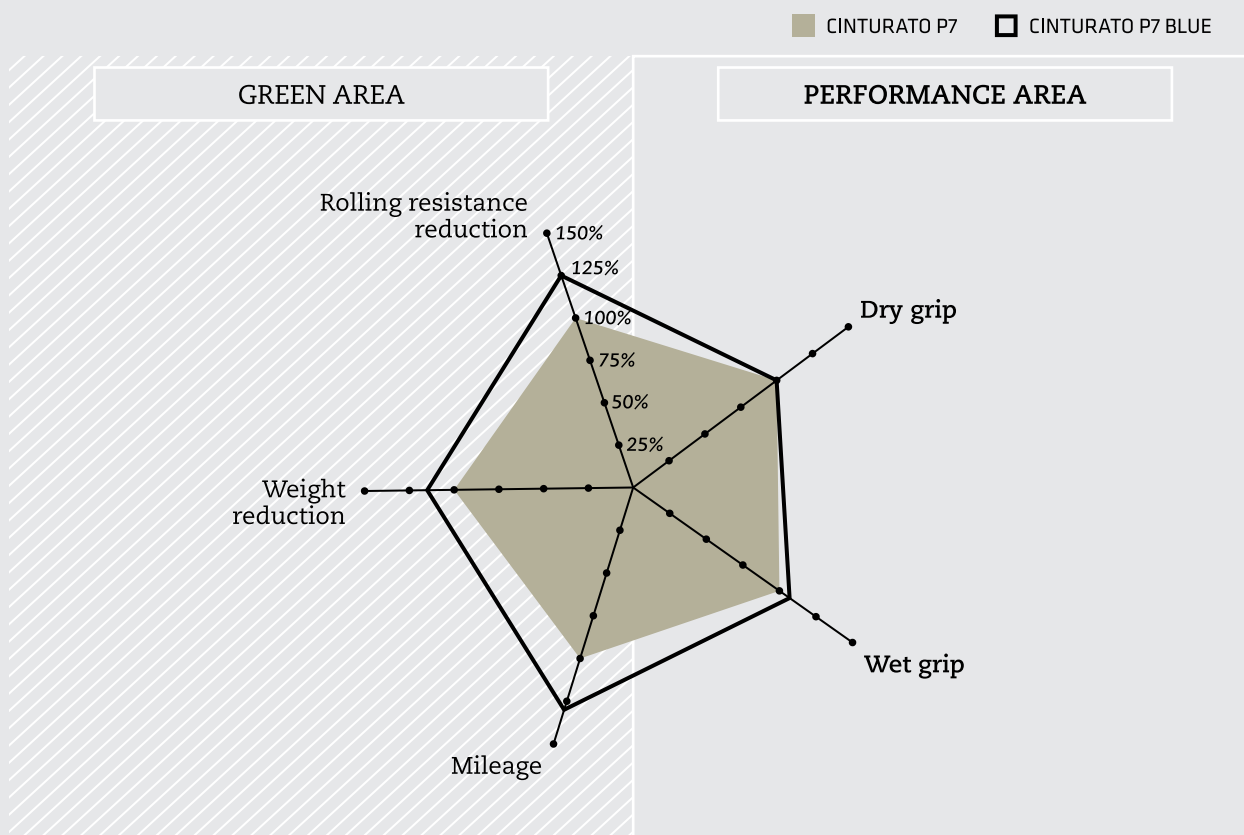
With the P7 Blue, Pirelli has been the first tyre maker in the world to offer a tyre carrying a double A rating for certain sizes on the Eurolabel scale. According to its size, this tyre is sold either with a double A class rating or a class B rating for *rolling resistance*, while all sizes have an A rating for *wet grip*. On average, the Cinturato P7 Blue guarantees:

- 23% less *rolling resistance* compared with the Pirelli benchmark (class C rolling resistance), and thus lower fuel consumption and carbon emissions. Here is a concrete example: a P7 Blue equipped sedan that is driven 15,000 km a year consumes 5.1% less fuel, equal to 52 litres of fuel, and reduces greenhouse gas emissions by 123.5 kilograms of CO₂;
- 9% shorter braking distance on wet pavement compared with the Pirelli benchmark (class B for *wet grip*) in the same segment. Moreover, the comparative tests performed by TÜV SÜD show that, at a speed of 80 km/h on a wet road, P7 Blue shortens braking distance by 2.6 metres compared with a class B tyre.

The Cinturato P7 Blue has been developed for medium-



CINTURATO P7 Blue



high powered cars, as the next stage in evolutionary development of the Cinturato P7, the most famous Pirelli Green Performance tyre originally introduced in 2009. The Cinturato line had to evolve to meet growing car owner demands for safety and cost-saving performance. The P7 Blue is sold only on the replacement market, unlike the Cinturato P7, which is sold mainly through the original equipment channel. This latter model has taken just a few years to become the benchmark tyre for the most prestigious car makers in the sedan, coupé and medium-high powered sedan segments.

Developed in collaboration with the world's leading car makers, the Scorpion Winter is dedicated instead to top performing,

late generation SUV and Crossover models. This segment is constantly expanding, with tyre sales consequently expected to grow by 34% over the next few years.

Development of the Scorpion Winter is the fruit of three years of research and 300,000 kilometres of tests between Sweden and Spain, at temperatures ranging from -32°C at Artic Falls to 8°C at Idiada.

Scorpion Winter has been designed to equip modern SUV and Crossover models with a special focus on the high-end segment. It makes an important contribution to driving safety and guarantees maximum stability and control on snow, wet and dry roads at low temperatures, and low noise and rolling resistance.

According to the tests conducted by TÜV SÜD Automotive (report no. 76247759PQ-01), Scorpion Winter was ranked the best in terms of braking, handling, noise and traction on snow, and equal or better than average for the other performance parameters as compared with its leading competitors.

MOTORCYCLE TYRES

Pirelli confirms its competitive advantage in terms of performance and safety on the motorcycle tyre market, characteristics that have made our Company the best tyre maker in this segment.

However, by anticipating market demand, Pirelli is also focusing its research on the environmental performance of its motorcycle tyres, by equipping the innovative BMW C Evolution electric scooter presented at the 2012 London Olympic Games.

This new scooter tyre is called Feelgreen and sold under the Metzeler brand, which is owned by Pirelli. Metzeler engineers worked to reduce its weight by 13% and its rolling resistance by about 25% as compared with the Diablo Scooter (equivalent to the Metzeler Feelfree), which was the previous generation of tyre. However, the driving performance of the Feelgreen maintains the characteristic elements for which this brand's products are famous: fast *warm-up* and handling, which are essential for city driving conditions.

Feelgreen was designed with the support of the FEA (Finite Elements Analysis) technique, and features a high silica content compound, new tread design and new profile that were specifically designed to reduce rolling resistance.

Current plans call for the Metzeler Feelgreen to be sold beginning in 2014 as original equipment on the BMW C Evolution scooter, as well as replacement equipment.



TRUCK TYRES

The R&D objective for the Truck Business Unit is to strike the greatest possible balance amongst the top characteristics of a tyre: performance, safety and respect for the environment. In other words this involves reducing its overall environmental impact while remaining focused on improving the product's performance.

From the design stage on, Pirelli takes account of all product use conditions, including abnormal ones. This permits the development of tyres that do not stop at "compliance with legal regulations," but have all the characteristics necessary to guarantee complete safety, both for the customer and for the environment, in accordance with the highest Pirelli product standards.

Numerous eco-compatibility features characterise the new generations of Pirelli truck tyres, beginning with the reduction in weight that in turn reduces both the quantity of raw materials used and energy needed to produce them. Furthermore the reusable materials that are employed and their durability are reflected in the duration of the "first life" of the tyre and the number of times that the same casing can be used for retreading the tyre.

Serie 01 is the Green Performance range of tyres for indus-

trial vehicles, launched by Pirelli in 2009. All Serie 01 tyres share the latest generation SATT™ structure, the most advanced one used to make truck tyres, which lies at the basis of longer product life, high retreadability, extremely regular wear and tear and more careful driving. Compounds and tread patterns are designed and optimised according to the performance requested for different uses.

All Serie 01 lines feature the Ecoimpact mark which translates into:

- high durability and uniform wear of tyre treads, achieved by using high specific yield compounds, of the new TWST structure together with an optimised profile assure even wear and tear of the entire tyre tread surface;
- low rolling resistance (already in com-

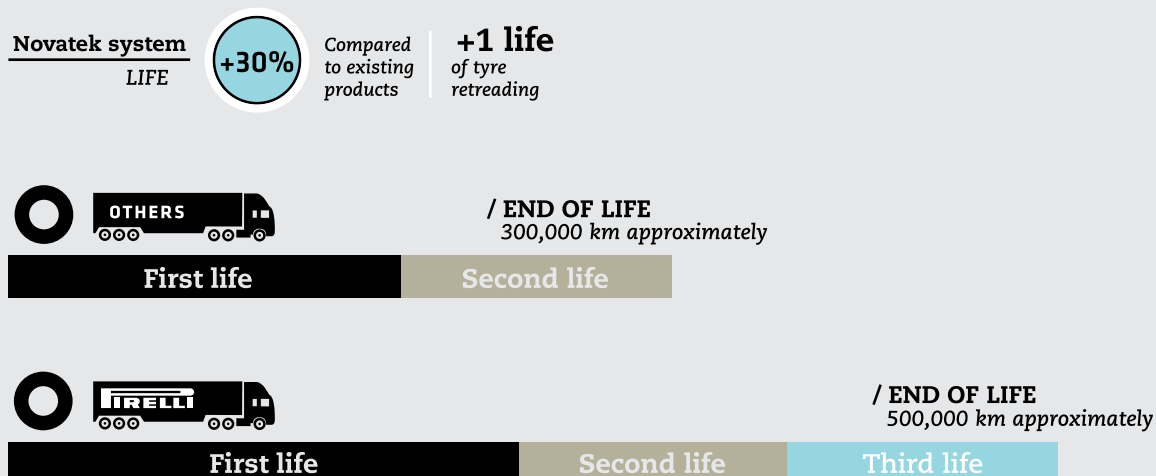
pliance with 2016 regulatory limits) and consequent reduction in fuel consumption and CO₂ emissions;

- high retreadability, construed as the greater residual durability at the end of the tyre's first life thanks to the new TWST structure combined with compounds having low hysteresis (i.e. generating less heat), with the hexagonal flush ring and reinforced bead;
- low noise, construed as silence and driving comfort, in line with European noise abatement regulations.

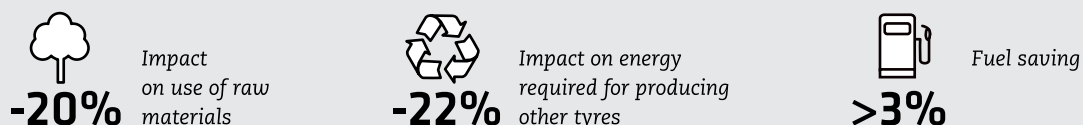
Outstanding among the 2012 products is the new ST01 Neverending Energy. Developed specifically for equipping trailers and semi-trailers, ST:01 Neverending Energy is the first truck range to be awarded the double class "A" of the European label, both for rolling resistance and grip on wet roads. Like all the new Pirelli product groups, ST:01 Neverending Energy also aims at maximum fuel consumption efficiency. There are considerable benefits for the fleet, considering that, in a vehicle made up of a tractor and semi-trailer, the tyres fitted on the latter have 50% impact on the rolling re-

MILEAGE OF A TRUCK TYRE

ENVIRONMENTAL IMPACT



SERIE 01 ENERGY SAVING / COMPARED TO EXISTING PRODUCTS



sistance generated by the all the tyres.

The ST:01 Neverending Energy line combines safety with energy saving (generating lower emissions), maintaining high performances in terms of mileage and durability, typical of a truck tyre.

The benefits of the ST:01 Neverending Energy line are provided thanks to:

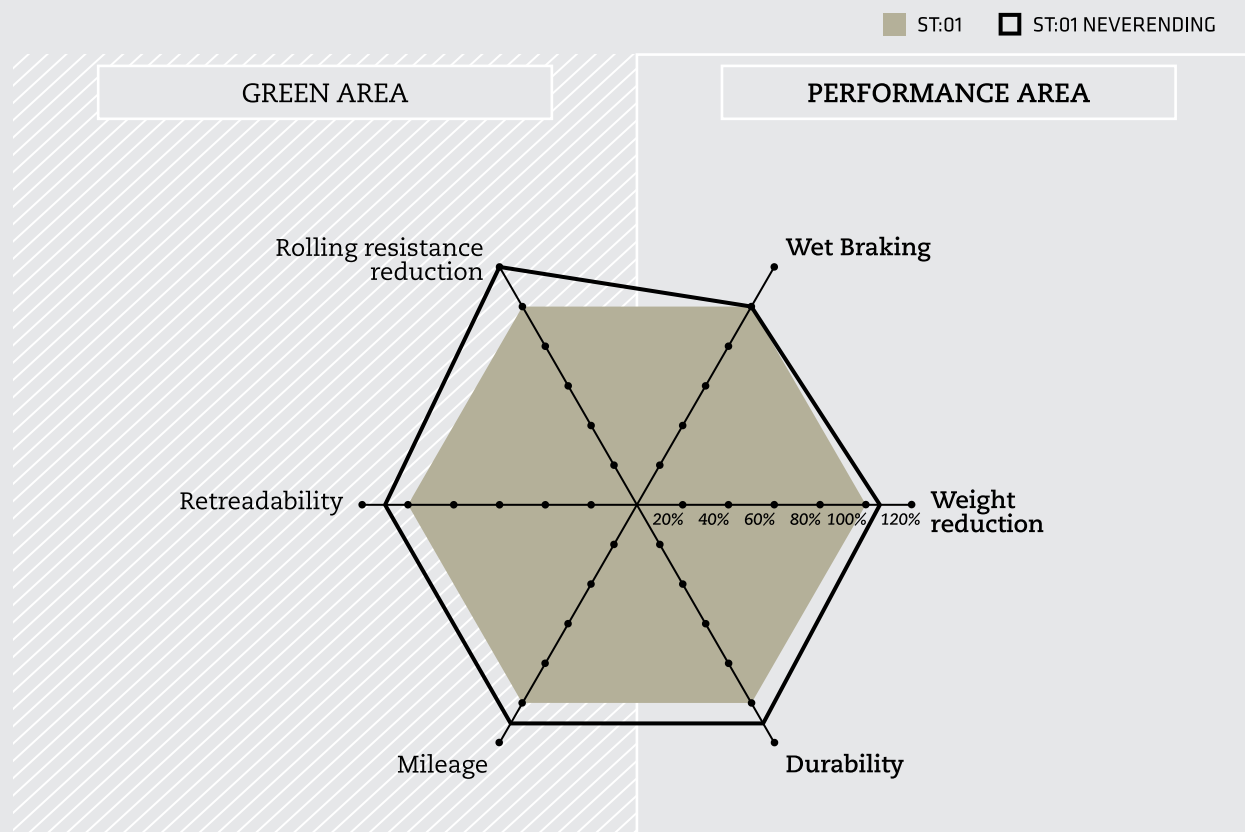
- an innovative tread pattern;
- a tread compound with dual-layer technology with high silica content which reduces heat generation and, therefore, rolling resistance, as well as ensuring improved resistance to tearing and higher mileage;
- a new profile and different shape of the sidewalls and bead.

CYBER™ TYRE

The integration of electronics in tyres is one of the cornerstones of Pirelli's Premium innovation strategy, aimed at guaranteeing continuous monitoring of key physical parameters, particularly tyre pressure. The use of tyres whose pressure is 20% less than its recommended pressure may result in up to 3% higher fuel consumption, with a correspondingly greater environmental impact in terms of CO₂ emissions.

National Transportation Safety Board studies have shown that for every 20 kPa of under inflation, there is an average increase in fuel consumption of 1%. Furthermore, tyre pressure that is 20% below what it should be causes irregular wear on the tyre tread and consequently increases wear and tear by 25%, which translates into a 30% reduction in the lifetime of the tyre.

ST:01 NEVERENDING ENERGY





Pirelli can offer its customers a family of Cyber products for monitoring tyres:

- CyberFleet™, Tyre Pressure Monitoring System (TPMS) for truck use;
- TMS (tyre mounted system), also a tyre pressure monitoring system, but this time for cars;
- Cyber™ Tyre, system of monitoring the tyre dynamics, used initially for cars, able to interact in real time with the systems for controlling vehicle dynamics, benefiting driving safety, performance and fuel consumption.

In particular the CyberFleet™ technology, already available on the Brazilian market for end users (fleets of trucks, buses and dealers) since the end of last year, by means of an electronic sensor embedded

in the tyre enables dialogue with the fleet management centre, reporting tyre pressure and temperature in real time. The new system is designed to keep tyres under continuous control by measuring any faults to assure proper maintenance. This leads to a significant reduction in the environmental impact from tyre use, by lengthening their useful life and limiting fuel consumption, as well as strong impact in terms of fleet safety.

TMS technology for car applications (for which agreements are in existence for *original equipment* supply from 2016) is presented as a *high-performance* solution of the TPMS already widely used on cars in the US, able to integrate additional functions such as the RFID (i.e. an electronic tag) for identification of the tyre in use and the vertical static load, a fundamental addition to the TPMS function for indicating proper inflation of the tyres according to the load level of the vehicle.

The Pirelli Cyber™ Tyre system, at an advanced stage of development and testing with some prestige and Premium car manufacturers, represents the technological *breakthrough* able to move the road grip and driving safety performance limits considerably forwards thanks to the ability of the sensor to transmit to the vehicle data and information in real time, updated at every wheel turn, until now only estimated indirectly and inaccurately. The Cyber™ Tyre technology was developed entirely at Pirelli, from the electronics, the heart of the system, to the algorithms for extraction of parameters, the basis for creating new vehicle control systems.

END-OF-LIFE MANAGEMENT OF TYRES

About 1.5 billion tyres are sold every year worldwide (IRSG Report 2010), and they naturally become end-of-life tyres. In 2011 about 2.9 million tonnes were produced in Europe; in 2007 about 4.6 million tonnes were produced in the United States, and about 800 thousand tonnes 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 extremely positive results possible. In Europe, 95% of end-of-life tyres (ELT) were recycled in 2011. In the United States, nearly 90% of ELT were recycled, while the corresponding amount for Japan is slightly higher (ETRMA ELT 2011 figures).

The Pirelli Group has dedicated for years research into the

management of ELTs, through research and innovation at Pirelli Labs, and in collaboration with leading industry institutions inside and outside Italy. Pirelli is in fact active in the Tyre Industry Project (TIPG) of the World Business Council for Sustainable Development (WBCSD), in the ELTs (end of life tyres) working group of ETRMA (European Tyres and Rubber Manufacturers' Association) and, at national and local level, it interacts directly with leading organisations 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 proactive 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 launched successfully.

PRODUCTS THAT CAN BE OBTAINED FROM RECYCLING ELTS

Tyres are a mix of numerous materials that influences how they are recovered:

- material recycling: 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;
- energy recovery: due to the high caloric content of ELTs, which exceeds that of coal, used as fuel in thermoelectric plants and in the furnaces 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.

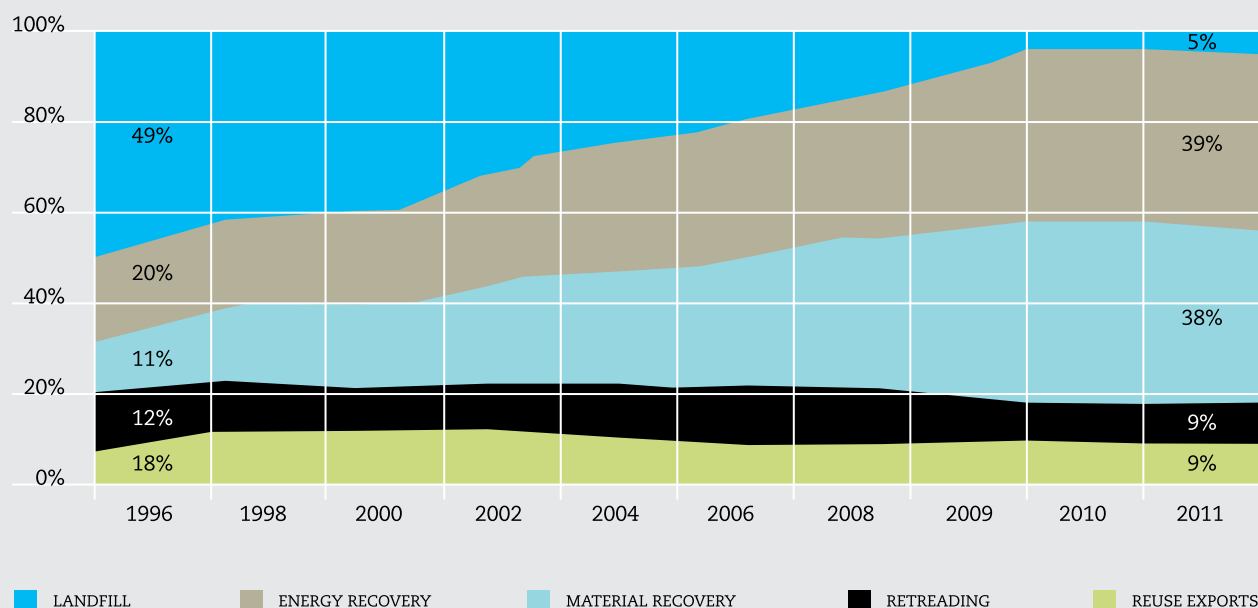
END-OF-LIFE TYRES AND CRADLE-TO-CRADLE APPROACH

In 2012 the partnership continued between Pirelli and the Danish company Genan, a leader in the industrial raw material recycling sector, for the development of new technologies in the tyre production materials field.

The aim of this agreement is joint development of a process

TREND IN DISPOSAL OF END-OF-LIFE TYRES

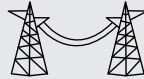
Source: ETRMA ELT 2011



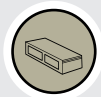
RECOVERY OF A TYRE AT END OF LIFE

1

Energy Recovery



TYRES ARE USED AS FUEL THANKS TO EASY COMBUSTION AND HIGH HEAT VALUE



Cement works



Thermal power stations



Paper mills

2

Recovery of Material



TYRES CAN BE BROKEN DOWN INTO THE VARIOUS COMPONENTS (RUBBER, STEEL, TEXTILES) TO OBTAIN NEW MATERIALS WHICH CAN BE USED IN VARIOUS AREAS OF PRODUCTION



Asphalt

Paving with durability,
low noise levels
and braking grip



Sports playing surfaces

Fields of artificial grass,
athletics tracks, surfaces
for riding, paving for
preventing injury



Building

Materials for
sound insulation



Street furniture

Speed bumps, traffic
demarcations, kerbs



Civil engineering

Soundproofing barriers,
anti-erosion barriers,
stabilisation of slopes,
coastal protections, road
drainage and heat
insulating embankments



Miscellaneous manufactured items

Car accessories
and components, straps
and wheels for suitcases,
skates, wheelbarrows



Tyres

As the regenerated
part of the compounds



Stationery

Items of stationery



Footwear

Soles for footwear

96% IS THE PERCENTAGE OF RECOVERY OF TYRES AT END OF LIFE

for producing recycled raw materials, beginning with materials derived from discarded tyres that can replace certain raw materials, including natural rubber.

Recycled rubber has also been reused in tyre compounds. Together with traditional ELT recovery and disposal methods, this contributes to reduction of their environmental impact. Current activities will make it possible to improve their quality, as measured by their affinity to a certain compound, increasing the quantity used in the compound and then a further environmental benefit. All this in addition to a positive drop in the consumption of non-renewable materials.

OTHER BUSINESSES

PIRELLI ENVIRONMENT SERVICES AND PRODUCTS

Pirelli Environment Services and Products business unit operating in the field of sustainable mobility and renewable energy sources. This new unit is the result of merging of the activities of Pirelli EcoTechnology S.p.A. and Pirelli Ambiente S.p.A..

The activities taken over from Pirelli Ambiente offer solutions for sustainable development as part of energy issues. Within this sector Pirelli Environment Services and Products produces CDR-P, a quality fuel derived from solid municipal waste, and electrical energy from wind farms and photovoltaic systems, ensuring 100% green energy for end users.

