

Vol. C





Vol. C

PIRELLI & C. S.p.A - Milan

# Sustainability Report 2011





## Report on Corporate Governance and structure of share ownership 2011\*

Vol. B

## Sustainability Report 2011

Vol. C

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Javier Cercas

# THE NEW AND THE BEST

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**Javier Cercas**

Born in 1962 in Ibañero, in the Spanish province of Cáceres, Javier Cercas is the author of five novels,

translated into over 20 languages, which have won numerous national and international prizes: *The Motive*, *The Tenant*, *The Belly of the Whale*, *Soldiers of Salamis* and *The Speed of Light*. His latest book, *The*

*Anatomy of a Moment*, won him the Premio Nacional de Narrativa. Also the author of essays and stories, he was professor of Spanish literature at the University of Gerona.

# The new and the best

**I**n 1925, André Gide had the protagonist of *Les Faux-Monnayeurs* say: “I have thought that often, in art, and especially in literature, the only ones who count are those who venture into the unknown”. Many years earlier, Charles Baudelaire summed up the same idea in a single, unforgettable line of an unforgettable poem, *Le Voyage*: “Au fond de l’inconnu pour trouver du nouveau”. That is probably the main aim of any modern writer (or modern artist): to discover new lands, to find something that, before he existed, nobody had seen, or at least had not seen as he was able to see it. This is an ambition unknown to the ancients, for whom literature or art meant above all the imitation of models. However, in literature or in art, the new is not necessarily the best: nobody can claim that Velázquez is worse than Picasso, Cervantes worse than Joyce, or John Ford not as good as Francis Ford Coppola. And yet I am sure that almost any automobile manufactured by any factory nowadays is better – more rapid, safer, and cheaper – than almost any automobile produced no more than fifty years ago. Modern art and technology share the necessary adventure of finding the new, but only technology can fulfil the impossible dream of modern art: to ensure that almost always, new is best.

*Translated by Nick Caistor*

## LO NUEVO Y LO MEJOR

En 1925 André Gide puso en boca del protagonista de Les faux-monnayeurs las siguientes palabras: "He pensado que a menudo que en arte, y especialmente en literatura, encuentran únicamente aquellos que se lanzan hacia lo desconocido. No se puede descubrir tierra nueva ni acceder antes que nada a perder de vista la costa durante una buena temporada". Muchos años antes, Charles Baudelaire resumió la misma idea en un solo verso inolvidable de un poema inolvidable, titulado Le voyage: "Au fond de l'In connu pour trouver du nouveau". Esa es probablemente la máxima ambición de cualquier escritor moderno (o de cualquier artista moderno): descubrir tierra nueva, encontrar algo que antes de que él existiera nadie había visto, o por lo menos nadie había visto como él ha sabido verlo. Se trata de una ambición que los antiguos, para los cuales la literatura o el arte eran ante todo imitación de los modelos, no conocían. Ahora bien, en literatura, o en arte, lo nuevo no es necesariamente lo mejor; nadie puede decir que Velázquez es peor que Picasso, ni que Cervantes es peor que Joyce, ni que John Ford es peor que Francis Ford Coppola; en cambio, estoy seguro de que casi cualquier automóvil salido de cualquier fábrica actual es mejor - más rápido, más seguro, más barato - que casi cualquier automóvil fabricado hace sólo cincuenta años. El arte moderno y la tecnología comparten la aventura obligatoria de encontrar lo nuevo, pero sólo la tecnología es capaz de realizar el sueño imposible del arte moderno: conseguir que casi siempre lo nuevo sea lo mejor.

3 de febrero de 2012



# Introduction



## A NOTE ON METHODOLOGY

The PIRELLI Group Sustainability Report, in 2011 at the seventh 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 as Volume C in the PIRELLI Annual Financial Report at December 31, 2011 (Volume A: Annual Financial Report at December 31, 2011; Volume B: Annual Report on Corporate Governance and the structure of share ownership 2011).

In light of this integration, note that:

- the Chairman's Letter at the beginning of Volume A 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, 2011 -Volume A;
- this report gives a summary of the corporate identity, Group structure and operating performance in 2011, insofar as these topics are discussed in detail in Volume A, 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), 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 2011 in relation to the contents of the 2010 report, with an overview of trends during the past three years as well as the new 2012 and/or multi-year targets.