The activities linked to EcoTechnology instead concern technologies for limiting the emission of pollutants from diesel vehicles and heating systems.

Pirelli has been producing and developing Feelpure™ filtering systems since 2004 as mufflers to substitute the original equipment mufflers on diesel engines. The system is able to reduce the mass of diesel en-

gine PM₁₀ emissions by over 90% and NO₂ emissions from a diesel engine by 50% on average.

Feelpure™ solutions are developed both for original equipment (used on new vehicles) and as retrofit systems for vehicles already on the road, with solutions that are applicable to all diesel EURO0-EURO5 engines operating at any speed.

In early 2013 Pirelli Environment Services and Products and Clean Diesel signed an agreement to set up a joint venture known as Eco Emission Enterprise for the marketing and sale in Europe and CIS countries of devices for emission control.

The two companies aim, through the joint venture, at consolidating their leadership in technologies for the restriction of polluting emissions of light and heavy petrol or diesel vehicles for on and off-road use in the original equipment and after-market segments.

PZERO

With the PZero project Pirelli decided in 2002 to enter the world of industrial design of clothing. The attention and care dedicated to researching cutting-edge materials and technological solutions, both in terms of design and eco-friendliness, represent the Pirelli Premium and Green Performance strategy also within PZero.

FRATERNITY

MY FUTURE WITH PEOPLE THAT RESPECT AND HELP EACH OTHER.
RUMANIANS, BRAZILIANS OR CHRISTIANS.
BUT PEOPLE REMEMBERED BECAUSE OF THEIR DIFFERENCES.
IN THIS WAY WE HAVE ROBERTO THE FRIENDLY GUY WHO COOKS PASTA SO WELL, ALEXA
I IMAGINE MY FUTURE EXACTLY AS MY ERASMUS.
EACH OTHER AND TO HAVE
A PLACE WHERE DIFFERENCES EXIST
TO PROVE THE UNIQUENESS OF EACH PERSON. A PLACE WHERE THE FOCUS IS ON
I IMAGINE A FUTURE WHERE THERE ARE
WHO COME FROM

Y I I M A G I N E

**ACH OTHER. A PLACE WHERE THERE ARE NO ITALIANS,
RISTIANS, BUDDHISTS OR MUSLIMS
SE OF THEIR INDIVIDUAL STORIES.**

NDRU THE OPTIMIST WHO TRAVELS A LOT OR JOSE THE ONE WITH THE BEAUTIFUL SMILE.

A PLACE WHERE PEOPLE ARE WILLING TO KNOW

E A GOOD TIME TOGETHER.

TS BUT THEY ARE IMPORTANT ONLY

IS IS ON WHAT WE HAVE IN COMMON NOT ON WHAT DIFFERENTIATES US.

E NO FOREIGNERS, BUT HUMAN BEINGS

OM FAR AWAY.



*“John, meet Chibuzo.
other, but you share*



DONNELLY

*You don't know each
the same planet."*

3.4 PROCESS ENVIRONMENTAL SUSTAINABILITY

As previously mentioned in the introduction to this section, during the tyre life cycle, approximately 5% of the environmental impact is generated by the “process” phase, i.e. production of the tyre, as opposed to nearly 90% of the impact coming from use of the tyre itself.

The Premium approach that drives development of the company also characterises the approach to process eco-sustainability. Pirelli has set itself challenging objectives to reduce the impact of its own processes on the ecosystem. It announced them to the external community in its Business Plan 2011-2013 with Vision to 2015 and confirming them in the 2012-2014 plan update. The objectives are specified in the following paragraphs and relate to the specific consumption of energy, specific uptake of water, CO₂ emissions, the use of solvents, specific production and recovery of waste.

PROCESS PHASES TO PRODUCE A TYRE

Before describing process performance, the production phases involved in creation of a tyre are described here. There are two principal phases:

- production of the rubber compounds used in the various components of the tyre: tread, sidewalls, liner, bead filler, etc.
- 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), fillers (mainly carbon black and silica) and plasticizers. The sum

of these components represents about 90% of the compounds, with the remaining 10% or so being accounted for by other components with specific functions (e.g. accelerating agents, anti-decomposition agents, vulcanizing agents, etc.).

The plasticizers, carbon black and silica 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 the ingredients from the silos. The lighter ingredients are instead prebatched with the appropriate systems of control.

In a second phase of mixing, special ingredients, such as vulcanizing agents and accelerants, are added. The compound is then unloaded onto an open mixer consisting of two big rollers in order to complete its mixing and optimise its dispersion. Then, the compound sheet is plunged into a vat (“*batchoff*”) for cooling.

At this point, the compound is ready and used to manufacture the tyre tread and/or other components of the tyre. It is then extruded or calendered 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 may be comprised 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).

Other key parts of the tyre are the tread and the sidewall. The first of these performs critical functions, such as stopping on dry and wet surfaces. The second coincides with the zone close to the metal rim. The base of the bead is supported by the ring, comprised of a series of steel wires, which stiffens the part touching the wheel rim.

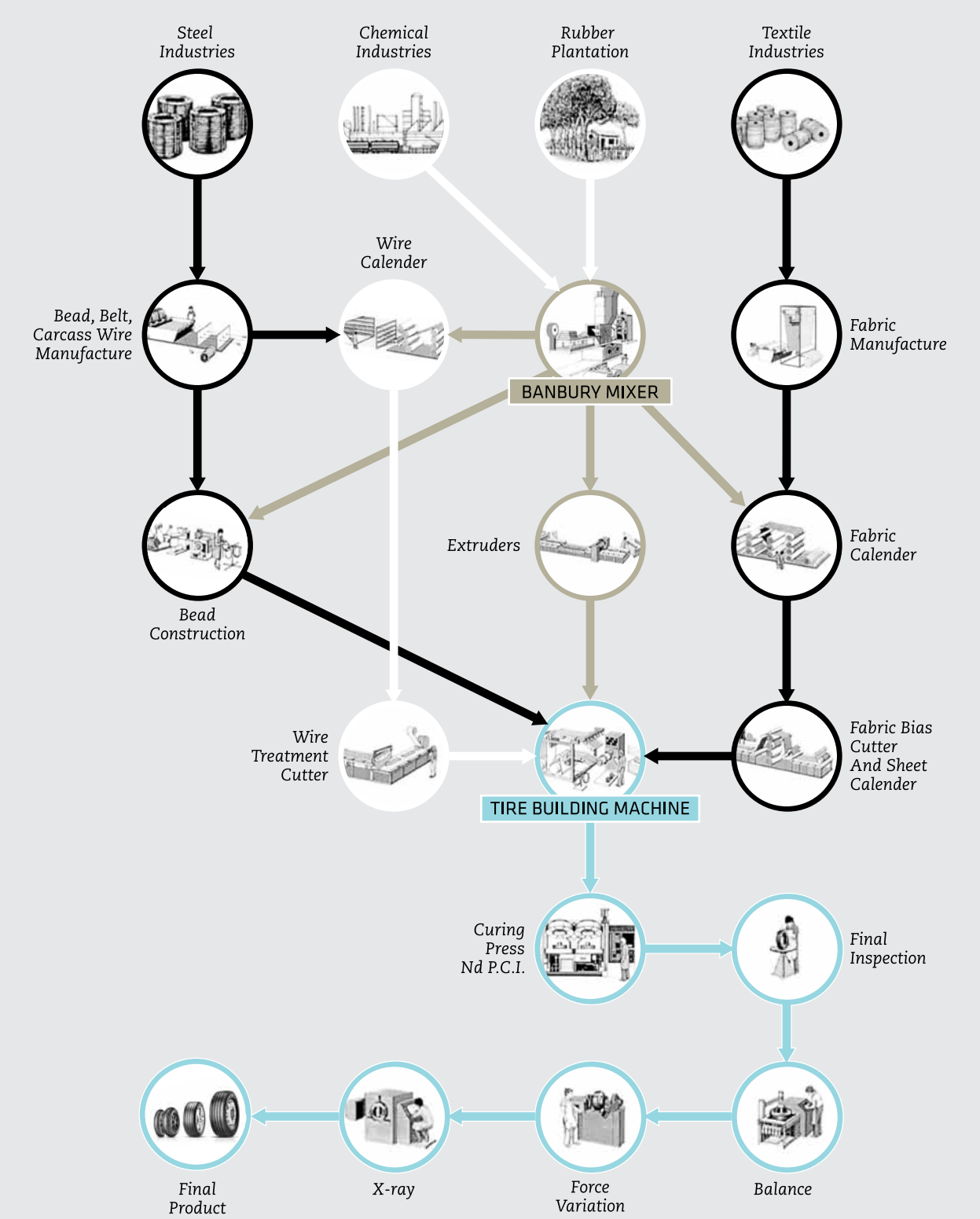
In order to obtain a finished tyre actual assembly has to be carried out of the semi-manufactured products, i.e. the components described thus far (tread, beads, rubberised fabrics, sidewalls, etc.) using manufacturing machinery.

The resulting tyre (called a “raw tyre”) is then sent to be vulcanized, which involves a genuine solid state chemical reaction. After being cooled, the vulcanized tyre is first of all deburred to remove any imperfections that might alter its appearance. Then it undergoes a visual inspection both internal and external which is then followed – in the case of truck tyres – by an X-ray inspection in specially shielded areas.

The uniformity and balancing of the tyres are then checked.

PRODUCTION PROCESS OF A TYRE

SOURCE: SCIENCE AND TECHNOLOGY OF RUBBER, 2nd EDITION, ACADEMIC PRESS



PIRELLI PLANT ENVIRONMENTAL MANAGEMENT SYSTEM AND CERTIFICATIONS

All Pirelli Tyre industrial sites operating at the end of 2012, as well as the Vizzola Ticino tyre test track, are equipped with environmental management systems designed for continuous improvement of their environmental performance, certified in accordance with the international standard ISO 14001. Work of preparation for certification of the environmental management system scheduled for 2013 is in turn underway at the new site in Silao (Mexico).

The international standard ISO 14001 was adopted by Pirelli in 1997, and since 2011 all certificates have been given further SAS international accreditation (the Swiss Accreditation Service that assesses and accredits compliance assessment entities – laboratories, inspection and certification bodies).

New plants are also subject to mandatory implementation and certification to the ISO 14001 standard as Group policy. The activity underlying certification, together with control and maintenance of previously implemented and certified systems, is coordinated on a centralised basis by the Health, Safety and Environment Department.

MONITORING OF ENVIRONMENTAL PERFORMANCE

The environmental, health and safety performance of every tyre business production site is monitored with the web-based Health, Safety and Environment Data Management (HSE-DM) system, which is processed and managed centrally by the Health, Safety and Environment Department. Pirelli has also completed the CSR-DM (CSR Data Management) IT system for managing Group sustainability information, which is used to integrate and consolidate the economic, environmental and social performance of all Group business units worldwide.

Both systems support consolidation of the performance accounted for in this report.

SCOPE OF PERFORMANCE REPORTING

The reported performances cover the three-year period 2010-2011-2012 and the entire scope of Group consolidation, in accordance with what is reported in *Volume Y of the Annual Financial Report at December 31, 2012*.

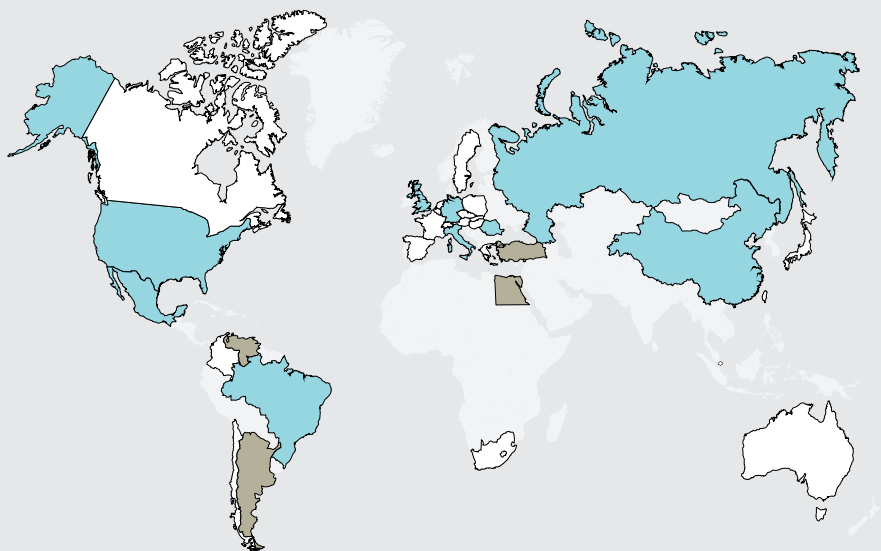
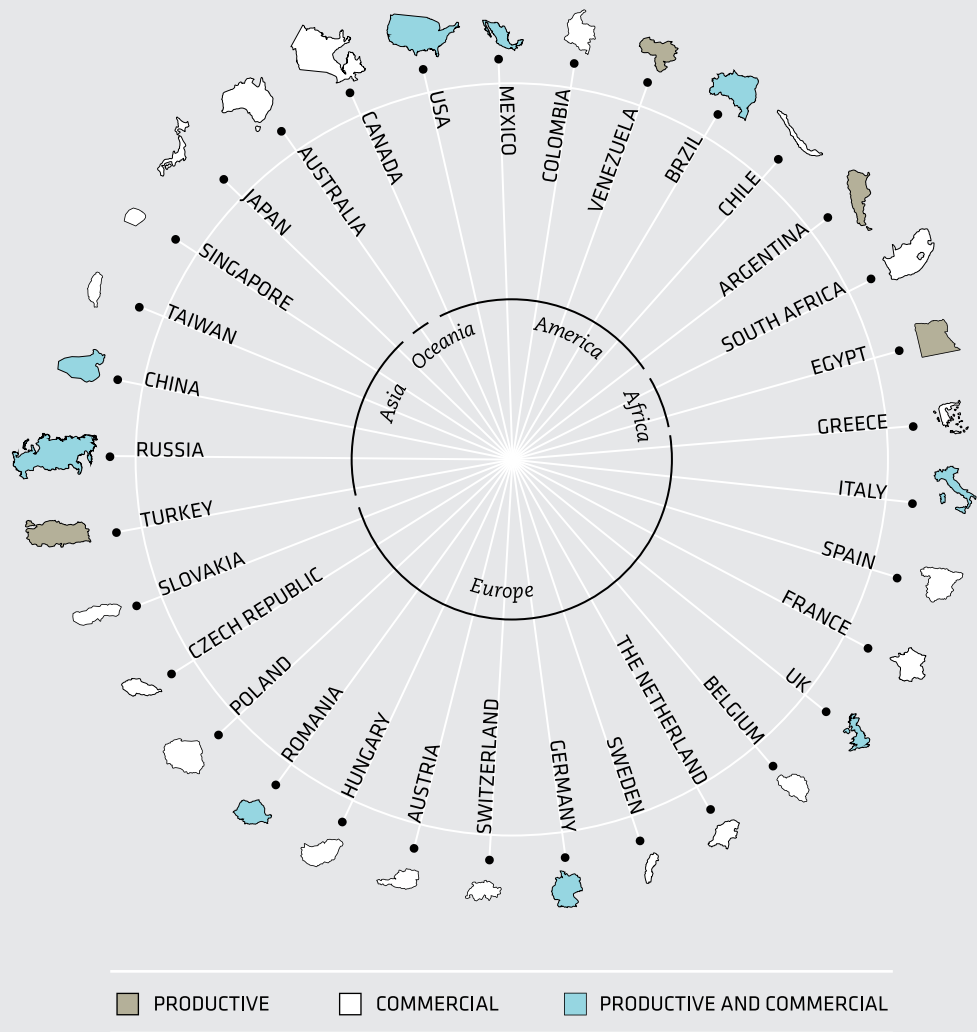
The amount of finished product in 2012 was approximately 980,000 tonnes. This value also includes production by the steel cord business unit for the part sold to customers outside the Pirelli Group. This contribution, albeit marginal, has been included from this year and the past trend was, as a result, subjected to a *restatement*.

The site of Silao (Mexico) and Kirov (Russia) came within the scope of performance reporting in 2012. As far as Silao is concerned the relative impact is reported in the consolidated statements of the Group only from 2012 as this is a so-called greenfield.

The entry of Kirov within this perimeter is instead classed as “acquisition” as this production unit was already in existence. As from 2012 Pirelli was in fact able to start work of modernisation and rationalisation of the Kirov plant in order to bring production efficiency in line with the Pirelli Group standards. In line with the principles stated by the GRI (version G3.1), the historic value of the environmental indicators reported further on was recalculated, integrating the Kirov data in 2011 and 2010, irrespective of the fact that in these two years the plant was not part of Pirelli. This is in order to guarantee comparability of historical data with the same scope.

Considering the reporting scope adopted following the “op-

PERIMETER OF PRODUCTION SITES AND COMMERCIAL UNITS



erational control” approach, the steel cord production site in Yanzhou (China) was not instead consolidated as this is an affiliate company. Finally the production site in Voronezh (Russia) was not integrated in the scope as it entered the Pirelli Group perimeter during 2012. It will therefore be included in reporting from 2013.

In 2012 finally some non-production entities linked to the marketing of tyres were integrated within the company perimeter, but maintained a low contribution, up to 2% out of the total of those determining the Group performance. This item of data remains in any case insignificant in material terms out of the total and as such, although included in the 2012 performance, did not entail the need for *restatement* of the past trend.

In light of these exceptions, the following figures comprise the impact of all Pirelli units, from industrial units to commercial and administrative sites.

PERFORMANCE INDEX TREND

The economic trend of the Pirelli Group was seen to be very positive in 2012 too, both in terms of revenues and operating result, as dealt with in depth in *Volume “Y” of the 2012 Annual Financial Report*. This result was obtained despite the fall recorded in terms of production volumes: the tonnes of finished product in 2012 in fact fell by approximately 8% over the previous year (performance calculated with same perimeter). These figures, apparently going against the trend, are instead the manifestation of the new Premium product positioning strategy pursued by Pirelli.

As regards the trend of the conventional indicators based on tonnes of finished product, the lowering of the volumes due to the recession and the Premium marketing repositioning have brought the Pirelli sites to a period of transition, such that the

production cycles were seen to be less saturated in terms of product volumes. Premium products, specifically, are characterised by high economic margins yet, on the other hand, also by strong energy intensity caused by very restrictive quality specifications and smaller production batches compared to products for the medium-low market range. All these factors therefore led, for 2012, to a generalised worsening of the indices where the same are calculated on the tonnes of finished product.

In this respect, in order to demonstrate the value of Premium products and the efficacy of company management, it was decided to introduce new specific indices based on the value of the operating result, analysed in parallel to the conventional ones based on tonnes of finished product. As can be seen in the graphs shown in the following paragraphs the environmental impact for value generation is definitely decreasing over the years, with performance therefore showing a continuing improvement. This demonstrates and confirms the fact that the company is using resources in an increasingly efficient way in order to create value.

ENERGY

Pirelli monitors and reports its own energy consumption by using three principal indicators:

- absolute consumption, measured in GJ, which includes the total consumption of electrical energy, thermal energy, natural gas and petroleum derivatives (fuel oil, gasoline, diesel, and LPG);
- specific consumption, measured in GJ per tonne of finished product, which indicates the energy used to produce a tonne of finished product;
- specific consumption, measured in GJ per € of operating result, the latter indicator introduced in 2012 to expand the panorama of analysis of annual trends.

The Pirelli Industrial Plan has set a target to reduce its specific consumption of energy by 15% from its 2009 level by 2015. In 2012 the energy efficiency improvement plan continued to be implemented at all Group plants. Initiated several years ago, it is characterised by measures aimed at:

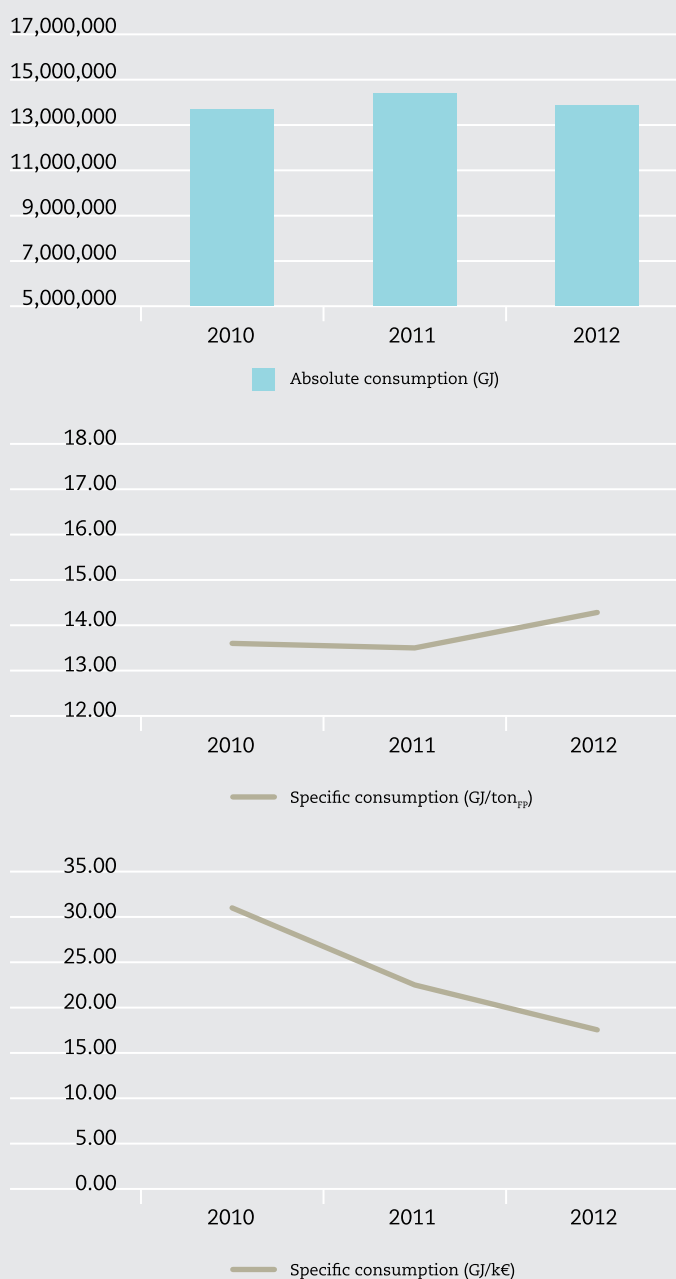
- improving energy management systems, by exactly measuring consumption and focusing daily on technical indicators;
- improving the quality of energy transformation by streamlining resource and plant use;
- improving the efficiency of distribution plants;

- improving the efficiency of production plants;
- recovering energy for other uses;
- applying targeted maintenance plans in order to reduce energy waste.

As explained in the paragraph “Performance Index Trend” confirmation was gained in 2012 of a worsening of the trend of the specific index, tonnes of finished product weighted, of +5% over the previous year.

Contrarily the improvement in the specific index, generation of economic value weighted, is remarkable, with environmental impact of -21% compared to 2011 and -43% compared to 2010.

ENERGY CONSUMPTION



Energy		2010	2011	2012
Absolute consumption	GJ	13,683,524	14,417,143	13,928,940
Specific consumption	GJ/ton _{FP}	13.64	13.50	14.23
	GJ/k€	31.08	22.56	17.84

The energy efficiency plan adopted in 2012 has enabled a saving of approximately 270,000 GJ. This value was calculated on the basis of the production volumes of the reporting year and the valuation of efficiencies achieved in 2011. The efficiency actions are in fact part of a medium-term plan whose benefits appear in a multi-year timespan.

The following graph illustrates the distribution of the energy sources used by Pirelli and reported overall in the previous graphs. The direct sources, all of fossil origin, include natural gas and, in smaller quantities, other liquid fuels such as oil, LPG and diesel (the last two classified as "others"). These direct sources constitute 31% of the whole. The remaining 69% is made up of indirect sources of electrical energy and steam. As regards electrical energy, it has been estimated on the basis of IEA (International Energy Agency) figures that, on the basis of the geographical distribution of Pirelli, approximately 39% derives from a renewable source.

GREENHOUSE GAS EMISSIONS

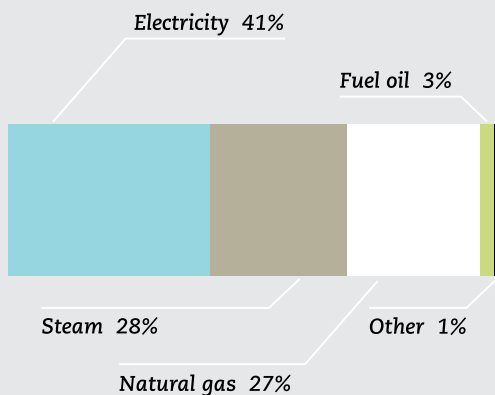
Pirelli has monitored and reported its CO₂ equivalent emissions since 2002. CO₂ is defined as "equivalent" insofar as it accounts for the contribution – albeit marginal – made by methane (CH₄) and nitrous oxide (N₂O). Greenhouse gases are generated by the combustion of hydrocarbons at production sites, mainly to operate heat generators that power Group plants, and particularly those that produce steam for vulcanizers, or by the consumption of electrical or thermal energy.

The first are called "direct emissions" or Scope 1 emissions insofar as they are produced at company production sites, while the emissions resulting from electrical power or thermal energy consumption are defined as "indirect emissions", or Scope 2 emissions insofar as they are not produced within the perimeter of company production sites but at the plants that generate the energy and steam purchased and consumed by Pirelli.

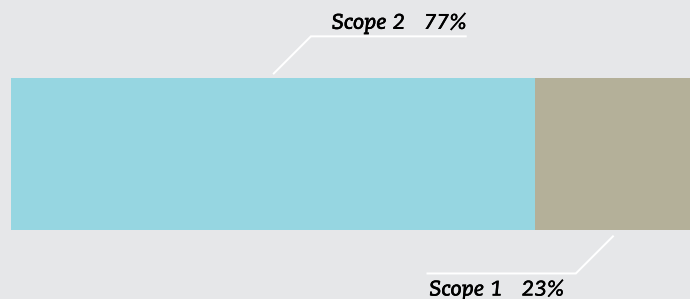
Performance as measured by energy and greenhouse gas emissions is calculated on the basis of coefficients obtained from the following official sources:

- IPCC: *Guidelines for National Greenhouse Gas Inventories* (2006);
- IEA: *CO₂ Emissions from Fuel Combustion*; and reported according to the scheme proposed by:
- GHG Protocol: *a Corporate Accounting and Reporting Standard*.

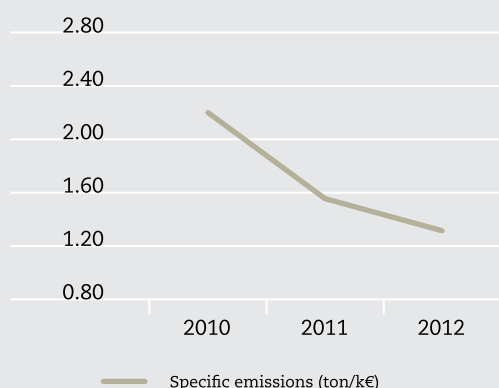
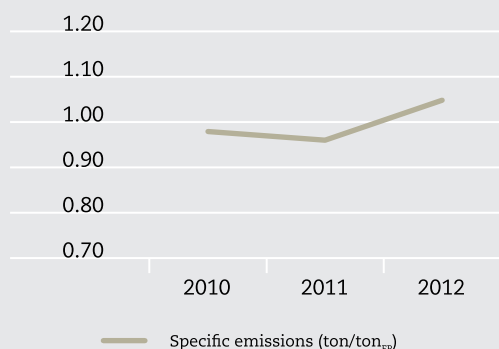
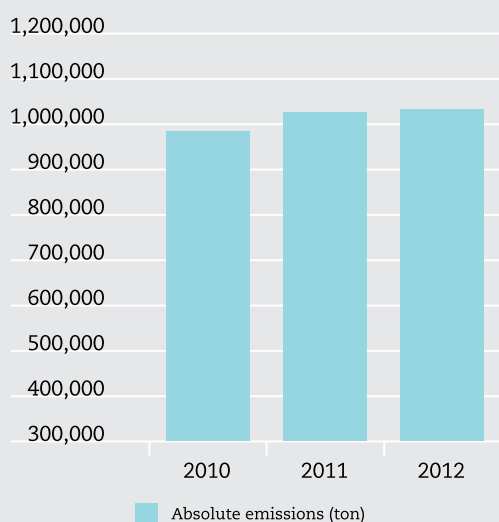
DISTRIBUTION OF ENERGY SOURCES - 2012



DISTRIBUTION OF GREENHOUSE GAS EMISSIONS BY SCOPES - 2012



GREENHOUSE GAS EMISSIONS



GHG		2010	2011	2012
Absolute emissions	ton	981,913	1,027,512	1,030,723
Specific emissions	ton/ton _{pp}	0.98	0.96	1.05
	ton/k€	2.20	1.58	1.32

Specifically in regard to Scope 2 equivalent CO₂ emissions, the average national coefficients are defined according to the last year available in the aforementioned reports and are updated annually.

It must be pointed out that tyre production industry is not carbon intensive, so that it is covered by the European Emission Trading Scheme only in reference to thermal plants having more than 20 MW of installed power.

As in the case of energy, Pirelli monitors and accounts for its direct and indirect CO₂ emissions (either Scope 1 or Scope 2 as defined above) by using three principal indicators:

- absolute emissions, as measured in tonnes;
- specific emissions, as measured in tonnes per tonne of finished product;
- specific emissions, measured in tonnes per € of operating result, the latter indicator introduced in 2012 to expand the panorama of analysis of annual trends.

The Pirelli Industrial Plan has set a target to reduce its specific CO₂ emissions by -15% from its 2009 level by 2015. The strong link between the trend of the energy consumption and emissions of CO₂ is also confirmed for 2012 and, in line with the increase in the GJ/ton index, an increase is recorded in the specific emissions, tonnes of finished product weighted, of +9% over the previous year.

Contrarily the improvement in the index related to the economic value is remarkable, with net decrease in specific emissions of -16% compared to 2011 and -40% compared to 2010.

As part of the carbon action plan, the conversion to natural gas of a production site is reported, with partial delay due to external causes not depending on Pirelli, and the finalisation of a contract for the supply of electrical energy from renewable sources to another site, aimed at meeting its needs almost totally. The plans to reduce the carbon footprint also include the project of a partnership with the Italian environment ministry, in the specific case linked to renewable energies, to be discussed further on in the paragraph below.

The benefits expected from the actions listed hitherto will have an impact on the trend in the indices in coming years. The Pirelli greenhouse gas emissions management, calculation and reporting system was audited by an independent and third party. The audit was carried out in accordance with ISO 14064 and satisfies the criteria of materiality, competence, independence, terminology and methodology. In 2012 Pirelli participated in the Carbon Disclosure Pro-

ject (CDP). The company reached the top positions in the ranking, obtaining a disclosure score of 89 points out of 100, falling in the top scoring bracket: Senior Management. Thanks to this score, recognising the transparency and quality of the reporting of the information relating to climate change, the CDP has included Pirelli in the CDLI 2012 index (Carbon Disclosure Leadership Index).

The objective of calculation of the Pirelli Group *carbon footprint* by the end of 2013 is confirmed.

INITIATIVES FOR ANALYSIS, REDUCTION AND OFFSETTING OF CO₂ EMISSIONS

PARTNERSHIP WITH THE ITALIAN ENVIRONMENT MINISTRY

On 23 January 2012 in Milan, during the Pirelli Sustainability Day entitled Pirelli Sustainability: a Safe Road to the Future, Pirelli signed a voluntary agreement with the Italian environment ministry on the basis of which an undertaking was made to calculate the *carbon footprint* relating to the entire life cycle of a tyre representative of Pirelli products, identifying the actions most efficient and sustainable in economic terms for reducing greenhouse effect gas emissions. The agreement is part of public-private collaborations promoted by the environment ministry as part of the programme of voluntary agreements on the valuation of the environmental footprint. The analysis covered the whole of 2012 and also extended research to the Brazilian production sites. In particular the production of silica from rice husks, discussed in the relevant paragraph, was included in the project in order to demonstrate scientifically the environmental advantages of this activity patented by Pirelli.

In June 2012, at the UN international con-

ference on sustainable development - RIO+20 -, Pirelli presented the plans to be carried out in Brazil in collaboration with the Italian ministry for the environment and the Brazilian state of Sao Paulo, aimed at analysing and reducing the impact on the climate deriving from the production of tyres by the car plant of Campinas.

In January 2013 the commitment between company and ministry was renewed through a new agreement which defines the second phase of the original understanding. In this second phase Pirelli and the ministry are to launch testing of technologies aimed at reducing the impact on the climate of the activities linked to the production and use of a tyre for cars produced by Pirelli in Brazil. These activities are also linked to the integration of renewable energies in the industrial process.

COMPANY CAR FLEET POLICY

A new internal policy - applicable to the management of the company car fleet in Italy - was drafted at the end of 2011. In 2012 it involved all cars assigned to executives and to the sales force. This policy requires that the CO₂ emissions emitted by each vehicle need to be offset by means of reforestation.

Aside from being an incentive to choose more sustainable cars, the new policy has the merit of spreading the culture of environmental responsibility in a simple, tangible way, through the direct participation of employees.

The calculation model used took account of the emission factors of each individual vehicle and of the miles covered. In 2012 over 1,400 tonnes of CO₂ were emitted: this amount was compensated 100% by the reforestation of a forest area of Bolivia, in cooperation with LifeGATE.

The choice of this project, linked to Latin America where Pirelli has a strong presence and recognition, was favoured by the risk situation of the Amazon rainforest and the strong cooperation with the local population created by this project. In the past decades the Amazon rainforest has undergone aggressive deforestation due to the adoption of farming methods based on the "cut and burn".

Against this background the ARBolivia project was set up to involve small owners in a process of production and rural growth through reforestation, management of forestry resources and the supply of environmental resources which can generate economic resources and benefits for all the parties concerned.

The project provides for the reclaiming and reforestation of approximately 6,000 hectares of land owned by small farmers (Beni district, in the province of José Ballivián, in the municipal area of Rurrenabaque) on the subtropical plains of the Amazon basin.

The Bolivia project generates Plan Vivo certified carbon credits and aims at the supply of environmental services, the production of timber for commercial use, integrated agricultural planning and the preservation of ecosystems and biodiversity, all this in cooperation with small local owners.

VIZZOLA TICINO TEST TRACK

Again with LifeGATE, Pirelli Tyre has financed 6,604 square metres of forest growing in Costa Rica and 3,232 square metres in Italy in the Carpaneta forest in order to offset approximately 20 tonnes of CO₂ generated in 2011 for tests at the Pirelli Vizzola Ticino test track.

The Carpaneta forest is the result of recent reforestation launched in 2003 as part of the “Ten Large Plain Forests” project representing the strategic policy of the General Agriculture Department of the Lombardy regional authorities.

The aim is to set up new multipurpose wooded areas on the plains of the most industrialised region of Italy. The Carpaneta forest extends over the central-eastern area of the province of Mantua and is part of the Carpaneta agricultural and forestry experimental organisation, a regional resource intended to become the location of a centre of excellence for the livestock, dairy and agricultural and energy supply chains. Alongside strong naturalistic aims, therefore, the need is also met of adding value to the educational aspects. From history to culture and local traditions.



MONITORING OF CO₂ FOR TRANSPORT

In 2012 the emissions of CO₂ caused by travel by Italian workers by train, plane and hired cars were estimated at approximately 0.5% of all the emissions of the Group, Scope 1 and Scope 2. With a view to reducing this impact, internal policies have been implemented to reduce travel whenever it can be substituted by conference or video calls. These policies enabled a reduction in the emissions caused by air and rail transport by 6% compared to 2011.

The work by providers of logistic services had a marginal impact in the life cycle of a tyre; the impact of distribution accounts for less than 1% of the total impact of the other phases of the life cycle (ETRMA BLIC data, 2001).

WATER

Efficient use of water with awareness is one of the keystones of Pirelli's environmental activity. This activity takes shape in many actions aimed at improving both the overall efficiency of production processes, from design of machinery to facility management, and the contribution which every employee can give to the reduction in consumption of this important resource.

Some years ago the Water Project was launched, a scheme aimed at the analysis and reduction of the impact of Pirelli on the water resource: by 2015 the specific withdrawal of water are to be reduced by 70% compared to 2009.

Pirelli monitors and accounts for its own water consumption by using three principal indicators:

- absolute withdrawal, measured in m^3 , which comprises the total intake of water of the Group;
- specific withdrawal, measured in m^3 per tonne of finished product, which indicates the intake of water for the production of a tonne of finished product;
- specific withdrawal, measured in m^3 per € of operating result, the latter indicator introduced in 2012 to expand the panorama of analysis of annual trends.

In 2012 the absolute withdrawal of water stood at the values of the previous year.

For the same general reasons already mentioned with reference to the specific consumption of energy and to the emissions of CO_2 , in 2012 an increase was recorded in the specific withdrawal based on the tonnes of finished product of +4% over 2011, although the figure is equal overall to -14% compared to that of 2010.

Similarly a considerable improvement is recorded in the economic value indicator of the use of the water resource, with a net decrease of -26% compared to 2011 and higher than -50% compared to 2010.

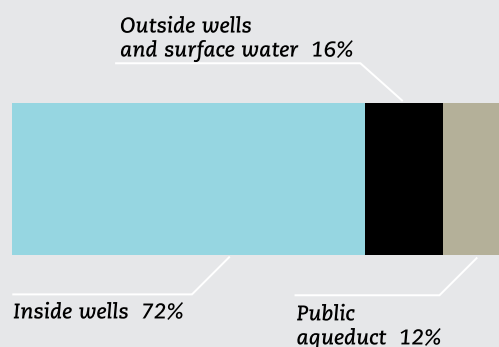
WITHDRAWAL OF WATER



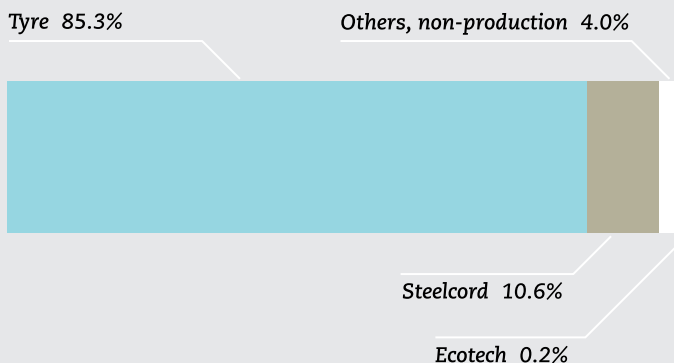
Water		2010	2011	2012
Absolute withdrawal	m^3	15,328,696	13,466,046	12,850,600
Specific withdrawal	m^3/ton_{FP}	15.3	12.6	13.1
	$m^3/k€$	37.6	23.1	17.1

Several plants have recorded reductions in the specific withdrawal of water between -5% and -10%, reaching or consolidating values close to 2 cubic metres per tonne of finished product. The results obtained have enabled the Brazilian Campinas plant to win the 7th Conservação e Reuso da Água award organised by the FIESP (federation of industrialists of the state of São Paulo). The prize was awarded to the Campinas plant in light of the technical actions adopted, able to ensure total recovery of the water deriving from production processes, and for the activity performed in support of use with awareness of water, which saw the involvement of plant employees with the local community. The two graphs below show the weight of the water procurement per type of source and the distribution of absolute withdrawal per type of production business.

TYPE OF WATER SOURCES – 2012



DISTRIBUTION OF WATER WITHDRAWAL BY USE – 2012



WASTE

The previous sections of this chapter have already described the activities promoted by Pirelli in regard to use of alternative raw materials that are also derived from waste recovery. This paragraph intends completing this description by proposing the approach adopted for improving the environmental performance resulting from the production and management of waste, pursued through the following activities:

- innovation of production processes, with the aim of preventing the production of waste at the source, progressively reducing processing rejects and replacing current raw materials with other new ones that have a lower environmental impact;
- operating management of generated waste, aimed at identifying and ensuring the selection of waste treatment channels that can maximise recovery and recycling, gradually eliminating the amount sent to the landfill with the Zero Waste to Landfill vision;
- streamlining packaging management, both for the packaging of purchased products and the packaging for products made by the Group;
- reducing tyre weight (dematerialization): this way, with equal or superior performance, the weight of waste to be handled at the end of the useful life of the product will be reduced, in addition to reducing the consumption of raw materials needed to produce them.

Pirelli monitors and accounts for its own waste consumption by using three principal indicators:

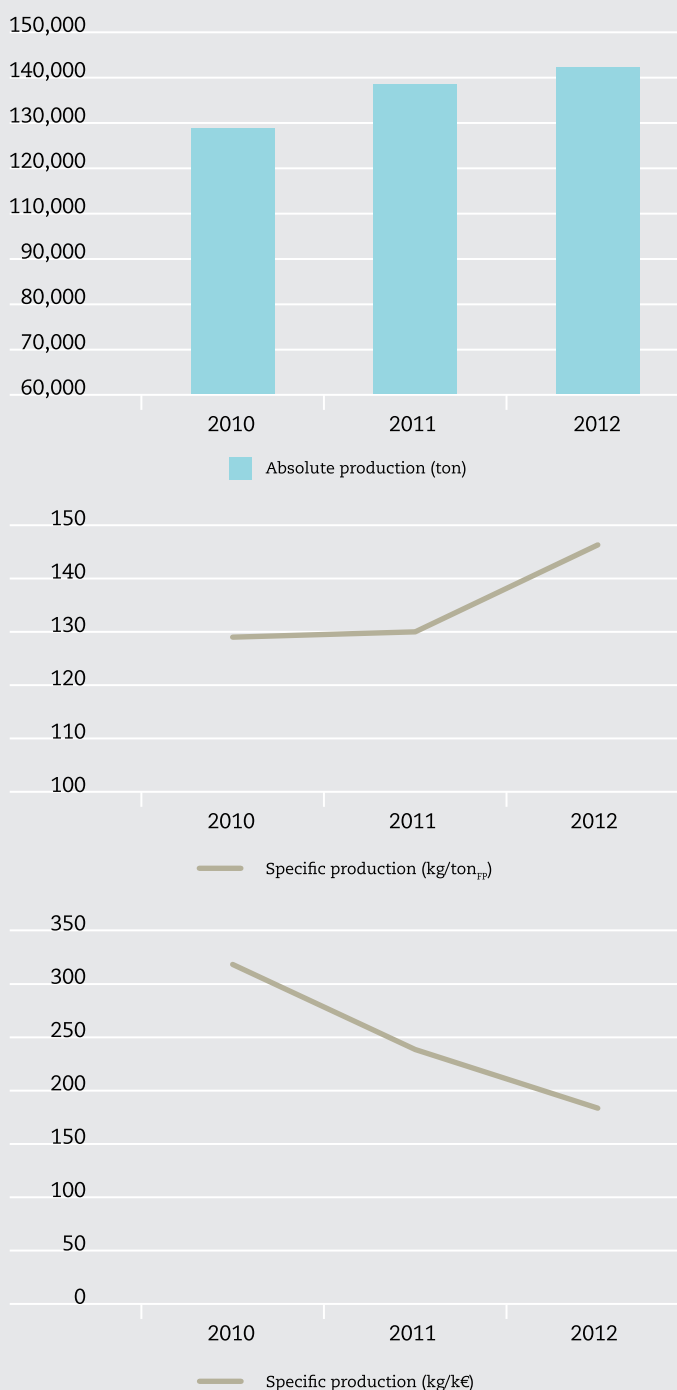
- absolute production, as measured in tonnes;
- specific production, as measured in kilograms per tonne of finished product;
- specific production, as measured in kilograms per € of operating result.

The Pirelli Industrial Plan has set the target of reducing the quantity of specific waste produced by 5% from its 2009 level by 2014, increasing recovery by 15% by 2015, with a view to Zero Waste to Landfill and therefore extending to all working affiliates the approach already adopted successfully by the factories in Breuberg in Germany and Rome in the USA.

In line with what is stated in the paragraph on performance index trend, compared to 2011, in 2012 an increase was recorded in the absolute quantity of produced waste of +3% and an increase in the specific index of +12%.

On the contrary the gradual improvement in the economic efficiency indicated associated with waste production has proved to be considerable, which sees a reduction of -23% over 2011 and -42% over 2010.

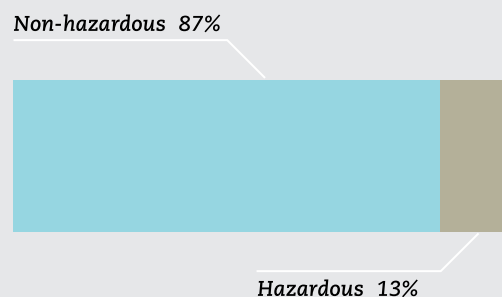
WASTE PRODUCTIONS



Waste		2010	2011	2012
Absolute production	ton	129,497	139,280	142,677
Specific production	kg/ton _{FP}	129	130	146
	kg/k€	318	239	183

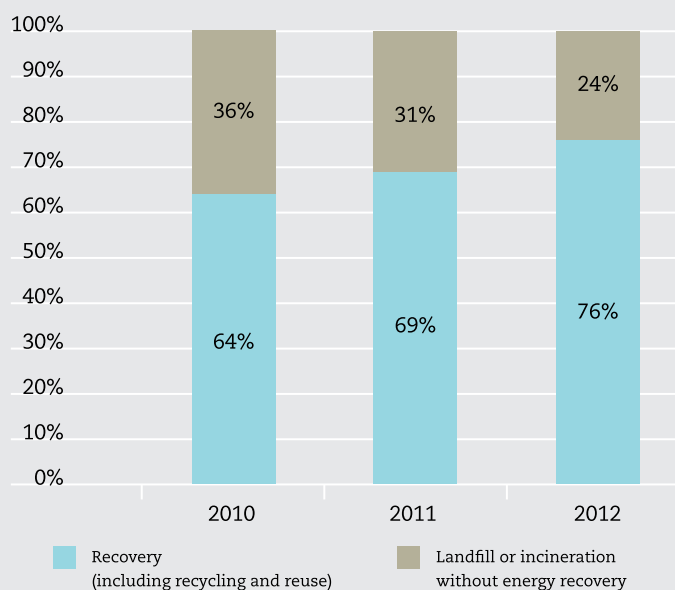
The following graph shows the weight of hazardous waste compared to non-hazardous waste in 2012.

TYPE OF WASTE – 2012



On the waste recovery front, measures were also adopted in 2012 which compared to 2010 enabled an increase of 12% in the amount of waste recovered, bringing the overall value of waste recovered to 76%. The improvement in the trend is shown in the following graph.

DISTRIBUTION OF WASTE BY TYPE OF TREATMENT – 2012



HANDLING OF PACKAGING

Different procedures for handling packaging materials exist for different types of products. While tyres are products generally sold without packaging materials, the steel cord involves specific packaging. In this respect it should be pointed out that tyre sales account for over 99% of all Group sales in 2012.

In order to reduce the waste from packaging of the products sold, the steel cord business unit manages and streamlines 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 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 the possibility of using a traditional wood pallet once or at most twice. Reducing waste generates obvious benefits.

Starting from early 2013 100% of the pallets inserted in

reverse logistic circuits are in plastic or metal with 95% coverage of sales volumes. For the remaining 5% wooden pallets are used, where they are more easy to reuse and recover in the areas where they are despatched.