The Summary Tables found at the end of the report illustrate the topics discussed in the text in reference to the specific GRI-G3.1 indicators, as well as to the Global Compact principles.

This report includes an Assurance Statement by an independent third party. Finally, it is published – in Italian and English – in the Sustainability section of the website pirelli.com.

Feedback from readers on this report is extremely welcome in view of continuous improvements to it. 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.





## KEY PERFORMANCE INDICATORS 2009-2010-2011

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

(in millions of euro)		2011	2010	2009
<b>ECONOMIC AREA</b>				
Net sales*		5654.8	4848.4	4067.5
	of which tyre (%)	99.1%	98.4%	98.2%
Gross Operating Profit *		806.8	629.0	452.6
Operating income*		581.9	407.8	249.7
	% on sales	10.3%	8.4%	6.1%
Net income attributable to equity holders		451.6	21.7	22.7
Earnings/(losses) per share		0.925	0.044	0.047
Capital expenditure		618	433	225
	% sales	10.9%	8.9%	5.5%
number of ordinary shares (millions)		475.7	475.7	5233.1
number of savings shares (millions)		12.3	12.3	134.8
Stock market capitalisation **		3219.6	3010.7	2154.8
Gross global added value		1918.1	1495.9	1293.3
	of which external donations	5.1	3.6	3.3
	% of gross global added value	0.26%	0.24%	0.26%
Research and development expenses		170	150	137
	% of sales	3.0%	3.1%	3.4%
Group ROE		20.89%	0.19%	-0.93%
Gearing		0.34	0.22	0.21
Sales per employee (average)		181	160	138

		2011	2010	2009
<b>ENVIRONMENTAL AREA</b>				
Energy specific consumption	[GJ / tonFP]	13.82	14.15	15.01
CO <sub>2</sub> equivalents specific emission	[ton / tonFP]	0.965	1.002	1.050
Water specific withdrawal	[m <sup>3</sup> / tonFP]	13.1	16.2	18.3
Waste specific production	[kg / tonFP]	141.5	140.5	136.2
Waste recovery		69%	64%	71%
ISO 14001 certified tyre operating facilities		100%	100%	100%

		2011	2010	2009
<b>SOCIAL AREA</b>				
Scope of Pirelli subject to application of SA8000 reference standard		100%	100%	100%
OHSAS 18001 certified tyre operating facilities		90%***	90%	90%
Accident frequency index - FI		1.1	1.6	1.8
Headcount at end of year		34.259	29.573	29.570
of whom % women in managerial positions (Managers + Cadres)		18%	17%	17%
Average number of training days per employee		6.2	6.3	5.1
ISO 9001 certified tyre operating facilities		100%	100%	100%
Whistleblowing reports		2	1	1
Number of vendors where independent sustainability audits were carried out		56	46	26

\* The 2010 figures do not include the activities owned by Pirelli & C. Real Estate (now Prelios) and Broadband Solutions, discontinued in 2010; FY 2009 has been restated on a comparable basis.

\*\* Calculated on basis of average market quotations for December

\*\*\* The missing portion is comprised by the Guacara Plant in Venezuela, undergoing certification, and the Rome Plant in the USA which is not certified insofar as the the management system applied pursuant to local law is similar to application of the OHSAS 18001 standard.