OTHER ENVIRONMENTAL ASPECTS

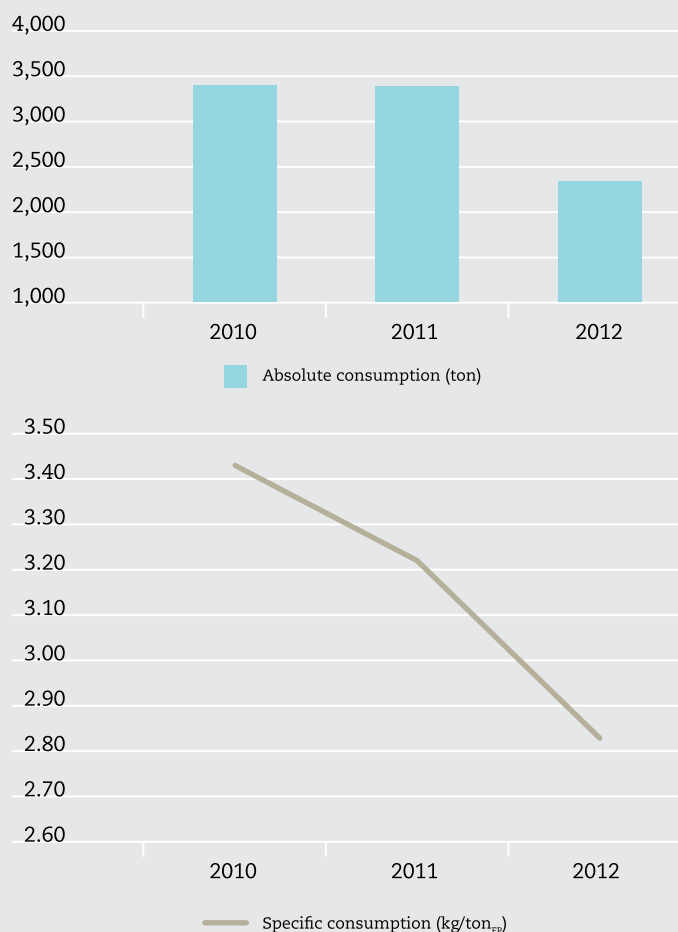
SOLVENTS

Solvents are used as secondary process inputs, mainly for cleaning vulcanized rubber. Emissions of volatile organic compounds (VOC) are released by the evaporation of solvents.

The target for specific solvent consumption calls for a 15% reduction by 2013 from the 2009 level. The reduction in specific consumption is pursued both through streamlined use of solvents and by progressive implementation of solvent-free technologies. The actions adopted have allowed a further reduction in the specific consumption of solvents, with 2012 levels already close to those of the goal set for 2013.

Following the installation and activation of catalytic abatement plants at certain production sites, the estimated quantity of volatile organic compounds released in the atmosphere in 2012 was significantly lower than the tonnes of solvents consumed.

SOLVENT CONSUMPTION



Solvents		2010	2011	2012
Absolute consumption	ton	3,442	3,435	2,818
Specific consumption	kg/ton _{PP}	3.43	3.22	2.88

NO_x EMISSIONS

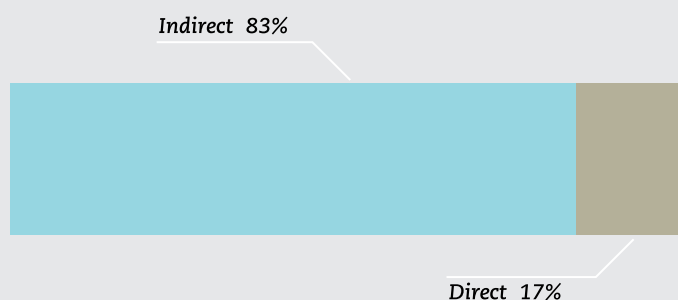
NO_x emissions (both in absolute terms and according to unit of output) are directly impacted by the energy consumption trends, illustrated in the specific paragraph above.

Therefore, both the recorded trends and forecast future trends overlap those for energy concerning both the absolute and specific trend and as regards the improvement in the indices where operating result weighted.

EMISSIONS OF NO_x

NO _x		2010	2011	2012
Absolute consumption	ton	1,974	2,117	2,159
Specific consumption	kg/ton _{Fp}	1.97	1.98	2.21

The following graph shows the 2012 weight of the direct and indirect emissions of NO_x out of the total NO_x emissions.

DISTRIBUTION OF NO_x EMISSIONS - 2012

BIODIVERSITY

For Pirelli, the responsible integration of its sites within the local territorial context is an essential cultural aspect. The greatest care is in fact applied in order to guarantee that the corporate activities do not interfere with the typical biodiversity of the contexts.

There are currently three Pirelli sites located inside or near protected areas having a high value for biodiversity:

- the Vizzola Ticino site, which has an area of 26 hectares, is part of the Parco del Ticino in Lombardy, an MAB (Man and Biosphere, a collection of 425 biosphere reserves located in 95 countries around the world) area of UNESCO. Impact on the environment and on biodiversity in the area is not significant. Nonetheless Pirelli has implemented an ISO 14001 certified environmental management system to ensure the greatest possible level of environmental protection, including the relationship with the main stakeholders,
- the Breuberg site in Germany, measuring 68.7 hectares, which is located opposite an area protected under state law. Again, although the impact on the biodiversity is assessed as minimally significant or insignificant, Pirelli has implemented an ISO 14001 certified environmental management system;
- the Gravatai site in Brazil, measuring 57.4 hectares, including 16 hectares of land ecosystem protected under federal law. Again, although the impact on the biodiversity is assessed as minimally significant or insignificant, Pirelli has implemented an ISO 14001 certified environmental management system;

agement system to guarantee that all potential impact on the environment and on biodiversity be duly considered and managed in every case in order to reduce all possible interference to a minimum.

During January 2012, the Gravataí, Brazil, production site sponsored and actively participated in renewal of the Rio Gravataí, which flows near the site. The event, known as *Semana de Limpeza de Rio Gravataí* ("Week of Reclaiming of the Rio Gravataí") was organised by public authorities and involved the local community for work on this precious source of natural water and its ecosystem, in order to enhance and protect its biodiversity.

OTHER EMISSIONS AND ENVIRONMENTAL ASPECTS

In regard to water discharges of the tyre division and emissions into water:

- the volume of discharged water is about 9 million cubic metres, of which around 70% was returned to surface catch basins, while the remaining volume was collected in sewage systems;
- before being discharged in the final catch basin, industrial waste water is subjected to periodic analysis, which has not revealed any violation of maximum concentrations permitted by local standards; where necessary the effluent is treated by means of chemical-physical and/or biological processes.

Specifically in regard to the quality of discharges, the data processed thus far show that for one tonne of finished product, about 153g of Total Suspended Solids, 210g of COD (chemical oxygen demand) and about 76g of BOD₅ (biochemical oxygen demand) are discharged on average.

The presence of substances harmful to the ozone layer is entirely attributable to liquid refrigerants used in closed circuit air conditioning plants. Except for accidental and

unforeseeable leaks of these substances, there were no free releases in the atmosphere that could be correlated with production activities of Pirelli.

Direct emissions of SO₂, caused by the combustion of diesel and fuel oil, was estimated to be about 235 tonnes in 2012.

No spills or other significant environment-related incidents occurred and no fines were imposed in 2012.

INVESTMENTS FOR IMPROVEMENT OF ENVIRONMENTAL PERFORMANCE

Investments in 2012 to improve the environmental performance of production sites totalled 3.68 million euros, increasing by 30% from 2009.

3.5 ENVIRONMENTAL CULTURE

OBSERVATORY FOR RENEWABLE ENERGIES AND ENERGY EFFICIENCY

The Pirelli headquarters in Milan hosted on 12 February 2013 the congress "Renewable energies and energy efficiency, scenarios and opportunities", organised by Fondazione Silvio Tronchetti Provera and Agenzia per l'Italia Digitale, with Università Bocconi, Politecnico di Milano and Università degli Studi Milano Bicocca.

The introduction was given by Pirelli CEO and Chairman Marco Tronchetti Provera, who is also president of the Fondazione Silvio Tronchetti Provera, who then handed over to Corrado Clini, minister for the environment, land and sea protection.

The study "*Renewable energies and energy efficiency*" was presented at the congress. The focus was issues related to the most important technologies in the area of renewable energies (photovoltaics, hydroelectric power) and energy efficiency, acting as a real launch pad for growth in Italy and the rest of the world. For the research content refer to the Events section of the website of the Fondazione: www.fondazionetronchetti.it.

ENVIRONMENT WEEK IN BRAZIL

In June 2012, in all the Brazilian plants, the traditional Meio Ambiente week was held. During the week numerous activities were carried out both in the factories and outside them with involvement also of the public authorities.

The main aim of this initiative is the spread of an environment culture and the awareness that with the contribution of each one of us it is possible to improve the environment in which we work and live.

During the week the main environmental issues were tackled, including water and waste management, emissions of employees' vehicles and end-of-life management of tyres. All this through practical activities aimed at achieving high involvement of staff and the outside community, also by means of drama, recreation for the children of employees, discussion of environmental themes with the work force directly in the departments, programmes of environmental education for students from neighbouring schools, dedicated stands, breakout areas with recycled materials and eco walks in area of naturalistic interest near the factories.

4. SOCIAL DIMENSION





4. SOCIAL DIMENSION

4.1 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”

(The Values and 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. Pirelli Group activities are governed by the Code of Ethics approved by the Board of Directors and comply with the Sustainability Model envisaged in the United Nations Global Compact that was signed in 2004.

The Group’s sustainable development strategies pursue various objectives, including continuous improvement in the environmental and occupational health and safety conditions affected by its own activities, in firm compliance with and support of the “Universal Declaration of Human Rights,” the “International Labour Organization’s Declaration on Fundamental Principles and Rights at Work,” the “Rio Declaration on Environment and Development” and the “United Nations Convention against Corruption.”

To these ends, the Pirelli Group is committed to:

- manage its activities by adopting occupation-

al health, safety and rights and environmental policies in compliance with the highest international standards;

- the dissemination of occupational health, safety and labour 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; [...]
- not using or supporting the use of child labour and forced labour;
- ensuring equal opportunity, freedom of association and promotion of the development of each individual;
- opposing the use of corporal punishment, mental or physical coercion or verbal abuse;
- compliance with applicable laws and industry standards on working hours and ensuring that wages shall be sufficient to meet the basic needs of personnel; [...]

(Pirelli Social responsibility policy for occupational health, safety and rights, and environment)

“The Pirelli Group has been and remains firmly committed to compliance with the principles of Equal Opportunities in the workplace, without any form of discrimination on the basis of gender, marital status, sexual orientation, religious or political beliefs, union membership, colour, ethnic origins, nationality, age or disability. Pirelli is opposed to any form of direct or indirect discrimination against and/or harassment of individuals or groups by any other individual or group, and are likewise committed to the prevention and elimination of such behaviours. The Pirelli Group is committed to the prevention of discrimination in all areas of workinglife, including selection and all decisions related to remuneration, professional status, the assignment of responsibilities, training and career development. All such decisions are made solely and exclusively on the basis of the competencies, experience and professional potential that individuals possess and the results that they achieve”.

(Group Equal Opportunities Statement)

The above Pirelli principles and commitment are based on the SA8000® Standard, which for years has been the benchmark for Group social responsibility, on the United Nations Global Compact, of which Pirelli has been a member since 2004, and on ISO 26000 guidelines.

PIRELLI EMPLOYEES AROUND THE WORLD

A NOTE ON METHODOLOGY

The headcount at December 31, 2012, was 37,338 employees (34,259 in 2011 and 29,573 in 2010), including the acquisition of 1,259 new employees at the Voronezh, Russia, plant in March and of the distribution networks of Campneus in Brazil and Dackia in Sweden, with 534 and 394 units respectively, both taking place in the second half of 2012.

EMPLOYEES' DISTRIBUTION BREAKDOWN OF EMPLOYEES * BY CATEGORY

2012	EXEC	WHITE COLLARS	BLUE COLLARS	TOTAL
Pirelli Tyre	343	7,096	29,644	37,082
Other Businesses**	11	114	131	256
Extraordinary transaction: Acquisition of Voronezh factory	1	352	906	1,259
Extraordinary transactions: Acquisition of Campneus and Dackia sites	2	430	496	928
PIRELLI TOTAL	354	7,210	29,775	37,338
TOTAL WITHOUT EXTRAORDINARY TRANSACTIONS	351	6,428	28,373	35,151

2011***	EXEC	WHITE COLLARS	BLUE COLLARS	TOTAL
Pirelli Tyre	315	6,140	27,489	33,945
Other Businesses	11	140	163	314
PIRELLI TOTAL	326	6,280	27,652	34,259

2010	EXEC	WHITE COLLARS	BLUE COLLARS	TOTAL
Pirelli Tyre	289	5,430	23,523	29,242
Other Businesses	13	127	191	331
TOTALE PIRELLI	302	5,557	23,714	29,573

2012 vs. 2011	EXEC	WHITE COLLARS	BLUE COLLARS	TOTAL
Pirelli Tyre	27	955	2,155	3,138
Other Businesses	0	(26)	(32)	(58)
PIRELLI TOTAL	27	929	2,123	3,079
TOTAL WITHOUT EXTRAORDINARY TRANSACTIONS	24	147	721	892

2012 vs. 2010	EXEC	WHITE COLLARS	BLUE COLLARS	TOTAL
Pirelli Tyre	54	1,666	6,121	4,703
Other Businesses	(2)	(13)	(60)	(17)
PIRELLI TOTAL	52	1,653	6,061	7,765
TOTAL WITHOUT EXTRAORDINARY TRANSACTIONS	49	871	4,659	5,578

* All figures for the breakdown of employees shown in this section are expressed as Full Time Equivalent.

** This includes Pirelli Environment Services and Products and Pzero.

*** This includes the acquisition of Kirov plant in December 2011.

BREAKDOWN OF EMPLOYEES* BY GEOGRAPHICAL AREA AND GENDER

2012									
	TYRE BUSINESS			OTHER BUSINESSES**			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Europe (Russia included)	12,674	2,845	15,519	136	115	251	12,810	2,959	15,769
NAFTA	847	147	994	0	0	0	847	147	994
Central and South America	13,049	810	13,860	0	0	0	13,049	810	13,860
MEA	3,228	73	3,301	0	0	0	3,228	73	3,301
Asia Pacific	2,650	759	3,409	5	0	5	2,655	759	3,414
TOTAL	32,448	4,634	37,082	141	115	256	32,589	4,749	37,338

2011***									
	TYRE BUSINESS			OTHER BUSINESSES			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Europe (Russia included)	11,619	2,476	14,095	155	125	280	11,774	2,601	14,375
NAFTA	432	58	490	0	0	0	432	58	490
Central and South America	12,676	526	13,202	0	0	0	12,675	527	13,202
MEA	3,228	68	3,296	0	0	0	3,228	68	3,296
Asia Pacific	2,427	428	2,855	37	4	41	2,464	432	2,896
TOTAL	30,382	3,556	33,938	192	129	321	30,574	3,685	34,259

2010									
	TYRE BUSINESS			OTHER BUSINESSES			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Europe (Russia included)	9,509	1,498	11,007	175	119	294	9,684	1,617	11,301
NAFTA	246	39	285	0	0	0	246	39	285
Central and South America	11,975	547	12,522	0	0	0	11,975	547	12,522
MEA	2,927	56	2,983	0	0	0	2,927	56	2,983
Asia Pacific	2,161	286	2,447	32	3	35	2,193	289	2,482
TOTAL	26,818	2,426	29,244	207	122	329	27,025	2,548	29,573

2012 vs 2011									
	TYRE BUSINESS			OTHER BUSINESSES			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Europe (Russia included)	1,055	369	1,424	(19)	(10)	(29)	1,036	358	1,394
NAFTA	415	89	504	0	0	0	415	89	504
Central and South America	373	284	658	0	0	0	374	283	658
MEA	0	5	5	0	0	0	0	5	5
Asia Pacific	223	331	554	(32)	(4)	(36)	191	327	518
TOTAL	2,066	1,078	3,144	(51)	(14)	(65)	2,016	1,063	3,079

2012 vs 2010									
	TYRE BUSINESS			OTHER BUSINESSES**			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Europe (Russia included)	3,165	1,347	4,512	(39)	(4)	(43)	3,126	1,342	4,468
NAFTA	601	108	709	0	0	0	601	108	709
Central and South America	1,074	263	1,338	0	0	0	1,074	263	1,338
MEA	301	17	318	0	0	0	301	17	318
Asia Pacific	489	473	962	(27)	(3)	(30)	462	470	932
TOTAL	5,630	2,208	7,838	(66)	(7)	(73)	5,564	2,201	7,765

* All figures for the breakdown of employees shown in this section are expressed as Full Time Equivalent.

** This includes Pirelli Environment Services and Products and Pzero.

*** This includes the acquisition of Kirov plant in December 2011.

TYPE OF EMPLOYMENT CONTRACT

Type of employment contract	2012	2011	2010	2012 vs 2011	2012 vs 2010
Permanent contract	92.7%	91.6%	91.9%	1.1%	0.8%
Temporary contract	6.6%	8.1%	7.7%	-1.5%	-1.1%
Agency	0.7%	0.3%	0.4%	0.4%	0.3%
Part-time (% of total FTE)	0.8%	0.8%	1.0%	0.0%	-0.2%

EMPLOYEE FLOWS BY GEOGRAPHIC AREA, CATEGORY AND AGE GROUP

The following data refer to 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.

EMPLOYEE FLOWS BY GEOGRAPHIC AREA

	2012		2011		2010	
	INCOMING	OUTGOING	INCOMING	OUTGOING	INCOMING	OUTGOING
Europe (Russia included)	1,378	1,581	1,606	1,218	1,449	1,445
NAFTA	770	247	245	35	38	32
Central America	2,733	2,633	3,191	2,525	2,978	2,025
MEA	243	212	1,018	688	732	527
Asia Pacific	1,297	769	1,142	693	895	523
TOTAL	6,420	5,443	7,202	5,159	6,092	4,552

EMPLOYEE FLOWS 2012 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: TOTAL VALUES

	INCOMING					OUTGOING				
	<30	30-50	>50	Men	Women	<30	30-50	>50	Men	Women
Europe (Russia included)	810	519	48	1,152	226	647	636	299	1,285	296
NAFTA	589	178	3	658	112	165	77	5	217	30
Central America	1,861	853	19	2,522	211	1,557	971	105	2,499	134
MEA	206	37	0	230	13	110	95	7	204	8
Asia pacific	1,007	287	3	860	437	614	149	6	648	121
TOTAL	4,473	1,874	73	5,422	999	3,093	1,928	422	4,853	589

EMPLOYEE FLOWS 2012 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: PERCENTAGE VALUES

	INCOMING					OUTGOING				
	<30	30-50	>50	Men	Women	<30	30-50	>50	Men	Women
Europe (Russia included)	59%	38%	3%	84%	16%	41%	40%	19%	81%	19%
NAFTA	76%	23%	0%	85%	15%	67%	31%	2%	88%	12%
Central America	68%	31%	1%	92%	8%	59%	37%	4%	95%	5%
MEA	85%	15%	0%	95%	5%	52%	45%	3%	96%	4%
Asia pacific	78%	22%	0%	66%	34%	80%	19%	1%	84%	16%
TOTAL	70%	29%	1%	84%	16%	57%	35%	8%	89%	11%

EMPLOYEE FLOWS 2011 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: TOTAL VALUES

	INCOMING					OUTGOING				
	<30	30-50	>50	Men	Women	<30	30-50	>50	Men	Women
Europe (Russia included)	1,001	564	41	1,364	242	593	487	139	1,075	143
NAFTA	167	77	1	219	26	14	21	0	26	9
Central America	2,252	923	16	3,044	147	1,539	918	68	2,390	135
MEA	980	38	0	998	20	579	95	14	680	8
Asia pacific	975	167	0	930	212	595	97	1	627	66
TOTAL	5,375	1,769	58	6,555	647	3,320	1,618	222	4,798	360

EMPLOYEE FLOWS 2011 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: PERCENTAGE VALUES

	INCOMING					OUTGOING				
	<30	30-50	>50	Men	Women	<30	30-50	>50	Men	Women
Europe (Russia included)	62%	35%	3%	85%	15%	49%	40%	11%	88%	12%
NAFTA	68%	31%	0%	89%	11%	40%	60%	0%	74%	26%
Central America	71%	29%	0%	95%	5%	61%	36%	3%	95%	5%
MEA	96%	4%	0%	98%	2%	84%	14%	2%	99%	1%
Asia pacific	85%	15%	0%	81%	19%	86%	14%	0%	90%	10%
TOTAL	75%	25%	1%	91%	9%	64%	31%	4%	93%	7%

Net of the extraordinary acquisition transactions described above (the Voronezh factory in Russia, Camp-neus in Brazil and Dackia in Sweden), the headcount at year end was 35,151 units, with a net increase of 892 employees compared to the same period in the previous year, of which 171 were managers and white collars and 721 blue collars.

The overall trend with regards to personnel in 2012 was therefore one of substantial growth.

In the *mature countries* (these are countries where Pirelli operates that have been intentionally defined as “mature” markets, i.e. “non-emerging markets”), efficiency improvement plans continued with technological and organisational restructuring at Settimo Torinese, with the launch of the new Car Centre (-30 resources). The same was done in Germany, in accordance with the targets defined in the 2009 agreement (-27 resources). At the same time, in Italy, new university graduates and senior employees were hired to support new growth initiatives in the Product, Operations and Sales & Marketing areas (+98 resources).

In *emerging markets* (these are countries where Pirelli operates that are intentionally defined as “emerging”, i.e. Romania, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Egypt, Turkey, China), the increases in production volumes contributed to the expansion of the workforce in China (+517), Romania (+101), Argentina (+129), and in Mexico (+442) to start-up production in the new Silao plant.

With regards to annual employee turnover, 2012 showed less recruitment than the previous year, essentially due to a lower volume of production in the factories compared to 2011.

Pirelli does not employ anyone under the age of 14. The company employs 36 young people aged between 16 and 18 (9 in Brazil, 10 in Germany, 3 in Switzerland, 3 in the United Kingdom and 11 in Venezuela) and by way of exception 6 young people aged between 14 and 16 (all in Brazil), all of whom are involved in training and integration programmes in line with local legislation.

DIVERSITY MANAGEMENT

Pirelli is characterized by its multicultural context, where individuals express an enormous wealth of diversity. Culturally aware management of that diversity simultaneously offers the company a competitive advantage and shared social value. The commitment made by Pirelli to equal opportunities and development of diversity at the workplace is stated in the Group's principal sustainability documents: the Ethical Code approved by the Board of Directors, in the Group Policy on Health, Occupational Safety, Environment and Social Responsibility and in the Equal Opportunities Statement, both 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 / Sustainability](http://www.pirelli.com/Sustainability).

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.

International and multicultural scopes are the defining characteristic of the Group: we operate in over 160 countries on five continents, and 90.2% of our employees work outside Italy at December 31, 2012. Awareness of the cultural differences that create our identity underlies the Group's reliance on managers having local origins: 78% 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 about “Compensation and international mobility”). It is no accident that 56% of the senior managers on active duty in 2012 have had at least one intercompany assignment in another country during their professional career. Moreover, at December 31, 2012, 15% of all managers on foreign assignment were women.

Pirelli is also committed to promoting maximum awareness of the positive 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.

Following below is a breakdown of employees by gender in the three-year period 2010/2011/2012, expressed as the percentage weight of women against the total number of

employees in each job category, the data shown in the following table demonstrate the positive evolution underway. In 2012 the number of women in the executive category reached 8%, the percentage of women in the Cadre category, the springboard to executive positions, reached 20%, while the percentage of women in managerial positions was 18%. A significant increase was recorded in the number of women out of the total number of white collars, accounting for 35% in 2012 compared to 31% in 2011 and out of the total number of blue collars, with 8% in 2012 compared to 5% in 2011. In 2012 the company had a total of 13% of women employees, 4 points above 2011. This represents a very significant figure and growth curve, especially in view of the industrial sector - Autoparts & Tyres – that Pirelli operates in.

PERCENTAGE OF WOMEN BY PROFESSIONAL CATEGORY

	Exec	Cadres	Exec + Cadres (= Tot. Managers)	White Collars	Blue Collars	Total
2010	8%	18%	17%	31%	4%	9%
2011	8%	20%	18%	31%	5%	9%
2012	8%	20%	18%	35%	8%	13%

Since March 1, 2012 the percentage of women on the Board of Directors of Pirelli & C. S.p.A. has risen to 20%, and thus complying immediately with newly applicable rules beginning from the renewal scheduled to take place at the Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013.