PRINCIPAL SUSTAINABILITY TARGETS FOR 2012, 2013, 2014, 2015

Legend: Underway Year of achievement Under maintenance

	2012	2013	2014	2015
ECONOMICS				
Global leadership in the Premium market segment				
impact of sales of "green performance" products against Group total sales >45%				
Readjustment of production presence in rapidly developing economies (RDE), Latin America and mature markets, where each area will contribute 1/3 of Group profitability				
Technological upgrade of production sites and machinery (in 2015, 64% of Premium car production will be located at the new plants)				
Plan for investments of up to euro 2.4 billion (up from euro 1.9 billion under the previous plan)				
Maintenance of investments in research activity over the next three years at about 3% of sales, which represents one of the highest levels in the sector				
Launch of 18 new car products --> 57% of sales from new products				
INVESTORS AND FINANCIAL COMMUNITY				
Communication focused on highlighting the progressive implementation of the 2012-2014 Business Plan and Vision to 2015				
Steady increase in road shows dedicated to Social Responsible Investors				
VENDORS				
New Sustainability audits				
Extension of the new Purchasing Portal throughout the Group				
Training of Strategic Vendors in "countries of concern"				
CUSTOMERS				
Focus on dialogue with end customer through web platforms and opinion surveys				
Integration of e-commerce in the catalogue product of the new Metzeler site				
Market release of first base version of Cyber Tyre				
Market release of second version of Cyber Tyre				
Information and training campaigns on road safety, according to the Programme defined by signing of the EU Safety Charter and contributing to the "UN Decade of Action for Road Safety 2011-2020"				
ENVIRONMENT				
Specific energy consumption: -15% vs. 2009				
CO <sub>2</sub> equivalents specific emissions: -15% vs. 2009				
Specific water withdrawal: -70% vs. 2009 (compared with -35% targeted in previous Plan)				
Waste recovery: +15% vs. 2009 (compared with +5% targeted in previous Plan)				
Specific waste production: -5% vs. 2009				
Replacement of wood pallets by the Steel Cord Business Unit Steel Cord with plastic or metal pallets				
Specific consumption of solvents in production processes: -15% vs. 2009 (compared with -4% targeted in previous Plan)				

	2012	2013	2014	2015
<b>EMPLOYEES</b>				
Focus on employee welfare				
Reduction of accident frequency index: -60% vs 2009 (compared with -40% targeted in previous Plan)				
Consolidation of new POWRA (point of work risk assessment) tool for maintenance activities				
Integration of a Health, Safety and Environment module in Process Kaizen Engineer training				
Definition of a Group internal standard for a non-monetary rewarding related to Health, Safety and Environment aspects				
Employee training: 7 average days pro-capita (up from 6.2 in 2011)				
Release of new intranet version				
<b>EXTERNAL COMMUNITY</b>				
Reinforcement of social and environmental responsibility partnerships with local NGOs and central and local institutions				
Continual pro-activity for the dissemination of good sustainability practices at the local and international level (through CSR Europe, World Business Council For Sustainable Development, ...)				
Application of Whistleblowing Procedure to External Community				
Membership in Trasparency International				

## TARGETS SET IN 2010 SUSTAINABILITY REPORT FOR 2011

<b>SUPPLIERS</b>	
Syntactic simplification of sustainability clauses of contract	<b>ACHIEVED</b>
Training of all buyers on management of independent AUDITS at vendor sites and deployment of recovery plans	<b>ACHIEVED</b>
<b>CUSTOMERS</b>	
Launch of Engaging the Consumers project	<b>ACHIEVED</b>
<b>ENVIRONMENT</b>	
Extension of Environmental Management System certification to all activities at New Industrial Centre	<b>ACHIEVED</b>
Production of ecological silica from rice husks	<b>ACHIEVED</b>
Settimo Torinese New Industrial Centre: double uptake air treatment unit; adiabatic cooling unit; highly efficient heat recovery units; installation of thermal solar panels; photovoltaic field with capacity of about 1 MWp	<b>ACHIEVED</b>
<b>EMPLOYEES</b>	
analysis of gender differences at Pirelli, in its reference industrial sector and in the evolving global context	<b>ACHIEVED</b>
new online and paper employer branding campaign	<b>ACHIEVED</b>
Settimo Torinese New Industrial Centre: provision of average 11 training days pro-capita for a total of about 1250 employees	<b>PARTIALLY ACHIEVED</b>
Pirelli Leadership System: execution of training campaigns targeting local middle management (involvement of 400 middle managers)	<b>ACHIEVED</b>
OHSAS 18001 Standard: issuance of all certificates with SAS international accreditation beginning 2011	<b>ACHIEVED</b>
ISO 14001 Standard: issuance of all certificates with SAS international accreditation beginning in 2011	<b>ACHIEVED</b>
OHSAS 18001 certification of the Guacara Plant in Venezuela	<b>UNDERWAY</b>
Focusing of monthly, internally distributed "Safety Bulletin" on leading safety indicators	<b>ACHIEVED</b>
Definition of new Group Standard for maintenance activities	<b>ACHIEVED</b>
<b>EXTERNAL COMMUNITY</b>	
Updating of internal procedures for management of philanthropic activities	<b>ACHIEVED</b>



# Pirelli and the creation of sustainable value

SMART.  
EFFICIENT.  
PROFITABLE.  
INNOVATION-  
DRIVEN.