Analysing the following table, the breakdown by gender in terms of employment contract shows a substantial balance between men and women. However, there is a small difference between the two genders: in percentage terms, there are more women with an indefinite term employment contract, while there are more men with a temporary employment contract. Moreover, the number of women with an indefinite term employment agreement climbed from 93% in 2011 to 96% in 2012, while men are at 92%. This can be considered as a very positive phenomenon in view of non-discrimination, since it is a commonly held opinion in society that indefinite term jobs are held more by men, whereas definite term jobs are held more by women. Well, the Pirelli data show a positively inverted reality:

TYPE OF EMPLOYMENT CONTRACT BY GENDER

	2010			2011			2012		
	Men	Woman	Total	Men	Woman	Total	Men	Woman	Total
Unlimited term	92%	95%	92%	92%	93%	92%	92%	96%	93%
Limited term	8%	4%	8%	8%	6%	8%	7%	3%	6%
Agency	0%	1%	0%	0%	1%	0%	1%	1%	1%

In the context of gender diversity, Pirelli dedicates special attention to equal remuneration, constantly monitoring it and seeking out the causes tied to the differences found in pay.

The countries considered in the analysis at December 31, 2012 are Brazil, China, Germany, Great Britain, Italy, Romania and Turkey, representing about two thirds of the total workforce covered by the remuneration policy (executives, cadres and white collar employees). At the methodological level, the remuneration ratios between men and women have been calculated for each individual country and by equal weight for the positions held, since a figure calculated at the Group level would not be representative insofar as it cannot

give due consideration to the structural differences on different local markets, differences in professional seniority, and market remuneration logics whose peculiar characteristics are not comparable with each other.

The average pay differences between men and women measured in the aforementioned countries was 7% (as in 2011) in favour of men in the white collar category and 5% (vs. 2% in 2011) always in favour of men in the Cadre category.

Some examples:

- Italy, which exhibits a difference between the average pay for men and the average pay for women of 5% (vs. 4% in 2011) in favour of men for the white collar category and of 7% (vs. 4% in 2011) again in favour of men in the cadre category;
- Turkey, where ratios are in favour of men in both categories with differences amounting to 4% (vs. 3% in 2011) for the cadre category and to 6% (vs. 2% in 2011) for the white collars;
- Romania, where the white collar category exhibits a ratio of 4% (vs. 2% in 2011) in favour of women while the cadre category exhibits a ratio of 4% (vs. 0% in 2011) in favour of men;
- Brazil, where the white collar category exhibits a ratio of 6% (vs 15% in 2011) in favour of men while in the cadre category no pay differences are observed between men and women (ratio equal to 0 vs. 5% in 2011 in favour of men).

Finally, in the executive category, where women represent 8% (as in 2011), there was an average pay difference of approximately 3% (vs. 5% in 2011) in favour of men.

The differences encountered and investigated are substantially attributable to a mix of factors, including professional seniority and age of resources in the different cultures of the local markets. Generally speaking, on the various markets far more

men than women have belonged to the labour force "for years," and this means that the "professional seniority" factor, which has a strong impact on pay performance, still favours men on average. On the other hand, the positive evolution of the international context in terms of attention to gender diversity and especially the quality and quantity of women who are entering the labour market in increasing numbers will likely lead over the medium term to a greater balance between genders also in regard to professional seniority, once the seniority of women has grown sufficiently to be comparable to that of men in most markets. This will gradually attenuate the pay differences between genders tied to the aforementioned factor.

The inclusive culture adopted by Pirelli as the basis for doing business permeates corporate life also in regard to disability. In order to standardise the corporate culture of affiliates towards disabilities, the Pirelli Equal Opportunities Policy lists disability among protected differences. In Italy, the Group has made and signed specific agreements with the relevant authorities to promote hiring of disabled workers by the Group. It also participates in social initiatives that facilitate matching the demand and supply of work between the Group and handicapped candidates, as well as others (including between the Group and foreign candidates). The percentage measurement of disabled employees in the multinational context of the company clashes with the objective difficulty in measuring their number, both because in many countries where the Group is present, there are no specific laws or regulations promoting their employment and therefore disabled employees are not automatically detected, and because in many countries this information is deemed confidential and protected by privacy laws. Any sort of estimate would be in itself a form of discrimination.

Management of the age factor is another one of Pirelli's priorities. As can be seen in the following table, the average age of the managerial and other categories is young in a homogeneous way between genders, so that the average age of men and women, already substantially aligned in 2010, coincided in 2011, while in 2012, the age difference between men and women was of just one year.

AVERAGE AGE

2010*					
	Exec	Cadre	White Collars	Blue Collars	Total average
Women	45	42	36	33	36
Men	47	44	38	35	35
Average by category	47	43	37	35	36

2011**					
	Exec	Cadre	White Collars	Blue Collars	Total average
Women	46	42	37	33	36
Men	48	44	38	35	36
Average by category	48	44	38	35	36

2012***					
	Exec	Cadre	White Collars	Blue Collars	Total average
Women	46	41	37	36	37
Men	48	43	38	35	36
Average by category	48	43	38	36	36

* Figure regarding 96% of personnel.

** Figure regarding 97% of personnel.

*** Figure regarding 98% of personnel.

The next table shows the average job seniority broken down by professional category and gender: again there are no substantial differences between men and women, and the differences observed in 2012 vs previous years can be substantially ascribed to the entrance of a considerable number of women who are obviously starting their seniority in Pirelli in 2012 only.

In spite of the low average age of employees, their length of service at Pirelli is proportionately high, confirming a high sense of loyalty.

AVERAGE JOB SENIORITY

2010*					
	Exec	Cadre	White Collars	Blue Collars	Total average
Women	15	14	10	5	9
Men	17	15	12	9	9
Average by category	17	15	11	9	9

2011**					
	Exec	Cadre	White Collars	Blue Collars	Total average
Women	16	14	10	4	8
Men	17	15	11	8	9
Average by category	17	15	11	8	9

2012***					
	Exec	Cadre	White Collars	Blue Collars	Total average
Women	13	10	8	3	6
Men	16	14	10	8	8
Average by category	16	13	9	8	8

* Figure regarding 96% of personnel.

** Figure regarding 97% of personnel.

*** Figure regarding 98% of personnel.

The following activities have been well-established for years to promote equal opportunities:

- 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 and religious 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, and multilingual welcome kits for those joining Pirelli at a facility in a country other than their home country.

Monitoring by the company of the level of acceptance and promotion of diversity as perceived by employees at its facilities plays a key role in terms of management opportunities. The Your Opinion survey is conducted in local languages at the Group level every two years. The results of the 2010 survey were highly appreciated in regard to the high level of acceptance by Pirelli employees of gender, cultural and age differences. Employee satisfaction is monitored on a regular basis: a new global survey was scheduled for the end of 2012. Due to commitments regarding major transactions this was postponed until the first semester of 2013. As usual the employee survey will be a key opportunity to implement specific new measures on a global and country level aimed at increasing satisfaction and *engagement*.

Pirelli has been active for years in promoting diversity, both nationally and internationally. Its membership in the European Alliance for CSR, CSR Europe, (of which Pirelli is a member of the Board), preparation of toolkits for management of multiculturalism and gender differences with the Sodalitas Foundation (the

THE 10 VALUES HAVE BEEN SELECTED
FOR THEIR ABILITY TO IMAGINE
THE FUTURE IN A TANGIBLE WAY, FOCUSED ON PEOPLE RATHER THAN
ABSTRACT CONCEPTS. WE BELIEVE THAT A LOT OF
NEW IDEAS
TODAY ARE GENERATED BY CROSS CONTAMINATION AND EXCHANGE OF
OPINIONS AND IT IS IMPORTANT THAT
THE YOUTHS OF TODAY
PARTICIPATE IN THIS DISCUSSION TO RESHAPE TOMORROW'S WORLD. IN
THE END OUR FUTURE IS NOT ABOUT TECHNOLOGY -
BUT ABOUT PEOPLE. AND ABOUT HOW TECHNOLOGY CAN SUPPORT US IN
**CREATING MORE ENVIRONMENTALLY
FRIENDLY AND SOCIABLE CITIES. CARLO RATTI**

Group has a seat on its Management Committee), 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.

In January 2012, the biennial study presented by the international rating agency Vigeo entitled *Non-discrimination and equal opportunities in the workplace* ranked Pirelli among the 20 most advanced European companies in terms of equal opportunity and workplace non-discrimination management, on the basis of a survey that covered 539 companies, 34 sectors and 18 countries, or 80% of European market capitalisation.

On 31 October 2012 Pirelli was invited to present its Model for Equal Opportunities Management and Valuing Diversity at the High Level meeting “Managing Diversity in Practice: How to value differences and inclusion for growth in Europe”, held in Vienna with the patronage of the Secretary of State for Integration and hosted by the Austrian Federal Economic Chamber and the Vienna Economic Chamber. The event, part of the European Commission Project “Support for voluntary initiatives promoting diversity management in the workplace across the EU”, under the supervision of the European Commission, D.G. Justice, aimed to act as a platform fostering the exchange of good practices on a European level between organisations involved in promoting and implementing their national Diversity Charters. The long term objective is to boost measures aimed at valuing diversity in European business. On 22 and 23 November 2012 Pirelli presented its business case at the European Union’s Equality Summit held in Cyprus with the patronage of the Cypriot Presidency of the European Union and co-organised with the European Commission,

D.G. Justice. The 2012 Summit revolved around the concept of “Equality for Growth”. Pirelli illustrated how in its case strategies for managing diversity, including but not limited to gender diversity, led to greater productivity, creativity and innovation, broadening the company’s customer base, especially in view of the effective diversity of the company’s stakeholders, as a multinational business in a global context: a situation it experiences on a daily basis and that is destined to become more widespread in the future.

Pirelli has also been engaged in promoting welfare initiatives for its employees. In 2011 it set up an *ad hoc* organisational function, the Welfare Group Manager with Group level responsibility, confirming the increasing attention dedicated to this issue. The Group has been historically supporting its employees with numerous measures calibrated to 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, disease prevention campaigns, company discount arrangements with various service providers (from medical exams to car rental).

More details are found in the section “Welfare and initiatives for the Internal Community” in this report.

COMPENSATION AND INTERNATIONAL MOBILITY

The compensation policies adopted by Pirelli aim to ensure fair remuneration in line with the individual’s contribution to the success of the company, recognising the performance and quality of the individual’s professional input, in a philosophy of sustainable remuneration. Such policies have a dual aim: on the one hand, they seek to attract, retain and motivate the best human resources; on the other hand, they seek to promote conduct that is as consistent as possible with corporate culture and values. Compensation policies and processes for the executive group are managed by the central HR department, while for non executive personnel they are handled on a country basis.

Following the major organisational changes in Pirelli in May 2012, this year the Executive population came under review in terms of the weight and importance of all the executive positions in the company. This is the prerequisite for the correct management of numerous HR processes, including, for example, the salary review process, which

verifies both internal pay equity and competitiveness with the external market, and the process by which the population is segmented into the various bands applied by Pirelli, which are in turn anchored to various systems of *compensation*, such as short term and long term incentive plans. Once again this year, in line with the best practices of the market, the salary policy adopted for the Executive group saw an increase in the variable, performance-based component of the package. In 2012 all of Pirelli's executive personnel received an Annual Bonus (MBO) linked to the annual business/financial objectives of the Group and/or Business Unit and/or Country and the performance evaluation resulting from the PM Tool. The latter is a new feature of the MBO report for 2012 which attributes greater importance to positive behaviour (how) and not just results (how much) in a philosophy of sustainable remuneration. The majority of executive personnel is also involved in a long term, three-year Incentive Plan (Long Term Incentive – LTI), based on fulfilling the targets set out in the 2012-2014 Industrial Plan. The new Incentive Plan aims to create sustainable value in the medium-long term and forges a close link between individual remuneration and the performance of the Group, which also fosters *retention* and ensures alignment between the interests of the management and those of the shareholders. As well as a bonus paid at the end of the three year period (pure LTI) the plan also involves a co-investment system, which applies to a portion (50%) of the annual bonus (MBO). If the three year targets are fulfilled the company pays not only the three year incentive but also the annual portion that has been “invested”, with a supplement paid by the company in line with a predefined percentage. Should the individual fail to fulfil the three year objectives, only 50% of the “invested” portion

of the annual incentive is paid out. The long term incentive plan is entirely self-financed by company performance in the three year period in question. The new plan features several improvements, as described below:

- by diversifying the objectives –introducing a number of objectives typical of long term incentive plans, including objectives that are not of direct business/financial nature;
- by increasing the weight of a number of objectives, such as Total Shareholder Return, which in the past was not a significant component of the final bonus;
- by introducing a range of variability in the supplement applied to the co-invested portion of the MBO – in previous plans the supplement was applied when the three year objectives were fulfilled but remained at a flat rate even when results exceeded objectives.

95% of executive personnel is involved in the 2012-14 LTI Plan. Of the 5% not involved, 88% are men and 12% are women. With regards to international mobility, which Pirelli has always pursued with a view to integrating cultures and values, in 2012 there were 100 new expatriate employees, compared to around 90 in 2011. Around a quarter of the new expatriates was assigned to the new industrial initiatives in Indonesia, Mexico and Russia, and around 15% came from emerging countries like Romania and Mexico. International mobility therefore continues to be a key element in the Group's expansion strategy, spreading Pirelli culture around the world and transferring precious technical know-how to the new start-ups. At the end of 2012 the Group had a total of around 250 expatriate employees (around 30 more than 2011) of 16 different nationalities, relocated to 29 different countries across all five continents. These workers were made up of 72% non-executives and 15% women.

In view of the complexity of this situation, in 2012 the Group decided to introduce a new international mobility policy, which applies to all new international assignments as of 1 January 2013.

The main new features of this policy are the introduction of a *tax equalization* policy which neutralises differences in taxation arising between the destination country and the country of origin, ensuring remuneration is fair and adequate. There has also been a review of the rules for assigning certain *benefits*, ensuring an increasing level of care for expatriate workers and their accompanying families.

The Group has also drawn up a framework agreement with

a leading tax consulting company that in the coming years will forge a global network designed by Pirelli to support all its expatriate workers and guarantee a high quality, integrated and uniform service in all countries.

With regards to the activities planned for 2013, at the beginning of the year the new policy will be communicated through the corporate intranet and then implemented in all countries.

EMPLOYER BRANDING, DEVELOPMENT AND TRAINING

GETTING TO KNOW PIRELLI: EMPLOYER BRANDING ACTIVITIES

2012 saw a series of important initiatives connected to Employer Branding.

As is traditional for Pirelli, the company took part – both in Italy and internationally – in a number of key events organised by prestigious universities, international masters courses and bodies that work to promote knowledge and communication between young students and the biggest companies in their areas.

These events typically take the form of *career days* organised by universities for all their students, but there were also events organised for specific groups of young people (for example mechanical engineers and computer engineers) and structured in different ways (round table discussions, company presentations, personal testimonies, cocktail events at the universities) which enabled the company to interact and communicate with young people in a more specific, targeted way. These initiatives do more than just focus on the company, which has the opportunity to present itself as an *employer of choice*, but are also devoted to fostering dialogue between the young people and management on various issues, including practical is-

sues, connected to entering the world of work (how to write a CV, interview technique, the positions suited to them in the company, etc.).

This intense programme of initiatives involving young people enabled the company to gather around 2000 *résumés* directly from those concerned. Although this is not our only channel for recruiting young resources, it is also thanks to these events (promoting our brand and showing interest in this target group of candidates) that in 2012 the company was able to carry out 51 *assessment* sessions for *recruiting* new graduates. These sessions were attended by a total of 438 young people, who were given the opportunity to introduce themselves with a view to joining Pirelli.

Alongside these activities, Pirelli also continued to open its doors to delegations of Italian and foreign students, to enable them to “discover” the company from the inside and interface with managers and professionals in the sector.

One initiative of note was Pirelli’s participation in the one-day event “Diversitalavoro”, organised in Milan in June 2012. This event was devoted to fostering encounters between companies attentive to social responsibility issues and talented people belonging to disadvantaged groups (people with disabilities, people belonging to protected classes, and in 2012, for the first time, transgender people). The project was promoted by UNAR (The National Office against Racial Discrimination), Fondazione Sodalitas, Synesis Career Service and the Adecco Equal Opportunities Foundation. During the day participants had the chance to meet company representatives, have individual interviews and benefit from personalised advice on writing a *résumé*. On the international panorama, particular mention should be made of the “Formula Student Germany” International Design Competition, an event held on the Formula 1 race-track in Hockenheim: participants – students from all over the world divided into teams – have to design and build a single-seater race car that they will then use to compete against the other teams. The competition is won by the team that not only builds the fastest car, but also excels in terms of construction, performance, financial planning and sales. Pirelli sponsors the team from the University of Darmstadt, supplying tyres. This competition is an excellent platform for presenting the company’s products directly to young students interested in the sector, above all in a country in which the automotive sector continues to be the area with the greatest appeal for those looking for work on completing their studies.

2012 was also the year in which Pirelli began to use social network sites as a channel for Employer Branding activities; specifically, it began with LinkedIn, the most famous professional social network site, which is well-known and used globally (boasting 200 million members, four in Italy alone).

To make the most of the social networks, the first thing Pirelli invested in was creating a Company Profile to act as a calling card when presenting the company and conveying a consistent, realistic and appealing image of the Group.

The Pirelli profile has three pages that are accessible to the public: Home (a general overview of the company, contacts, presentation video, etc.), Careers (a section devoted to Human Resources focusing on how to join Pirelli and develop one's career) and Products (a concise but exhaustive presentation of our products).

The contents of these pages can be easily updated at any time, so as to respond in real time to the communications needs that arise in the company.

Results in terms of visibility have been excellent, and the figures speak for themselves: in June 2012 Pirelli had just over 9,000 followers, while as we write – January 2013 – there are more than 19,500 followers. Following up from this promising beginning, at the end of 2012 Pirelli decided to broaden the portfolio of services offered on LinkedIn, choosing global solutions that therefore fulfil the needs of various different countries – with the aim of making our Employer Branding more efficient and more effective.

These activities have contributed to positioning Pirelli at 5th place in the Italian companies most active in online Employer Branding, as shown in the research presented by the international company Lundquist, published in *Corriere Economia* on 5 November 2012.

DEVELOPMENT

Performance Management

The term Performance Management indicates the process, carried out using a dedicated software programme, that defines, monitors and assesses the value of the contribution of each individual employee. This assessment is based on a series of predefined indicators critical to the success of both the company and the employee.

PM is a unique, vital opportunity for personal development and guidance; during the process, particular value is given to feedback, with an open dialogue between the employee and management. In short, we could say that Performance Management starts from the past to improve the future.

PM involves all of Pirelli's white collar personnel worldwide (executives, middle management and office personnel). The Opening stage takes place between January and March, while the Closing stage takes place one year later, when the process is restarted for the following year. 2012 therefore saw the closure of the previous year, which showed that 2011 was the year with the highest rate of *redemption* to date (namely the percentage of completed assessments): 95% (of a total of around 6,000 people assessed), among whom 99.7% of women successfully completed their process of Performance Management.

Alongside this significant result in terms of quantity, there is another consideration linked to the quality of the assessments: the introduction of Calibration Meetings. These are meetings organised by the managers of individual functions, Business Units and countries, those they report to directly and the HR managers in question. During these meetings the assessments of the people belonging to that specific unit are discussed and evaluated together, with the aim of guaranteeing a shared, balanced distribution of assessments, and making the process more homogeneous and consistent.

In the last few months of 2012 the company started a process to implement a new PM software programme designed to be more flexible, more in line with company structure, more intuitive and usable, and perfectly integrated with the other Human Resources Management systems currently in use. The new Performance Management platform, chosen from the leading software packages on the market, will be launched on occasion of the 2013 Opening.

The new system boasts a range of innovative features:

the option of selecting objectives from a catalogue of corporate business indicators; *cascading* the objectives top-down; assigning technical competences that can be selected from a library organised into professional families. These new characteristics will sit alongside those present in the previous programme and included in the new programme with the aim of assessing the quality and efficacy of the work carried out and constructing a structured Development Plan which will enable the company to identify actions to support performance improvement and fulfilment of objectives assigned.

Competence Mapping

Starting from 2011, on the Performance Management platform, a skills mapping process was launched with the aim of:

- providing the Company with a complete and exact snapshot of the distribution of skills;
- providing the Company with suggestions for planning specific training campaigns;
- offering the supervisor an opportunity to discuss his/her subordinate's strengths and areas needing improvement;
- providing the supervisor with an overview of his/her subordinate's strengths and needs for improvement.

The professional families involved in the process were Industrial, Quality and HSE, in seven countries (China, Egypt, Italy, Romania, Turkey, United Kingdom, United States, and Germany).

In 2012, drawing on the results of 2011, the technical competences viewed as crucial for covering the various roles in all the professional families were mapped and built into a catalogue of selectable competences in the Performance Management software programme, enabling the com-

pany to identify the areas in which specific competences are present, with a view to the mobility and transferability of resources.

TRAINING

Training processes for Pirelli personnel are currently based on three different elements, which form the basis for designing both local and international programmes.

- Development needs for individual skills, emerging from the annual performance review. Following the performance assessment process, training needs are identified, and based on this plans and programmes are formulated, often on a local basis. Each country therefore organises a local training catalogue. In the factories the process is similar: training needs are identified and analysed by means of regular skills assessments, analysing the performance of quality and efficiency indicators of the machinery assigned to each team.
- The need to develop and align strategic technical and professional competences according to function or professional family. The central departments periodically identify the competences that need to be updated or circulated in their professional family, also drawing on the results of competence assessment campaigns. In this case training programmes are organised on a central level, by department, and delivered both centrally and locally, based on common elements.
- Identifying and developing talents. At the central level programmes for junior managers and middle managers are organised. These programmes are based on Development Centre activities and a subsequent training session regarding managerial skills. This training is known as the Career Development Programme.

In 2012 total training at Group level involved more than 80% of the company's entire personnel, with an average total of 5.1 training days per capita.

The company made a significant commitment to training on Health and Safety, with around 20% of total classroom hours devoted to training employees on various aspects of safety in the workplace and this form of "culture".

The slight decrease in the amount of training in 2012 compared to the two previous years is due to the lesser needs of the new industrial initiatives, which invested significantly in training during their start-up phase, in 2010 and 2011.

Looking in detail at the main training initiatives in 2012, it

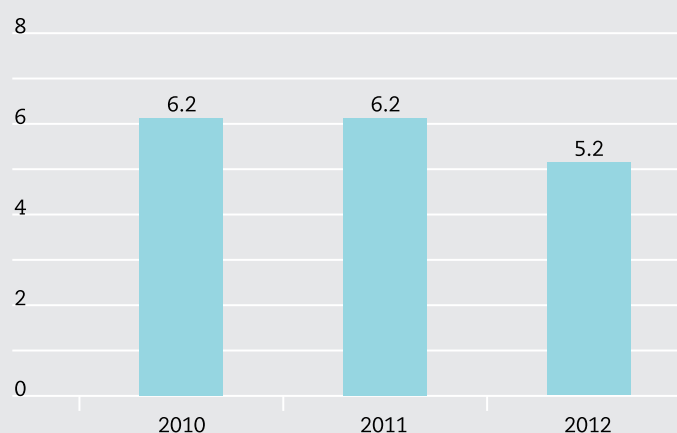
is interesting to highlight – among many – the following actions undertaken for management and staff:

- training campaign regarding Premium Strategy for the commercial area (both Sales and Marketing). In 2011 this was rolled out in European countries (277 people) while in 2012 the programme involved all the other *regions*, a total of 450 people.
- the launch of the online certified product training platform for *dealers* in all countries. This platform is progressively reaching thousands of *dealers* around the world and will be part of employee training in the planned Commercial Academy, with the appropriate integrations and additions.
- In 2012 the Career Development Programme (mentioned in the paragraph on scouting and talent management) involved 118 junior managers in the Junior Programme (with a total of seven days of training per capita) and 81 middle managers and senior professionals in the Middle Programme (with a total of six days of training per capita).

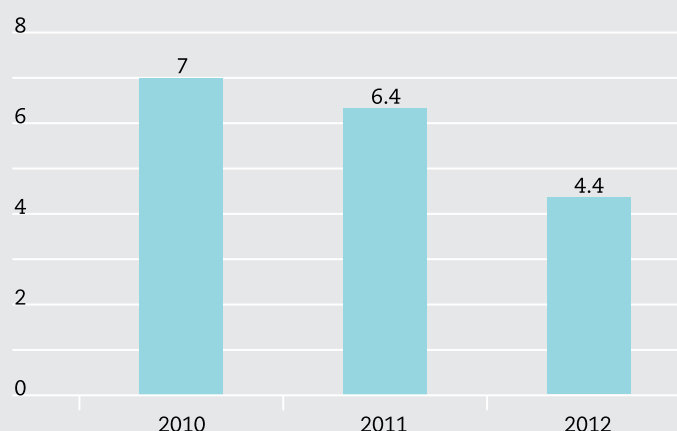
With regards to country level initiatives, mention should be made of the following experiences:

- Romania. A second level masters programme for new graduates was launched in collaboration with the University of Craiova (engineering) with the aim of training young technicians with skills in the applied/industrial area. Every year dozens of young people take the masters course, which involves work placements and training in Pirelli guided by the management and senior *professionals* in the company. The best students are invited to join the Group. Another initiative was the launch of the “Six Sigma” programme, which involved all the technical departments of the company with the aim of increasing efficiency and

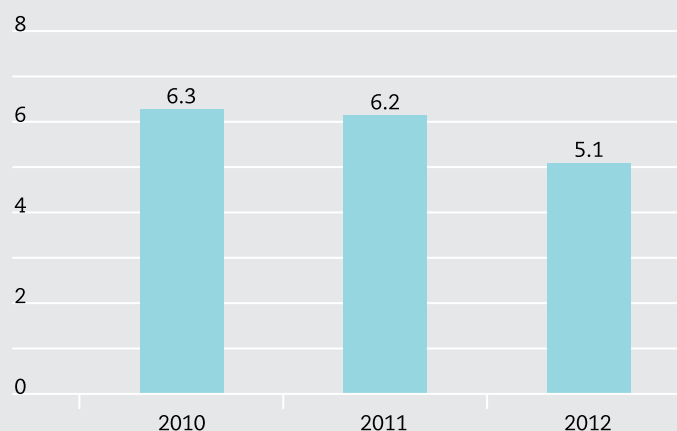
AVERAGE DAYS OF PER-CAPITA TRAINING: BLUE COLLAR



AVERAGE DAYS OF PER-CAPITA TRAINING: MANAGEMENT + STAFF



AVERAGE DAYS OF PER-CAPITA TRAINING: PIRELLI TOTAL



alignment in company processes. This programme involved almost all of the personnel in technical departments (the amount of training in 2012 totalled 13.2 days per capita).

- Argentina. Many training programmes were in progress in the factory, regarding current investments in processes and machinery (training activities totalled 20.2 days per capita)
- China and Mexico. Investments in training continued, in line with the development and expansion of new industrial initiatives.
- Italy. October 2012 saw the launch of a significant training and awareness raising programme on *Safety*, involving all factory and office personnel, including the executive group.

From mid 2012 the company initiated a complete overhaul of its training model, based on creating a School of Management with the aim of developing key, strategic management skills across management, including on a local level, and setting up international professional Academies to ensure that the key competences of technical/professional innovation remain up-to-date and in alignment.

The new training model will be launched at the beginning of 2013, at the same time as the launch of the Performance Management process for 2013, which is also completely reviewed and updated (see the paragraph devoted to Performance Management). This model aims to continue and increase the already high level of investments in training, giving the actual training delivered an increasingly practical approach tailored to the company's strategies.

2013 will also see the implementation of a new process of training assessment, which will enable the monitoring of individual participation, ensuring precise, detailed information on participants (divided by

gender, function, age and other data if necessary).

This approach, which involves significant, ongoing investments devoted to developing and updating our employees' key, strategic competences, will entail an increase in total investments in training to move towards the target set last year of an average of 7 days of training per capita by the end of 2015.

Sustainability training

2012 saw the continuation of training regarding the Pirelli Model of Sustainable Management in line with the three-year plan. Training was diversified according to the target group.

In the context of the international corporate course Pirelli's Joining the Group, Pirelli presents the Group's Sustainable Management strategy to all new employees, starting from the *multi-stakeholder* approach in the context of integrated economic, environmental and social management.

The Pirelli Training Model also draws new employees' attention to the Group's Sustainability Policies and the commitments they involve, as detailed in the Ethical Code, the Code of Conduct, the Equal Opportunities Policy, and the Policy of Social Responsibility for Occupational Health, Safety and Rights and the Environment. In addition to this Pirelli conforms to and upholds the contents of the "Universal Declaration of Human Rights", the International Labour Organisation's "Declaration on Fundamental Principles and Rights at Work", the "Rio Declaration on Environment and Development" and the United Nations "Convention against Corruption", as well as the indications of Standard SA8000® and internationally recognised human rights, including the abolition of all forms of forced labour and child labour, the right to bargain, equal opportunities and the elimination of discrimination.

All of the above, interpreted in terms of implementing the Group's action plans, was also delivered as training to all of the Group's Sustainability Managers and Buyers at the end of 2011, in view of the SA8000 Audit carried out by an external company at Pirelli's Affiliates, and the Sustainability Audits carried out on suppliers (covered elsewhere in this report).

GROUP OPINION SURVEY

Different actions targeting employees were implemented in 2011, both at the local and Group levels, aiming at improvement in the criticalities that emerged during the last edition of the Group Opinion Survey conducted in 2010.

Each country elaborated its own improvement plan, focused almost entirely on specific issues of local interest. These plans were periodically monitored by the corporate headquarters Human Resources and Organisation Department.

Here are the corporate initiatives taken at the global level:

- reinforcement of all supervisors' leadership skills, at various levels of the organisation (see the section dedicated to Training for details);
- greater focus on the benefit and welfare systems already existing in all countries, but for which greater visibility has been requested for employees.

Employee surveys are carried out periodically: a new global survey was scheduled for the end of 2012. Due to commitments regarding major business initiatives this was postponed until the first semester of 2013. As usual the employee survey will be a key opportunity to implement specific new measures on a global and country level aimed at increasing employee satisfaction and *engagement*.

INTERNAL COMMUNICATION: INTERNATIONAL OUTLOOK, ENGAGEMENT AND SHARING

In 2012 internal communications played a fundamental role in raising Pirelli employees' awareness of strategic corporate decisions with a view to ensuring increasing engagement. To support this the internal communications tools – including the company intranet – are now covered in

employee training for the first time, as part of the three-day training programme that the company organises for new employees.

THE NEW INTRANET

Pirelli's new intranet went live in September 2012 after feedback was gathered on an international level by means of interviews with different target groups of employees.

The launch was preceded by a internal communications campaign using audiovisual materials featuring employees of various nationalities with the aim of fostering the engagement of the entire Pirelli community.

For the company the aims of this *digital innovation* initiative were and are:

- to foster more immediate operativity – for both individuals and their teams – by supplying professional tools and applications online, tailored to the different clusters of employees;
- to foster a new way of working together on projects – within professional families and communities of practice – thanks to the use of collaborative platforms typical of web 2.0;
- to make all employees familiar with the company's organisational models, management policies and strategic plans using the new information tools;
- to relaunch country engagement in support of Pirelli's highly international outlook.

Starting from the composition of the home page, the Pirelli intranet is a content-rich tool that features various widgets to access services delivered across the board by different company departments.

THE LAUNCH OF ON AIR, THE CORE OF COMMUNICATIONS ON THE INTRANET

In the new intranet communications continue to serve business strategies, ensuring continuity with past years by a dedicated area known as On Air.

- The new editorial initiative focused on the company's international outlook, creating a space generated directly by the different countries, with news of international interest benefitting the whole of the Pirelli community. This "container", which enabled us to create a section of user-generated content is known as "From the World".
- The "World map", which shows the position of the Pirelli

offices around the world, is also the result of collaboration with Pirelli country offices.

- An ad hoc editorial space is reserved for news of local interest in the various local languages.

At 31 December 2012 the intranet was accessible to 8,507 Pirelli employees globally, with worldwide circulation.

“GLOCAL” MAGAZINES

For effective internal communications: the new guidelines for Pirelli editorial products. As a company we want to develop an increasingly global outlook, and this is reflected in our internal communications. With a view to fostering communications on an international level, in 2012 the company launched an editorial project for company publications with a detailed toolkit of guidelines that enable the various products to be designed in line with Pirelli style and coordinated globally. Newsletters, *house organs*, manuals and presentations, both on paper and online: from fonts to images, in the multicultural world of Pirelli these new guidelines aim to provide a useful reference tool for everyone. As well as being accessible on the intranet the guidelines have been distributed throughout Pirelli countries by means of a targeted mailing list, with specific instructions for the countries that use Arabic, Cyrillic and Chinese script. Some of the paper and online newsletters are currently being reviewed to comply with the new editorial standards.

A NEW LOOK FOR WORLD

2012 saw the new editorial project for *World*, the *house organ* in English which is distributed throughout the various countries the group operates in. The aim is to create a magazine featuring not only articles about

the company, but with a range of reports, interviews with leading international figures of interest to our business and more general features on culture and current affairs.

Distribution will increase, and will no longer regard solely internal users, but also the external market, namely the company's *stakeholders* on an international level.

The project was preceded by an internal survey throughout the company *worldwide* to understand and assess the communications needs of the various countries in terms of addressing their target areas and with a view to establishing dedicated mailing lists.

SPECIAL INITIATIVES AND PROJECTS: THE NEW EDITORIAL PROJECTS FOCUS ON CREATIVITY MORE THAN JUST WORDS AND FIGURES

Among the special initiatives, special mention must be made of the high profile 2011 Annual Report, which for the first time was presented in “illustrated” form, featuring 18 images designed by the young Dutch artist Stefan Glerum and the work of leading international writers like the Spaniard Javier Cercas, the Argentinian Guillermo Martinez, the American William Least Heat-Moon and the German Hans Magnus Enzensberger, whose stories offered an alternative dimension in parallel to the report's facts and figures.

Another extremely successful editorial product was the book *Miles&Meals*, created to celebrate Pirelli's presence in the world's most prestigious racing championship. Published in four languages with a print run of 10,000 copies, the book offered an amusing and original combination of recipes and insights into the world of tyres.

:PBOOK GOES INTERNATIONAL

A year from the launch of :PBook, the Bicocca book club is now up and running in 14 Pirelli countries around the world, with the same format and the same aim: that of fostering integration among colleagues, independently of their professional family, also by means of cultural initiatives.

WELFARE AND INITIATIVES FOR THE INTERNAL COMMUNITY

For several years now, the Group has been implementing a series of measures in various areas to support its em-

employees, from healthcare to company discount arrangements with various entities, from social to leisure time activities and assistance for families and their children. At the end of 2011 an *ad hoc* organizational function was set up – the Group Welfare Manager – with Group level responsibility, confirming the increasing attention dedicated to this issue.

The Company's initiatives for the Internal Community have always varied from country to country, and address 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. Periodic surveys and exchanges of experiences with the management located in different countries has shown that the work/professional services and private/family services offered to the Internal Community can be broken down into four basic areas of action:

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

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). Studies were conducted in each country to determine implementation of the guidelines.

Among the new initiatives recently designed, mention should be made of "Pirelli Plus" and "Nasce una mamma" (A Mother is Born) set up 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. Several other services will be subsequently added, to provide services and discount programmes with service providers that free up employee time so that they can better use their own free time.

"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). But that is not all: upon returning to work after maternity leave, mothers are invited to participate in a training course designed to support the resumption of work and help them reconcile personal and professional commitments.

With regards to the rate of work resumption following maternity/paternity leave, and the rate of retention one year after returning to work, the figures for Italy and Romania can be presented: in 2011 98% of Italian employees on maternity leave returned to work. After a year, therefore in 2012, the rate of retention was 93%, while in Romania the rate of return to work in 2011 was 100% and the retention rate after one year was also 100%.

With regards to parental leave for fathers, although this opportunity attracts increasing interest, it is little used in Italy. Pirelli is extremely aware of this situation, and is in the process of analysing the reasons behind it both in Italy and abroad, to get a better picture of the dynamics involved, including and above all of a cultural nature, in order to give further support to new mothers and fathers and help them take advantage of the opportunities that the law and the company offer.

With regards to celebratory events for employees and their friends and families, as usual the company organised a number of open days on various sites. In terms of health assistance, Pirelli factories have always had infirmaries, with medical personnel and specialised doctors available for all employees during working hours. These facilities also offer first aid services, advice for health problems not connected to the workplace and health surveillance for

any workers exposed to specific risks.

The infirmaries also support the various health-related promotional campaigns that are launched on a local level, and prevention campaigns. Once more in 2012 Pirelli offered all its workers the opportunity to receive the flu vaccination free of charge.

In 2012 in Italy, as a result of a specific agreement with the trade unions, employees were given the opportunity to purchase four tyres per annum at a heavily discounted price. The procedure for selecting, booking, paying for and collecting the tyres was facilitated by a dedicated tool made available on the company intranet and in the factories, which could also be consulted from work stations equipped with PCs located in coffee break areas, entrances and changing rooms.

2012 saw the continuation of ongoing activities regarding Safety to support the circulation of a culture of safety throughout the company.

For 2013 the company has scheduled the launch of a portal offering access to other new services for employees, for example regarding the development of sustainable transport or access to significant discounts on goods and services.

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 the prevailing customs and practices 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.

During 2012 this area saw successful negotiations regarding the renewal of collective contracts in various sites, including Brazil, Mexico, Turkey and Romania.

As a consequence of the serious recession situation that has affected European sales in the Truck segment, the company continued its work restructuring the industrial hub in Settimo Torinese, a process which began in 2009. In particular, in October the company signed an agreement with workers' representatives and local trade unions with regard to sharing, defining and managing the 2013-2015 Industrial Project. The Project entails further investments totalling around 43 million Euro in addition to those agreed in November 2011 and aimed at reviewing production processes by: (i) ceasing production for the Truck segment as of 1 January 2013; (ii) installing and starting up the second Next Mirs production line by July 2013; (iii) gradually installing four packaging machines and the related production processes between April 2014 and April 2015. In order to develop the necessary competences and technical/professional skills required by the new production processes detailed in the Industrial Plan, the company will initiate a training programme entailing an average of 48 hours of training per capita to be carried out during working hours. This agreement also established the strategies for managing redundancies and restructuring.

In the context of corporate restructuring processes prompted by the recession, in February 2013 the company initiated a dialogue with trade union representatives from the German plant in Merzig regarding the closure of the site that currently employs around 100 people.

On the production site in Arese Pirelli Eco Technology S.p.A. continued its cost-cutting operations to tackle the drastic drop in sales of retrofit systems, including transferring excess personnel to Pirelli Tyre S.p.A. 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 each site.

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.

PERSEVERANCE

WE HAVE HEARD A HUNDRED KEYNOTE SPEAKERS
DREAMS AND INNER PASSIONS
SCIENTISTS UNIVOCALLY STRESS ENVIRONMENTAL ISSUES AND
COMMIT TO 'CLEANER' PRACTICES
APPEARS TO HAVE DISCOVERED AND EVEN OVERCOME
ECONOMIC AND PERSONAL LIMITS
A STEP TOWARDS IT. WITHOUT ADAMANT PERSEVERANCE, ENVIRONMENTAL
SOCIAL RESPONSIBILITY WEBSITE SECTION
WATER COOLING

NINE-TO-FIVE WORKERS; AND THE GLOBAL ECONOMY WILL GRIND DOWN TO A PULVERIZED
TO THE PRINCIPLES WE LAID DOWN FOR A BETTER FUTURE AND REPLACE THEM

NCE IN 2013,

**EECHES ON THE IMPORTANCE OF INDIVIDUAL
ASSION, WE HAVE SEEN**

ND LIKEWISE, WE HAVE SEEN COMPANIES STATE THEY WILL

L IN 2013, WE ARE A SOCIETY THAT

ER-ANALYZED THE PATH TO EXCELLENCE IN OUR

IVES YET NOT ALWAYS MADE

RONMENTAL ISSUES WILL REMAIN BULLET POINTS ON COMPANIES'

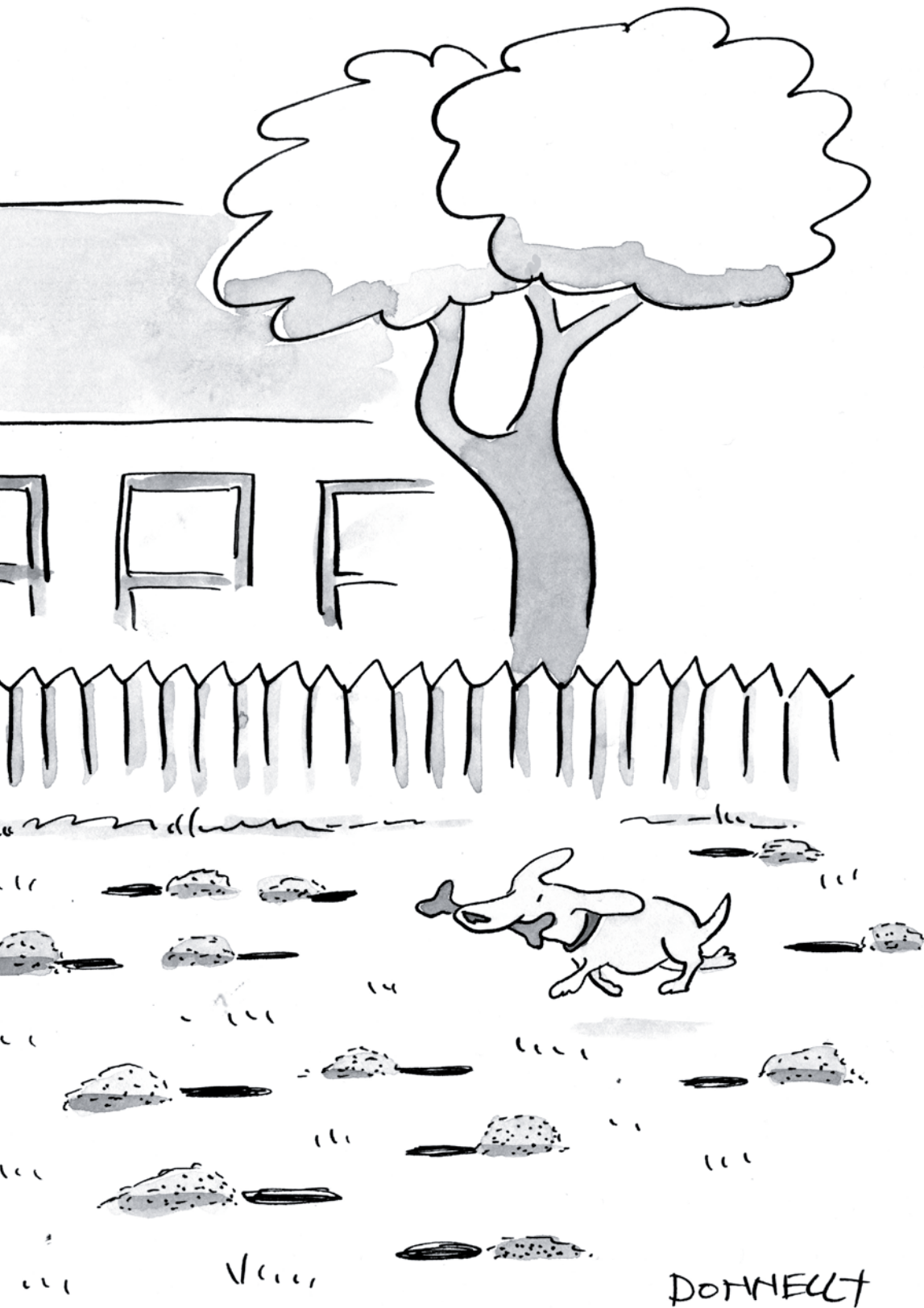
ONS; SELF-FULFILLMENT WILL REMAIN A

ER DREAM OF

**PREDICTABLE STALEMATE. WE NEED PERSEVERANCE TO ADHERE IN OUR ACTIONS
ERE HOT AIR WITH THE STEAM OF ENGINES OF INNOVATION AND AMBITION.**



“He persevered and



DONNECT

finally found his favorite bone."

The Group's commitment on Health and Safety also involved the participation of Industrial Relations through the participation of trade unions at many of the sites where Pirelli operates, as allowed by local laws in different countries. 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. This is done in view of continuous dialogue aimed at improving the various activities performed by Pirelli to protect the health and safety of its employees.

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 Annual Financial Report, for updates 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. The Committee currently has 14 members from the Pirelli sites located in the countries entitled to representation on it: Italy, Germany, Spain, Sweden, Romania, and the United Kingdom.

COMPLIANCE WITH STATUTORY AND CONTRACTUAL OBLIGATIONS GOVERNING OVERTIME, TIME OFF, FREEDOM OF ASSOCIATION, EQUAL OPPORTUNITIES AND NON DISCRIMINATION, BAN OF 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 worker's right to use his/her total number of holidays, and the holiday period is generally agreed between the worker and the Company.

Likewise, and as has been publicly declared in the Group Social Responsibility Policy, Pirelli opposes child labour, forced and 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, Pirelli monitors application of the prescriptions governing social sustainability and, in particular, compliance with human and labour rights through periodic audits performed both by independent consultants and by the Pirelli Internal Audit Department. In Pirelli this department enjoys a high level of independence: as well as to the Board of Auditors it reports to the company's Committee for Internal Control, Risks and Corporate Governance, made up entirely of Independent Administrators.

Particular attention is devoted to the sustainability of Pirelli's sites (and the company's suppliers) operating in emerging countries and countries viewed as at risk (in line with the definition of Countries of Concern formulated by EIRIS). The three year internal auditing plan regards all Pirelli sites. Normally every audit is carried out by two auditors and takes three weeks on site. The Internal Audit Team receives training on the environmental, social and ethical elements of an audit from the directors of the various departments to enable them to carry out an effective, clear and structured audit, giving Pirelli effective control over all aspects of sustainability.

All the managers of the affiliates involved in the audits receive training on the purpose and procedures of the audit from the central departments in question: Sustainability and Industrial Relations.

Internal and External Auditors conduct their audits on the

basis of a checklist of sustainability parameters derived from the SA8000® standard (a reference tool officially adopted by the Group for the management of social responsibility since 2004), from the Pirelli Health, Occupational Safety, Environment and Social Responsibility Policy and the Group Ethical Code. Third party audits, each lasting an average of three days on site, include extensive interviews with workers, management and trade union representatives.

In 2008 independent audits were conducted at Company sites located in Turkey, Brazil, Venezuela, Argentina, Egypt, China, Romania, Colombia, Mexico and Chile.

In 2011, Pirelli commissioned new, independent audits at production sites located in Argentina, Venezuela, Brazil, China, Egypt, Turkey and Romania.

In 2012 the Internal Audit function carried out audits in Italy, Brazil, Argentina, Venezuela and Turkey. Audits will continue in 2013 in Argentina, Germany, the United States, Romania, Egypt and Brazil.

Although the instances of non-compliance revealed by the audits were not serious, they were addressed in action plans agreed by the local managers and central management.

It should be noted that none of the audits revealed any breach of the ILO's Core Labour Standards, with specific reference to forced labour or child labour, freedom of association and bargaining, and non-discrimination.

LABOUR AND SOCIAL SECURITY LAWSUITS

In 2012, as in the past, the level of work and social security litigation remained low, thanks to a continuing trend of conflict avoidance, substantially in line with previous years.

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. Labour lawsuits are widespread in that country and reflect the local culture. Therefore, it concerns not only Pirelli but also other multinational companies operating in Brazil. 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 five continents). However, it is estimated that about half the Group's employees are trade union members.

The percentage of workers covered by a collective bargaining agreement in 2012 rose from previous years, reaching 84% as compared with 82% in 2011 and to 78% in 2010. This figure is associated with the historical, regulatory and cultural differences between each country.

In 2012 there was an increase in the total average number of conflicts compared to the previous year as a result of the exceptional industrial action, lasting for more than 50 days, at the factory in Alexandria, Egypt, connected to the situation that has characterised the country for the last two years. This situation, which has affected many companies, ended with the signing of a trade union agreement at the Egyptian Ministry of Labour. Industrial action also took place in the Brazil factories of Campinas and Feira de Santana during the process of renewing the collective labour agreements, which were subsequently signed.

OCCUPATIONAL RETIREMENT AND HEALTH-CARE PLANS

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 fa-

vour 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 plans exist in The Netherlands, but they represent a relatively insignificant liability for the Group.

Group affiliates provide supplemental 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 note 22 ("Employee benefit obligations") and 31 ("Personnel expense") in Volume Y of the Annual Financial Report at December 31, 2012.