ACCOUNTABLE  
AND ENGAGED  
TO ITS  
STAKEHOLDERS.

A PREMIUM  
COMPANY

A SUSTAINABLE  
COMPANY

# 1. PIRELLI AND THE 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.

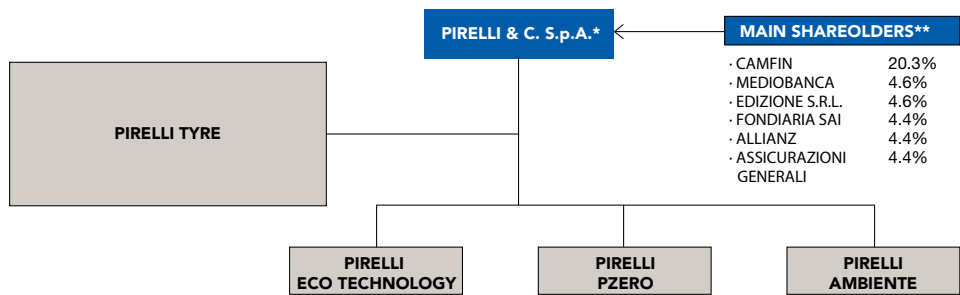
Founded in 1872, PIRELLI produces on four continents and sells its products in over 160 countries worldwide.

It boasts a long industrial tradition, which has always been based on innovation, product quality and a strong brand. That strength has been supported since 2002 by the PZero fashion and high tech project and has just been further reinforced by Formula 1, to which PIRELLI Tyre is the exclusive supplier for the three-year period 2011-2013.

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. Group efforts in these areas are supported by the activities of PIRELLI Eco Technology, which focuses on emission control technologies, and PIRELLI Ambiente, which operates in the renewable energy sector. All businesses also rely on the support of PIRELLI Labs, a centre of technological excellence and driver of PIRELLI innovation.

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.

**PIRELLI corporate structure as at 31/12/2011**



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

\*\* The indicated percentages of investment represent only the portion granted to the "Shareholders' Agreement" at July 2, 2011. Camfin has announced that it directly or indirectly owned another 5.9% of the ordinary capital of PIRELLI & C. SpA.



1.1.1 Sales by geographical area

Net sales in 2011 totalled euro 5,654.8 million, up 16.6% from euro 4,848.4 million in 2010. The percentage breakdown of activities shows that 99.1% of sales were generated by the Tyre business (98.4% in 2010).

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

(in thousands Euros)						
	2011	%	2010*	%	2009*	%
Europe:						
- ITALY	479,838	8.49%	485,450	10.00%	443,103	10.89%
- REST OF EUROPE	1,844,080	32.61%	1,503,531	31.00%	1,326,326	32.60%
NAFTA	561,320	9.93%	477,394	9.85%	361,454	8.89%
CENTRAL AND SOUTH AMERICA	1,915,467	33.87%	1,632,044	33.66%	1,296,285	31.87%
ASIA/PACIFIC	352,815	6.24%	286,992	5.93%	231,237	5.69%
MIDDLE EAST/ AFRICA	501,273	8.86%	463,077	9.55%	409,056	10.06%
	5,654,793	100.00%	4,848,418	100.00%	4,067,461	100.00%

\* Net sales in 2010 do not include the operations that belonged to PIRELLI & C. Real Estate (now Prelios) and Broadband Solutions, which were sold in 2010. The 2009 period has consequently been restated on a comparable basis.

For a complete snapshot of PIRELLI’s economic performance in 2011, please see Volume A – Annual Financial Report at December 31, 2011.

### 1.1.2 Geographical distribution of employees

The PIRELLI headcount at December 31, 2011 was 34,259 employees (29,573 in 2010 and 29,570 in 2009), including the acquisition of 2772 employees at the Kirov, Russia plant in December 2011.