OCCUPATIONAL HEALTH, SAFETY AND HYGIENE

"The Pirelli Group safeguards health, safety and industrial hygiene in the work-place, 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 Values and 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."

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 Policy for Occupational Health, Safety and Rights, Environment)

"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 the Pirelli internet site.

SAFETY MANAGEMENT SYSTEM

A Safety Management System organised and certified to meet OHSAS 18001:2007 standards has long been in operation at Pirelli Tyre S.p.A. (which also comprises steel cord production plants).

All certificates have been issued with the SAS international accreditation (SAS is the Swiss Accreditation Service, which assesses and accredits compliance assessment bodies – laboratories, inspection and certification bodies – in accordance with international rules).

To date all Pirelli Tyre production sites are certified according to this standard, with the exception of:

- the plant in Rome (United States), which in line with local legislation already has a management system comparable to the OHSAS 18001 standard. For this reason further certification would be in parallel, and of relative value;

- the two recently acquired Russian factories (Kirov and Voronezh);
- the recently completed factory in Silao, Mexico;
- the site currently being completed in Yanzhou (China) for the production of steelcord.

As scheduled, in 2012 certification was awarded to the production plant in Venezuela for the Tyre sector, and the certification process (integrated environmental and safety management system) concluded successfully for the Eco Technology plant in Romania (particulate filter sector).

In 2013 the procedures for certifying the safety management system in the new Russian plants will get under way, along with the procedures for certifying the environmental management system in the new Voronezh plant in Russia (the plant in Kirov already has ISO 14001 certification) and those for environmental and safety management in the plants in Silao (Mexico) and Yanzhou (China) producing steel cord.

The Safety Management System implemented at the Pirelli Tyre production units has been developed on the basis of common procedures and guidelines drafted at corporate headquarters. This has enabled the use of a common language within the Group, in terms of the key elements of occupational safety management and a uniform shared mode of operations.

SAFETY CULTURE

The zero injuries target is a precise and strong position taken by the Company that affects everyone. From an industrial point of view, this objective is pursued through a major plan of investments for technical improvement of work conditions, while constantly insisting on the cultural and behavioural aspect of all Company players. Safety culture is of paramount importance, and it is necessary to pursue it in accord-

ance with the rules, while maintaining a very clear idea of everyone's responsibilities to themselves, others, and their family. In this area as well, fostering engagement and ongoing communications between management and staff has proved a successful strategy.

In 2012 the company continued to reinforce and consolidate the behaviour-related aspects of safety culture. We have maintained and developed the focus on Leading Indicators, namely measuring what preventive measures should be implemented and how this should be done, rather than Lagging Indicators, namely reactive indicators such as the number or frequency of accidents.

Pirelli strongly believes that leaders play a strategic role in risk prevention. Their behaviour must therefore be an example for all employees. Management must make a clear, visible *commitment* to safety culture in order to achieve the ambitious aims that the Group has set itself.

In 2012 Pirelli continued its work as an official partner of the European Agency for Safety and Health at Work (EU-OSHA). Every two years the Agency tackles a different issue. The theme for the 2012-2013 period is "Working together for Risk Prevention". The aim is to further support management when it comes to showing leadership in the context of health and safety at work, and fostering worker participation. Workers and their representatives are encouraged to share their ideas and work with management to improve health and safety for all.

In spring 2012, concluding the "Excellence in Safety" project at the Settimo Torinese site, a re-assessment was carried out by DuPont, the company Pirelli has been working with since 2008, in order to assess progress made in terms of safety culture, measured using the Bradley Curve¹. The re-assessment showed a considerable improvement in the results achieved by the site compared to the levels identified at the start of the project in 2008. The efforts of all personnel at the site to implement preventive measures such as the "Safety Dialogues" and "10 minute meetings" reduced the rate of accidents by around 80% between 2008 and 2012.

The principles and guidelines of the "Excellence in Safety" project are already being circulated to other operating units and form the basis of the Safety training delivered during the start-up period at the new production sites (Mexico, Russia).

¹ The Bradley curve is the tool used to measure the level of operating maturity on safety issues in an organisation. The curve shows whether a firm is reactive (i.e. whether it waits for a negative.

Throughout 2012 the company continued to deliver initiatives aimed at changing internal culture, including the monthly *Safety Bulletin* newsletter, and regularly publishing news about significant events using the traditional in-house communications channels.

SAFETY TRAINING

In addition to safety training offered locally at every Pirelli location (which has been illustrated in the section of this report dedicated to employee training), special mention has to be made of Group activities and projects, which simultaneously target several countries by allowing an alignment of culture and vision, fully benefiting pursuit of the Company's own improvement targets.

The fifth edition of the Pirelli Health, Safety and Environment global meeting was held at the plant in Settimo Torinese (Italy) and its aim was to share their best practices as applied to various global sites. Theoretical studies and practical applications were dealt with on that occasion.

The meeting opened with a message from the President, reinforcing the value that Health, Safety and Environment activities have for Pirelli.

The event also communicated the HSE vision and targets for the 2013-2015 period in order to draw up operative guidelines that will enable the company to fulfil its sustainability objectives.

MONITORING OF PERFORMANCE

As well as establishing specific guidelines and procedures for implementing management systems, the web-based Health, Safety and Environment Data Management (HSE-DM) system, elaborated and managed at corporate headquarters by the Health, Safety and Environment De-

partment, makes it possible to monitor HSE performance at every production site in the Tyre business and prepare numerous types of reports as necessary for management or operating purposes.

In particular, the HSE-DM system collects all information about accidents that occur in factories (accident analysis, corrective measures adopted, etc.). If the dynamics of a particularly noteworthy 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 pool the solutions adopted by the various sites and share those that are considered the best.

In 2013 the HSE-DM system will be further developed, enhancing its data management and analysis capabilities. In addition to this the system for sharing information between the group's sites will also be improved.

PERFORMANCE

In 2012 the accident frequency index (FI) (the ratio of the number of reported accidents in relation to the number of hours actually worked) fell by 30% overall compared to the previous year. The gravity index (IG) continued to decrease.

The target set in the Group's strategic plan envisages a 60% reduction in the frequency index by 2015 as compared to 2009. It should be highlighted that the frequency index for women is considerably lower than the Group's average due to the fact that, compared to male employees, most of the female employees are engaged in activities with a lower level of risk. To better understand these data, it should be kept in mind that the Gravity Index (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.

The calculation of the aforementioned indices did not include "in itinere" accidents, which are separately dealt with in one of the following tables.

The following tables illustrate the principle indicators of the Pirelli Group. The calculation refers to the activities performed by all employees, both industrial and office employees.

Frequency Index (number of accidents per 100,000 / total hours worked)	2010	2011	2012
Pirelli Total	1.53	1.10	0.77

Frequency Index by gender	2012
Men	0.86
Women	0.18

Gravity Index (number of days lost per 1,000 / total hours worked)	2010	2011	2012
Pirelli Total	0.36	0.27	0.26

In-itinere accidents	2010	2011	2012
Pirelli Total	115	142	136

FATALITIES

With reference to the three-year period in question:

- on 30 September 2012 there was a fatal accident involving an employee at the factory in Carlisle, United Kingdom. The circumstances surrounding this tragic event are held to be “unclear” and are therefore being investigated by the police. As of January 2013 investigations are still being carried out by the British “Health and Safety Executive (HSE)”, with the full support of Pirelli;
- there were no fatal accidents involving employees of the group in 2010 and 2011;
- in 2012, 2011 and 2010 there were no fatal accidents involving employees of external contractors working at the Group’s operating sites.

BEST PRACTICES

In the industrial world of Pirelli Tyre, it should be highlighted that Steelcord Romania completed 2012 without accidents. The Brazilian sites (Santo André, Feira, Sumaré, Campinas) showed excellent results, with a reduction in the index of frequency year on year of more than 40%.

These results should be connected to the constant focus on leading indicators, namely in terms of prevention.

OCCUPATIONAL DISEASES

As can be observed in the following table, the Frequency Index of occupational diseases at the Company fell steeply over the three-year period, to 0.10 in 2012.

Occupational Diseases (number of occupational diseases per 100,000 / total hours worked)	2010	2011	2012
Pirelli Total	0.25	0.07	0.10

HEALTH AND SAFETY EXPENDITURE

In 2012 health and safety expenditure by Pirelli Tyre totalled more than 14.7 million euro.

Pirelli Tyre Expenditure (millions of euro)

- 2010: 14.1;
- 2011: 12.2;
- 2012: 14.7.

The expenditure made targeted improvements on machines and plant and, more in general, the 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.).

HEALTH AND SAFETY TARGETS

Quantitative 2012-2015

- Reduction in Frequency Index of accidents in accordance with 2011-2014 strategic plan with Vision to 2015: the target is a 60% reduction from 2009.

Qualitative

- OHSAS18001 certification of the Guacara factory (Venezuela): achieved;
- 2011-2012: consolidation of new POW-RA tool (point of work risk assessment) for maintenance activities: training in progress at the Brazilian sites;
- 2011-2012: integration of a HSE module in the Process Kaizen Engineer training course: this aim has been broadened to include HSE training in the new Operations Academy;
- 2011-2012: defining a Group-wide standard for Non-monetary Rewarding on HSE issues: following data gathering on practices already in use in all of the Group's factories (in general, focussing on rewarding "leading" initiatives) and in respect of local cultures, it was decided not to introduce a Group-wide standard.

- 2013-2014: OHSAS18001 certification of the sites in Silao (Mexico), Voronezh and Kirov (Russia), and Yanzhou Cord (China);
- 2013-2015: implementation and consolidation of the systems Behaviour Based Safety (BBS), LockOut tagOut (LOTO), and Point of Work Risk Assessment (POWRA).

HEALTHCARE ASSISTANCE DURING WORKING HOURS AND PREVENTION CAMPAIGNS

The infirmaries at the production units offered all employees care by health care workers and specialised physicians on duty during working hours. These facilities provide first aid care, advice on health problems unrelated to work and health supervision for workers exposed to specific hazards. Once again in 2012, 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.

4.2 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 Values and Ethical Code – The wider Community)

In all countries where Pirelli operates, the aim of its institutional relations is focused on the creation of stable, long-term relations with institutions. The purpose of doing so is to legitimately represent Group interests through, inter alia, participation in the various phases of the decision-making process and cooperation in public interest initiatives.

All activities are characterised by maximum transparency, legitimate authority and responsibility for all information that is published and all actions taken by the Group in its institutional relations.

In the process of consolidating and developing institutional relations, Pirelli focuses on carefully monitoring and analysing the legislation and regulations in force with a view to verifying possible areas of interest as well as identifying the *stakeholders* in question. To guarantee optimum comprehension of the activities performed and the interests represented, institutional interlocutors are targeted by a constant flow of information about the industrial identity of the Pirelli Group, its principal business activities, the development of new process and product technologies, and, last but not least, elements of economic, environmental and social sustainability.

This constructive dialogue is further enhanced by numerous projects and initiatives produced in collaboration with the institutions to promote and support issues of public interest and foster the widespread circulation of a culture of environmental and social sustainability, in the belief that business interests should take the wellbeing of the local community into account.

The geographical scope of the Pirelli Group's industrial and economic interests calls for an extended network of institutional relations on a national, European and international level.

In Italy, the Group interacts in a system of relations involving the most important institutional bodies at both the national and regional levels. At the parliamentary level, it analyses draft legislation affecting the Group, focusing on the initiatives taken by the standing committees of the lower house of Parliament and the Senate, and occasionally offering support to parliamentary activity in the form of technical information transfer and studies and

specialised analyses concerning the Group's activities. At the government level, Pirelli maintains constant relations with the Prime Minister's Office and the principal ministries and related governmental entities that have an impact on the Group. At the regional level, Pirelli devotes special attention to relations with governmental bodies in the regions where Pirelli has a presence with its production plants.

During the year the Department of Institutional Affairs worked intensively to safeguard and support the Group's interests, intervening on various levels of the political/administrative system, and ensuring the most effective representation. Of particular note, among the ordinary activities carried out to safeguard the Group's interests, were a number of initiatives designed to help fulfil the Group's business objectives, by means of:

- supporting industrial development, with particular reference to research and development projects;
- promoting and developing international institutional relations in countries where the Group has industrial sites;
- analysing and gathering knowledge on the impact of regulations regarding end of life tyres;
- raising awareness of road safety issues and the correct use of tyres in extreme weather conditions.

In this context, with the aim of ensuring greater understanding of its business objectives and values, the Institutional Affairs Department arranged meetings with high profile representatives of the institutions. Described below are the most significant of these:

- on 17 January 2013, the President and CEO of Pirelli, Marco Tronchetti Provera, and the Minister for the Environment, Land and Sea, Corrado Clini, signed a new agreement to reduce the impact on the climate caused by the production and use of tyres. The agreement sets out the second phase of the terms established by the Group and the Ministry in January 2012, during the international conference "Driving Sustainability: a "Safe Road to the Future". In particular, at this second stage Pirelli and the Ministry will initiate a process to research technologies aimed at reducing the impact on the climate of the production and use of car tyres produced by Pirelli in Brazil. In the context of the collaboration with the Ministry for the Environment, Pirelli renewed its commitment to measure the carbon footprint of the entire life-cycle of one of its tyres, using internationally recognised calculation methods, and develop technologies and practices

- to reduce the emissions of greenhouse gases that can be applied throughout the industry, once more demonstrating its full, proactive collaboration with the institutions;
- last October, on occasion of the company's 140th anniversary, the president of Pirelli, Marco Tronchetti Provera, together with a delegation of top management were received at the Quirinale palace by the Italian President Giorgio Napolitano. During the ceremony, which took place in the imposing Pendola hall, the Group was delighted to present the Italian President with a painting depicting the original building of the first Pirelli factory in via Ponte Seveso in Milan, a reproduction of the manuscript of the company's Articles of Incorporation and a photographic history of Pirelli with an introduction by the company's President Marco Tronchetti Provera;
 - in March, implementing the agreement signed with the Ministry of the Interior and the Ministry of Education, Universities and Research regarding the development of joint initiatives aimed at reducing road accidents and promoting the culture of road safety, Pirelli took part in the Icaro project, a road safety campaign organised by the Police, the Ministry for Infrastructures and Transport and the Ministry of Education. The initiative, which is designed to raise road safety awareness and culture in the young and very young, targeted children between the ages of 3 and 6, and students at ten Italian universities.
- Relations with the European institutions – the European Commission, Council and Parliament – are also viewed as extremely important. The activities involved in analysing the impact of legislation, circulating and communicating the objectives in hand and ensuring ongoing interaction with

community institutions are based on maximum transparency and integrity, in order to contribute to fitting, mindful legislative choices.

The Pirelli Group is a member of the European Transparency Register established and run by the European Parliament and Commission with the aim of improving levels of transparency in EU decision-making processes.

Once more in 2012, among other important initiatives, Pirelli renewed its commitment to combating climate change on 23 November by signing *The Carbon Pricing Communiqué*, the new document of the Corporate Leaders' Group on Climate Change, that promotes the adoption of energy policies aimed at reducing CO₂ emissions.

The established presence of Pirelli in various parts of the world means forging and managing a network of ongoing institutional relations in all the countries where the Group has industrial interests. In order to ensure the involvement of the institutions in question, above all when it comes to processes of development, Pirelli organises meetings, projects and public initiatives with the main institutional representatives.

In November on the industrial site of Slatina, on occasion of the visit of the Romanian Prime Minister Victor Ponta and the Italian ambassador to Romania Mario Cospito, the company presented the new investment plan geared at extending the site, and Pirelli once more noted the appreciation of the Romanian institutions for its work.

The new plan will increase Premium production capacity at the Slatina site and help the company move towards its aim of achieving world leadership of this segment by 2015. On 7 September 2012, the Indonesian Deputy Minister Coordinator of Industry and Trade Edy Putra Irawady, accompanied by a delegation of staff, visited the Bicocca head office in Milan. The meeting regarded Pirelli's investments in Indonesia for the construction of a new factory that will not only strengthen the productive capacity of B.U. Moto, but also give the Group a direct presence in the leading economy of the ASEAN area.

On 18 June 2012, in Rio de Janeiro, at the International Conference for Sustainable Development organised by the United Nations – Rio+20 – Pirelli presented a number of projects for Brazil to be implemented in collaboration with the Ministry for the Environment, Land and Sea and the state of Sao Paulo. The projects, aimed at analysing and reducing the impact on the climate of the production of tyres in the Campinas factory, were presented among the

initiatives of the Italian pavilion of the Rio+20 Conference in the presence of the Minister Corrado Clini.

PRINCIPAL INTERNATIONAL COMMITMENTS FOR SUSTAINABILITY

A number of the principal commitments made by Pirelli worldwide are illustrated as follows. The list does not include the numerous activities and agreements existing at the local level with Group affiliates.

ETRMA – EUROPEAN TYRE AND RUBBER MANUFACTURERS ASSOCIATION

After six years of Pirelli presidency, which led to ETRMA becoming the leading partner of EU agencies for the development of new industry regulations and instructions for implementing them, the association, with the help of the Pirelli Group, has worked extremely hard throughout 2012 to fine-tune the instructions for implementing the European Commission regulations on the general safety of vehicles and tyres and on energy efficiency.

In parallel, ETRMA stimulates EU countries to develop policies for monitoring the compliance of tyres in the EU market with EU regulations. ETRMA plays an active role in developing the new “Europe 2020” strategy, aimed at establishing the work of the Community in the business and social fields in the coming decade and continuing its activity in raising awareness of road safety and sustainable transport. Lastly, 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.

IRSG – INTERNATIONAL RUBBER STUDY GROUP

Pirelli is a member of the Industry Advisory Panel of the International Rubber Study Group (IRSG), an intergovernmental organisation that brings together rubber producers and consumers, acting as a valuable platform for discussion on issues regarding the supply and demand for natural and synthetic rubber.

In the context of IRSG, since 2012 Pirelli has also been involved in the “Sustainability Rubber Project”, with the aim of creating a global standard for Sustainable Management in the rubber industry.

WBCSD – WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

Again in 2012 Pirelli actively participated in the WBCSD – World Business Council for Sustainable Development, a Geneva-based association grouping about 200 multinational companies based in over 30 countries that have made a voluntary commitment to link economic growth to sustainable development.

In particular Pirelli Tyre is part of the Tyre Industry Project Group, launched in 2005 to take up but above all anticipate the challenges involved in sustainable development by assessing the potential impact on health and the environment of materials associated with the production and use of tyres. The project, which initially focussed solely on raw materials and tyre debris, with the aim of developing new knowledge and formulating a new approach in the industry, has extended its scope to nanomaterials, with a view to developing specific guidelines for the industry that can act as best practices for the research, development and production of new nanomaterials, ensuring that the use of any nanomaterial is safe for both people and the environment. The members of the group continued promoting best practices for end-of-life tyre management in emerging countries, to encourage their recovery and reuse as a resource (secondary raw material). This will make it possible to reduce the use of raw materials and environmental impact that this involves.

With a view to helping orient technological choices, management systems and policies for sustainable transport, Pirelli Tyre is also actively involved in developing and launching the new project Sustainable Mobility 2.0. This three year project (2013-2015) aims to speed up the im-

plementation of solutions for sustainable transport in terms of access to safe, reliable and comfortable transport for all, aiming for a zero road accident rate, low environmental impact, reduced energy demands and time saving.

EU-OSHA – EUROPEAN OCCUPATIONAL SAFETY AND HEALTH AGENCY

In 2012, for the fourth consecutive year, Pirelli continued to be an official partner of the European Occupational Safety and Health Agency (EU-OSHA). Every two years the Agency tackles a different issue.

The campaign for 2012-2013 is entitled “Working together for Risk Prevention”, and focuses on fostering leadership in the context of health and safety at work, fundamental when it comes to involving all members of personnel in reducing the number of accidents in the workplace.

Pirelli strongly believes that leaders play a strategic role in risk prevention. Management must therefore make a clear, visible *commitment* to safety culture and exhibit behaviours that are an example for all workers.

The targets of this campaign were presented and shared with the Group’s HSE managers during the global meeting held in October at the site in Settimo Torinese.

CSR EUROPE

In 2012 Pirelli continued to be a part of CSR Europe, in the role of Deputy President with responsibility for governance and finance. CSR Europe is a network of leading European companies that addresses corporate responsibility issues. Its members include more than 70 multinational companies and 36 national partner organisations in 30 European countries. CSR Europe functions as the European platform for the more than 5,000 businesses and interested

parties, enabling them to cooperate and exchange experiences to become global leaders with Europe in the areas of sustainable competitiveness and social well-being. The network was founded in 1995 by European business leaders, in response to an appeal by European Commission President Jacques Delors.

Among the initiatives of CSR Europe, Enterprise 2020 is certainly one of the most important initiatives of CSR Europe. Enterprise 2020 is part of the Europe 2020 strategy adopted by the EU Council. It consists of an alliance between companies that strategically guides businesses towards responsibility and transparency by developing new business models, innovative solutions for the planet and collaborating with *stakeholders*, in view of making material contributions to the construction of a sustainable and inclusive society.

With Enterprise 2020, CSR Europe is committed to:

- supporting businesses in the creation of sustainable competitiveness, by offering a platform for innovation and the exchange of experiences;
- encouraging close collaboration between businesses and *stakeholders*, by exploring new forms of cooperation to create a sustainable future;
- reinforcing the global leadership of Europe in CSR, by engaging European institutions and a wider range of international players.

The activity illustrated above is focused on four fronts: market transformation, inclusive societies, health and transparency.

In European Commission Communication 2011/681, which outlines the new EU strategy for CSR, the European Commission recognises the Enterprise 2020 initiative promoted by CSR Europe as an example of business leadership that is particularly relevant to the political objectives in question. Pirelli has also participated in the European Alliance for CSR since 2007, fully sharing its approach to sustainability as a strategic and competitive business management technique. So far, Pirelli’s participation in the initiative – promoted by the European Commission in Brussels to encourage the spread and exchange of the best sustainability practices amongst businesses – has been expressed through its active participation in the Alliance’s European Laboratories, coordinated in Italy by the Sodalitas Foundation and throughout Europe by CSR Europe.

Since 2010 Pirelli has been on the Board of CSR Europe, with the company’s Director for Sustainability and Risk

Management occupying the role of Deputy President, with responsibility for governance and finance.

In 2012 Pirelli contributed to developing the CSR Europe Enterprise 2020 programme for the 2013-2015 period, which was presented on occasion of the Enterprise 2020 Summit – “Strengthening Europe through Collaboration on Sustainability” held in Brussels on 29 November 2012 in the presence of the President of the European Parliament Herman Van Rompuy and the President of the European Commission José Manuel Barroso. On that occasion Pirelli, as Deputy President of the CSR, illustrated the new platform designed by CSR Europe for Enterprise 2020 and the two key projects “New Skills for Jobs” and “Sustainable Living in Cities”.

THE CARBON PRICE COMMUNIQUÉ

Once again in 2012, Pirelli renewed its commitment to combating climate change on 23 November by signing *The Carbon Pricing Communiqué*, the new document drawn up by the Corporate Leaders’ Group on Climate Change, that promotes the adoption of energy policies aimed at reducing CO₂ emissions. This programmatic document was formulated by the University of Cambridge with the input of the Prince of Wales and aims to bring together the corporate leaders of Britain, Europe and the world with the belief that new long-term policies are needed to tackle climate change.

In 2011 Pirelli signed the 2nd *Challenge Communiqué*, while in 2010 it signed the *Cancun Communiqué*, just as in 2009 it signed the *Copenhagen Communiqué* and in 2007 that of Bali, the first document aimed at developing concrete strategies through the concerted efforts of the various governments to forge an exhaustive global agreement on climate change.

COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY

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

ROAD SAFETY

Pirelli has a global reputation not only for high performance, but also safety. Together with environmental protection, road safety is the key element of the Green Performance strategy that inspires the Group’s industrial and commercial choices. Pirelli’s commitment to road safety takes the form of numerous training and awareness-raising activities, but above all in terms of research and the ongoing application of innovative technological solutions for sustainable transport.

In 2012, during Pirelli’s first Sustainability Day, safety was one of the main themes of the conference, which saw the involvement of representatives of the institutions, associations, the academic world and business: as well as the Minister Corrado Clini, also present were Antonio Tajani, Vice President of the European Commission, responsible for Industry and Business, Peter Bakker, Chairman of the World Business Council for Sustainable Development (WBCSD), Nikhil Chandavarkar, Chief of Communication and Outreach, Division of Sustainable Development, United Nations Department of Economic and Social Affairs, Carlo Fidanza, member of the Transport and Tourism Commission of the European Parliament, Toby Webb, founder and chairman of Ethical Corporation, and Jeremy Rifkin, president of the Foundation on Economic Trends.

The initiative followed an important agreement drawn up in Italy a few months previously between Pirelli, the Ministry of the Interior and the Ministry of Universities and Research to identify and support joint projects and initiatives that aim to implement road safety information and training campaigns targeting Italian motorists and new drivers and secondary school students in particular. Part of this project involved producing an educational video on road

safety in collaboration with the Police.

In Turkey, Pirelli is launching a wide-ranging educational project at university level in collaboration with the local office of the World Health Organization, the General Directorate on Safety and the universities to create e-learning courses on road safety. The course for university credits "Traffic Safety 101", will last 14 weeks and will involve hands-on lessons, with cars, tyres and instructors supplied by Pirelli and its partner in the project Doğu Otomotive Trafik Hayattır (Traffic is Life!). This initiative is part of the United Nations "Decade of Road Safety" managed by the WHO. During the 2013-2015 period, in all the countries where Pirelli is present, developing countries in particular, the company will be rolling out national campaigns aimed at raising awareness of the value of safety for individuals and society.

SOCIAL SOLIDARITY

The inclusive approach taken by Pirelli to involvement and inclusion takes the form of social solidarity worldwide. In Brazil, where Pirelli has been historically active in the local community 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 Aliança da Misericórdia, an orphanage in São Paulo that offers shelter to 300 orphans and homeless children, as well as the Dr. Klaide Nursery in Santo André.

Pirelli also supports various centres close to the schools that offer educational, artistic and social activities.

Pirelli supports the Fundació Mambre in Spain, a foundation that operates as facilitator in social inclusion processes, supporting homeless people on their individual growth paths. Its goal is to create dwelling solutions. In Sweden Pirelli supports Min

Stora Dag, an organisation that every day makes a dream come true for a terminally ill child.

In China Pirelli makes donations of rice and oil to the poorest families in the community, while in Russia the Moscow office has launched an annual project, which will be extended to the manufacturing areas of Kirov and Voronezh, selling artisanal products to raise money for the deaf and blind children in the Sergiev Posad orphanage.

In Turkey Pirelli has supported the Foundation for the Training and Protection of Mentally Handicapped Children (ZİÇEV) by covering the cost of gas to heat the centre.

In the United Kingdom Pirelli has joined a programme for promoting charity donations made by employees, with more than 10% of the workforce involved.

After fund raising for Haiti and Japan, Pirelli and its employees also responded to the earthquake emergency in the Emilia region of Italy with the project "Together for Emilia", according to the usual formula, whereby the company donates the same amount as that raised by employees, thus doubling the sum. The project supported by these donations is entitled "Ri-commerciamo", a new business centre by San Felice sul Panaro (Mo). This project aims to support the many companies that lost their premises, by giving them somewhere to get back into business. Selected from the proposals put forward by the CNA (the National Confederation of Tradespeople and Industry and Regional Small and Medium Businesses), the initiative officially got under way on 25 July 2012, and is expected to be fully operative in the first few months of 2013.

HEALTH

Pirelli considers contributing to improving the health services of the communities where it operates to be a priority. Since 2008 Pirelli Tyres Romania, in collaboration with the Niguarda Hospital in Milan, has supported the professional training of medical and nursing professionals and the donation of medical equipment and devices to Slatina Hospital. Over 120 professionals who annually take care of more than 40,000 patients have been trained in this programme. Over the next three years Pirelli will support practical training in radiology, gynaecology and reconstructive surgery. Pirelli has also launched a specific programme for the prevention of uterine cancer and fund raising to combat breast cancer.

Pirelli Tyres Romania has also provided dental treatment

to around 350 children in Slatina and Bals through the project Overland for Smile.

Since 2010 Pirelli has supported the Pequeno Principe Hospital in Curitiba, the biggest paediatric hospital in Brazil. In the United Kingdom Pirelli organised an award ceremony at Burton Hospital, and encourages its employees to do voluntary work on social projects.

In Argentina, Pirelli sponsors a marathon to benefit the Italian Hospital, while in China it offers flu vaccinations to the community.

EDUCATION AND TRAINING

Pirelli promotes education, instruction, and technical training as a basic value.

The Company supports educational programmes that can give poor children the tools for escaping poverty. It contributes to scholarships and research projects. It offers technical training to its own workers but also to the communities where it operates, firmly believing in training as key to individual growth and the economic growth of a nation.

In Brazil Pirelli supports Educandario Imaculado Coracao de Maria in Amélia Rodrigues, an elementary school run by Italian nuns, besides two day care centres.

In Turkey the company supports the Türk Pirelli Primary School and the Türk Pirelli High School with initiatives like repainting the buildings and redoing the gardens, classrooms and bathrooms. Pirelli also promotes voluntary tutoring in vocational schools in Turkey and together with suppliers has made a donation towards the construction of a new classroom in a local school.

In South Africa Pirelli sponsors both a school, the Drakensberg Boys Choir School, and a business project.

Pirelli offers school and university scholarships in various countries, from Italy to Venezuela, Romania and Spain. The Company offers internships, finances student

projects, and promotes international exchanges between students. Special mention must be made of the recent agreement between Pirelli and Qufu Normal University in China: Pirelli will finance 25 excellent students from poor backgrounds so that they can complete their studies. In the United Kingdom Pirelli and its employees are involved in *mentoring* programmes and work placements.

Pirelli also continues to work with the University of Shandong in China and the University of Craiova in Romania, among others.

Technical training is particularly important for Pirelli, including but not only in terms of creating a pool of *skilled labour* needed to optimise productivity in its factories. Internally, Pirelli uses its own resources to optimise training, as in the case of the workers for the new factory in Mexico being trained at Slatina in Romania.

Externally, Pirelli has supported projects in the communities where it operates for technical training useful to create a good balance between labour supply and demand. In Romania the project “CORE: Linking labour market needs with the workforce in S-V Oltenia Region” is a partnership between Pirelli, a number of NGOs (e.g. the “Fondazione Luigi Clerici”) and other firms operating locally. CORE offers courses on vulcanization and other training projects for rubber workers, mechanics and industrial electricians. In Romania the programme “Train yourself for success” is aimed at school-age children and offers them useful vocational technical training. In Argentina the Merlo site offers educational visits to the factory and is involved in teaching activities at technical schools in the area.

In Egypt in 2012 Pirelli launched a major project for developing the Al Amreya Industrial Secondary School. As well as committing to completely redoing the facilities, from the sewers to the classrooms, Pirelli provided a complete training course for instructors and developed a curriculum based on various specialisations that can lead to openings with Pirelli. The company set up a “dual” course with teaching both in the classroom and in the factory in Alexandria.

WHEN SPORT BECOMES AN EXPRESSION OF SOLIDARITY

There is a close link between solidarity and sport, in a virtuous circle where commitment to sports becomes synonymous with the commitment to promoting solidarity and ethics, especially amongst young people. Getting young people involved in sport is a way to teach the notion of integration to children from different social groups, and helps prevent negative situations like isolation and solitude.

Since 2008, FC Internazionale Milano, Pirelli and Comunità Nuova have been running the "Inter Campus" social project in Slatina, Romania. Sporting and recreational activities are offered all year round to more than 80 children from different backgrounds. For more than two years now, through football, the children have been learning about team spirit, social integration and the value of friendship.

In 2012 Pirelli and F.C. Internazionale Milano organised an Inter Campus in Silao, Mexico, near the new Pirelli factory. The new Inter Campus, like the factory, was opened by the President Felipe Calderon.

Pirelli also sponsors baseball in Venezuela through the Pirelli Baseball School, which is attended by more than 300 children and teenagers; basketball, volleyball, football and motorsport in Brazil; football and motorsport in the United Kingdom, and basketball and volleyball in Turkey, to name but a few. In the United States Pirelli sponsors the Citizens Committee for New York City with the project Pirelli Fun & Fit, funding various social sports projects, and in Argentina the company sponsors two marathons a year.

ENVIRONMENTAL INITIATIVES

Many Pirelli employees around the world have taken part in environmental projects. In Venezuela the company organised a large group of volunteers to clear beaches and adjacent areas. "Let's do it Romania" is an important project organised by Pirelli in conjunction with the municipality of Slatina, which gathered 350 volunteers to clean up brownfield sites and give nature a helping hand. In Turkey and China Pirelli people got involved in tree planting and in Turkey Pirelli made a donation to a foundation that combats land erosion.

CORPORATE CULTURE

The activities linked to Pirelli Culture move along three different, converging paths: Fondazione Pirelli, Fondazione HangarBicocca and sponsorship of artistic and musical events both in Italy and abroad, starting with Brazil.

Established in 2009, the Fondazione Pirelli (Pirelli Foundation) is committed to promoting the corporate culture embraced by the Group, staging initiatives connected to the Historic Archives and a series of conferences, exhibitions, publications and theatre events. The main event was the staging (from 7 to 19 February 2012) of the show *Settimo – La fabbrica e il lavoro*, produced by the Piccolo Teatro of Milan and directed by Serena Sinigaglia. The show, an original representation of the themes and values of industry and work, was based on more than 2,000 pages of interviews with the employees of the site at Settimo Torinese, carried out by Fondazione Pirelli in 2011 (and brought together in the book "Voci del lavoro" (Voices of Work) by Roberta Garuccio, edited by the Fondazione and published by Laterza in May 2012). The show was extremely well received by the public and critics alike.

Other key initiatives include the exhibition "L'Umanesimo industriale di Pirelli: dalla natura alla produzione con gli occhi dell'arte" (Pirelli's Industrial Humanism: from nature to production through the eyes of art), based on more than 350 technical drawings of tyres recovered and restored and organised on occasion of the Enterprise Culture Week organised by Confindustria; the publication of the book and DVD "Pirelli in 35 mm" (with films including several "Caroselli" and the famous feature film "The Hare and the Tortoise" purchased by the MOMA in New York), and the conferences "Science, culture and technology in the Pirelli

Magazine” and “*Psychologists in the Factory. Stories and Sources*”.

Activities organised include the workshops on the changes taking place in the Bicocca neighbourhood, the factory and the world of work, which involved more than 300 primary school children; the guided tours taken by the G.B. Pirelli school in Rome and the Boccioni art school in Milan, and the activities organised for students at the Milan universities Bocconi, Cattolica and Bicocca, and the University of Brescia.

With regards to the relationship between education and “work culture”, Pirelli is also active in the arena of school education. Since 2010 the Foundation has been on the Board of Governors of the G.B. Pirelli pre-school in Varenna, in the province of Lecco, as well as supporting the activities of the “Leopoldo Pirelli” Secondary School in Rome, where in 2011 it established the annual Leopoldo Pirelli Prize, awarding study grants to particularly outstanding students. The Foundation also continues to work with the Fondazione Agnelli and the Fondazione Garrone in the Associazione per la Formazione d'Eccellenza (Association for Excellence in Education).

In 2012 the Fondazione Pirelli also continued to act as project leader in an initiative entitled *Doppia C/Cultura e Crescita* (Culture and Growth), together with the Bicocca University and the Municipality of Cinisello Balsamo, aimed at producing projects and strategies for cultural and artistic development to improve the quality of life of inhabitants and city users in the North/North East greater Milan area. After winning a call for proposals issued by Fondazione Cariplo, the project was prepared and presented for the second stage of activities and research.

The activities involved in managing the Historic Archive also continued (with res-

toration completed on 200 original advertising sketches, 2,000 advertising posters, 8,000 photographs and dozens of industrial films in collaboration with Cineteca italiana). Work also got under way on the cataloguing of the Pirelli technical/scientific library (20,000 volumes) and publishing the entire back catalogue of the *Pirelli magazine* online: this can now be consulted on the Foundation website.

In 2012 the Foundation website also grew, with the addition of the “Corporate Culture” section and a facebook page, thus becoming a point of reference for activities in this regard by Confindustria and Assolombarda.

2012 also saw more than 3,600 visitors to Fondazione Pirelli, and the exhibition “L'anima di gomma” being short-listed for the ADI “Golden Compass” award.

With regards to HangarBicocca, 2012 was the year for reopening and relaunching this venue as a) a hub for international contemporary art and culture; b) a new model of cultural institution, in which those who wish to gain insight into artistic languages can interact with contemporary art projects; c) an element promoting the cultural and social development of the surrounding area. These objectives were pursued by means of an artistic programme that, from the beginning of April, saw six major exhibitions by artists of international standing (Yervant Gianikian and Angela Ricci Lucchi, Hans Peter Feldmann, Wilfredo Prieto, Ilya and Emilia Kabakov, Carsten Nicolai and Tomàs Saraceno) attended by more than 120,000 visitors in 2012 and with a wide-ranging, positive response from the critics in the Italian and international press.

There were also many initiatives and activities planned with the aim of making the public the focal point of the new HangarBicocca project (guided tours, opening times designed with the demands of city life and the needs of families in mind - Thursday to Sunday from 11 am to 11 pm - workshops for children and teenagers aged 4 to 14 (HB Kids), a multipurpose area for consulting books, magazines and audiovisual material devoted to contemporary art free of charge, or hosting conferences and events (HB Lab). The results were as follows: for HB kids, more than 130 creative activities and 45 film screenings involving more than 2,600 children; for HB School, more than 80 classes registered for the programmes, with more than 2,000 students; guided tours and films selected by the artists always fully booked. Mention must also be made of the partnership agreements signed with public and private institutions, with the aim of improving the

panorama of cultural activities on offer in the local area. An agreement was signed with the Milan City Council Department of Culture and the Ministry of Education. With regards to support for culture and art in general, in 2012 partnerships and collaborations continued between the Pirelli Group and the Milan Triennale, the Fondazione Peggy Guggenheim Museum in Venice, Pinacoteca di Brera, FAI, Milan's Piccolo Teatro, the Franco Parenti Theatre, the "MiTo Settembre Musica" festival, the Italian Chamber Orchestra led by maestro Salvatore Accardo, "la Milaneseiana" and the Lezioni di Storia initiative organised by Laterza Editore.

Pirelli also supported many major cultural initiatives in countries where the company has a strong presence, such as Brazil.

2012 saw the exhibition of the MASP Pirelli Collection at the Museu de Arte de Sao Paulo (MASP), one of the most important collections of photography in Brazil.

Also in Brazil, Pirelli sponsors the Italian cinema week and the Mozarteum orchestra, as well as supporting a Pirandello opera and a presentation of the Heliopolis Symphony Orchestra at the Municipal Theatre of Sao Paulo.

Pirelli China supports research into Confucianism, funding the China Confucius Website and the activities of the Month of Confucian Culture.

The company also supports dance, music and drama, sponsoring events in Venezuela, Turkey, Romania and Argentina.

SUMMARY TABLES

This section is designed to enable readers to relate the issues addressed in the report to the international experience of the GRI (G3.1) and the Global Compact.

GRI - G3.1 REPORTING ELEMENTS

		Reporting Elements	Volumes Y, O, U
Strategy and Analysis		1.1 - 1.2	Volume Y pag. 08-11; Volume U pag. 14-15; 18; 27-29
Organisational Profile		2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10	Volume Y pag. 36-37; Volume O pag. 24; Volume U pag. 18
Report Parameters	Report Profile	3.1, 3.2, 3.3, 3.4	Volume U pag. 11
	Report Scope and Boundary	3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11	Volume Y pag. 36-87; Volume U pag. 11
	GRI Content Index	3.12	Volume U pag. 164-167
	Assurance	3.13	Volume U pag. 168-169
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	Volume O all; Volume U pag. 21-26; 29-41
	Commitments to External Community	4.11, 4.12, 4.13	Volume U pag. 55; 155-162
	Stakeholder Engagement	4.14, 4.15, 4.16, 4.17	Volume U pag. 24-27; 40-41; 57; 59-63; 69-70; 76-77; 108-109; 116-117; 131; 133-134; 138-141; 146; 148-150; 152-157

Volume Y: "Annual Financial Report at December 31, 2012"; Volume O: "Annual Report on Governance and the structure of Share Ownership 2012"; Volume U: "Sustainability Report 2012"

GRI - G3.1 PERFORMANCE INDICATORS

Area	Aspects	Indicators	Volumes Y, O, U
Economic	Economic Performance	EC1, EC2, EC3	Volume Y pag. 87-94; 142-147; 161; 167-171; Volume U pag. 12-13; 19; 30-33; 55; 84-92; 147-148
	Financing from Public Administration	EC4	Volume U pag. 56
	Local Suppliers expenditure policies	EC6	Volume U pag. 74-75
	Hiring procedures and percentage of local senior management	EC7	Volume U pag. 125; 133-134
	Indirect economic impact	EC8	Volume U pag. 54-55

Environmental	Raw materials	EN1, EN2	Volume U pag. 28; 75-76; 84-86
	Energy-water	EN3, EN4, EN5, EN6, EN7, EN8	Volume U pag. 28; 104-106; 110-111; 116
	Biodiversity	EN11, EN12, EN13, EN14	Volume U pag. 106-109; 115-116
	Emissions, Effluents and Waste	EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24*	Volume U pag. 106-116
	Products and Services	EN26	Volume U pag. 84-95
	Packaging	EN27	Volume U pag. 113-114
	Compliance	EN28	Volume U pag. 116
	Transport	EN29	Volume U pag. 80-81; 108-109
	General	EN30*	Volume U pag. 116
Labour Practices	Employment	LA1, LA2, LA3	Volume U pag. 20; 121-131; 140
	Industrial Relations	LA4, LA5	Volume U pag. 124-125; 141-148
	Occupational Health and Safety	LA6, LA7, LA8, LA9	Volume U pag. 12-15; 29; 148-152
	Education and training	LA10*, LA11, LA12	Volume U pag. 12-15; 134-135; 135-137; 150
	Diversity and equal opportunities	LA13, LA14, LA15*	Volume U pag. 122-124; 125-129; 140
Human Rights	Investment and Procurement Practices	HR1, HR2, HR3	Volume U pag. 33-38; 70-73; 75-77; 137
	Non-discrimination	HR4	Volume U pag. 40-42
	Freedom of Association and Collective Bargaining	HR5	Volume U pag. 22; 33-38; 40-42; 70-72; 76-77; 120; 146-147
	Child Labour	HR6	Volume U pag. 22; 33-38; 40-42; 72-73; 77; 120; 125; 146-147
	Forced and Compulsory Labour	HR7	Volume U pag. 22; 33-38; 40-42; 71-73; 76-77; 120; 125; 146-147
	Security Practices	HR8	Volume U pag. 77
	Assessment: Operations subject to human rights reviews or impact assessments	HR 10	Volume U pag. 33-38; 77; 146-147
	Remediation: Reports received regarding human rights, handled and resolved by means of a formal reporting mechanism	HR 11	Volume U pag. 40-41
Society	Local Communities	SO1, SO9, SO10	Volume U pag. 25; 115-116; 152-162
	Corruption	SO2, SO3, SO4	Volume U pag. 30-33; 38-41; 56; 152-155
	Public policy, Anti-competitive behaviour	SO5, SO6, SO7	Volume Y pag. 232-233; Volume U pag. 25; 152-155
	Compliance	SO8	Volume U pag. 59
Product Liability	Customer Health and Safety & product life cycle	PR1, PR2	Volume U pag. 59; 61; 68-70; 80-81; 86-92
	Product Information	PR3	Volume U pag. 59-62
	Compliance with regulations and voluntary codes concerning Product information and labelling	PR4	Volume U pag. 59-62
	Customer Satisfaction	PR5	Volume U pag. 62-63
	Programs for adherence to law, standards and voluntary codes related to marketing, advertising, promotion and sponsorship	PR6	Volume U pag. 59
	Compliance with regulations and voluntary codes concerning marketing activity, including advertising, promotion and sponsorship	PR7	Volume U pag. 59
	Privacy respect	PR8	Volume U pag. 59
	Compliance with laws and regulations concerning the provision and use of products	PR9	Volume U pag. 59

Volume Y: “Annual Financial Report at December 31, 2012”; Volume O: “Annual Report on Governance and the structure of Share Ownership 2012”; Volume U: “Sustainability Report 2012”.

(*) Partially accounted.

THE GLOBAL COMPACT PRINCIPLES AND GRI – G3.1 INDICATORS

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
Human Rights	Principle 1 – Business should promote and respect internationally proclaimed human rights in their respective spheres of influence.	HR1, HR2, HR3, HR5, HR6, HR7, HR8	SO1
	Principle 2 – Business should ensure that they are not, albeit indirectly, complicit in human rights abuses.	HR1, HR2, HR8	
Labour Standards	Principle 3 – Businesses should uphold the freedom of association of workers and recognise the right to collective bargaining.	HR5, HR8, LA4, LA5, LA9	
	Principle 4 – Business should uphold the elimination of all forms of forced and compulsory labour.	HR7, HR8	HR1, HR3
	Principle 5 – Business should uphold the elimination of the effective elimination of child labour.	HR6, HR8	HR1, HR3
	Principle 6 – Business should uphold the elimination of discrimination in respect of employment and occupation.	HR4, HR8, LA2, LA12, LA13, LA14	HR1, HR2, 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 – Businesses 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, SO6, SO7



ASSURANCE STATEMENT

ASSURANCE STATEMENT OF PIRELLI & C. S.p.A. 2012 SUSTAINABILITY REPORT

SGS Italia S.p.A. was commissioned to conduct an independent assurance of Pirelli & C. S.p.A. 2012 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.

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 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 moderate assurance scope, with the purpose to inform all the Interested Parties.

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-G3.1), 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).

The specific information, subjected to High Assurance level, are those included in chapters: "Group Whistleblowing Procedure", "Risk Management System" and "Compliance", within the chapter: "Pirelli and the creation of sustainable value".

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. 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.

Audit activities were carried out during February 2013 at Italy's Head Quarters and in several sites of the Group in Mexico, Turkey and Romania and they referred to data and performance of the whole Group.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment.

Financial data, drawn directly from independently audited financial accounts at 31st December 2012, 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. 2012 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:

We confirm that Pirelli & C. S.p.A. is constantly committed to listen to its stakeholders' highlighted relevant issues, responding them in a promptly manner. The engagement process of diffusion and control on sustainability inside the Organization and on the supply chain is also proven by the effort in monitoring made by the Internal Auditing function.

The environmental commitment is demonstrated by different initiatives. Between them, we mention the voluntary agreement with Environment Minister to calculate the carbon footprint of the life cycle of a tyre representative of the products of the Group and the choice to arrange a supplementary verification according to ISO 14064-3 criteria of the inventory of greenhouse gases to promote and exhaustive and transparent communication.

With reference to the assurance of specified performance sustainability information, the audit team believe that the information stated are reliable and in compliance with the AA1000 principles. During the year the risk management system has been further refined.

The compliance management activity and the features of the "whistleblowing" procedure are additional tools to monitor and prevent risks; the whistleblowing procedure, spread to all workers in local language, regulates the way to report violation, suspect violation and induction to violation of laws, regulations, Ethical Code, internal control principles, norms and company procedures - inclusive of violation, suspect violation and induction to violation related corruption, fraud and ILO normative, thus including core aspects of child labour, forced labour, non-discrimination, freedom of association and collective agreement right. The Procedure and the relative activation cases are reported in a precise and transparent way. We underline the engagement of Pirelli & C. to extend it even to the external community.

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 performed analysis considered all Specific Aspects, the Actions and the Expectations related to the seven Core Subjects, mentioned at the Clause #6 of the Guidance, confirming that Pirelli has already in place mechanisms, initiatives and policies to comply, in a satisfactory way, to the a.m. core subject

It is also confirmed that the report is aligned with the requirements of GRI-G3.1 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 29th, 2013

SGS Italia S.p.A.

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The illustrations contained in the three volumes of the Annual Report are all work of Liza Donnelly.

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In line with Pirelli's Green Sourcing Policy, the planning phase of this report included an analysis of the environmental impact of the materials used with the help of the supplier chosen, which has been certified by way of an environmental management system. Thanks to this approach, in order to carry out this project, we have used FSC-certified paper, recyclable PET, vegetable-based inks, and water-based paints. The final packages is made out of recyclable cardboard and polypropylene.

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