The social and environmental performance of the Kirov plant has not been included in this report since that plant was not included in the PIRELLI scope of consolidation for 2011. It will be accounted with the 2012 Sustainability Report. So, all social performance indicators in this report are calculated on a comparable basis with previous years. On a comparable basis, the headcount at December 31, 2011 was 31,487. The following table reflects their distribution on four continents.

2011			
	TYRE	OTHER BUSINESSES*	PIRELLI TOTAL
EUROPE	10,981	622	11,603
NAFTA	490	0	490
CENTRAL AND SOUTH AMERICA	13,202	0	13,202
MEA	3,296	0	3,296
ASIA PACIFIC	2,855	41	2,896
<b>TOTAL</b>	<b>30,824</b>	<b>663</b>	<b>31,487</b>

2010			
	TYRE	OTHER BUSINESSES*	PIRELLI TOTAL
EUROPE	10,628	673	11,301
NAFTA	285	0	285
CENTRAL AND SOUTH AMERICA	12,522	0	12,522
MEA	2,983	0	2,983
ASIA PACIFIC	2,447	35	2,482
<b>TOTAL</b>	<b>28,865</b>	<b>708</b>	<b>29,573</b>

2009			
	TYRE	OTHER BUSINESSES*	PIRELLI TOTAL
EUROPE	10,526	2,085	12,611
NAFTA	287	0	287
CENTRAL AND SOUTH AMERICA	11,711	4	11,715
MEA	2,834	0	2,834
ASIA PACIFIC	2,123	0	2,123
<b>TOTAL</b>	<b>27,481</b>	<b>2,089</b>	<b>29,570</b>

\* it includes Corporate, P. Ambiente, PZero, P. Ecotech; for 2009 it includes also the business Real Estate and Broadband Solutions dismissed during 2010 the resources of which weren't counted anymore in the group employees at 31.12.2010

2011 vs 2010			
	TYRE	OTHER BUSINESSES*	PIRELLI TOTAL
EUROPE	353	-51	302
NAFTA	205	0	205
CENTRAL AND SOUTH AMERICA	680	0	680
MEA	313	0	313
ASIA PACIFIC	408	6	414
TOTAL	1,959	-45	1,914

2011 vs 2009**			
	TYRE	OTHER BUSINESSES*	PIRELLI TOTAL
EUROPE	455	-1,463	-1,008
NAFTA	203	0	203
CENTRAL AND SOUTH AMERICA	1,491	-4	1,487
MEA	462	0	462
ASIA PACIFIC	732	41	773
TOTAL	3,343	-1,426	1,917

\* it includes Corporate, P. Ambiente, PZero, P. Ecotech; for 2009 it includes also the business Real Estate and Broadband Solutions dismissed during 2010 the resources of which weren't counted anymore in the group employees at 31.12.2010

\*\* the gap between 2011 and 2009 in the section "Other Businesses" includes the reduction of 1267 units related to the dismissed activities (Real Estate and Broadband Solutions) during 2010

**For a complete snapshot of employees, please see the section "Internal Community" in Chapter 4 of this report.**

## 1.2 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.**

### 1.2.1 The principles underlying our 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](http://www.pirelli.com).**

The compliance of the PIRELLI Sustainability System with the ISO26000 Guidelines was audited by third party, as specified in the letter of assurance at the end of this report.



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

The document outlines PIRELLI's sustainable approach to business, by imposing strict, uniform guidelines for professional practices that everyone working 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 their relationship with each one of them;

- ▶ provides appropriate penalties for violation of the Code.

## **"SUSTAINABILITY, COMPETITIVENESS AND GROWTH GO HAND-IN-HAND"**

**M. TRONCHETTI PROVERA**

PIRELLI AND THE CREATION OF SUSTAINABLE VALUE

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

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

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

#### 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 represent 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, they are provided in the languages spoken by PIRELLI Group employees and in those languages that most represent the panel of suppliers.

#### POLICY ON SOCIAL RESPONSABILITY 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.

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 personal development in the management of diversity. It lists the commitments made by PIRELLI in this area, as also set out in The Values and Ethical Code, in the PIRELLI Group Occupational Health, Safety, Environment and Social Responsibility Policy and – a priori – the United Nations Global Compact and the SA8000® Standard.

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

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

#### QUALITY POLICY

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

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

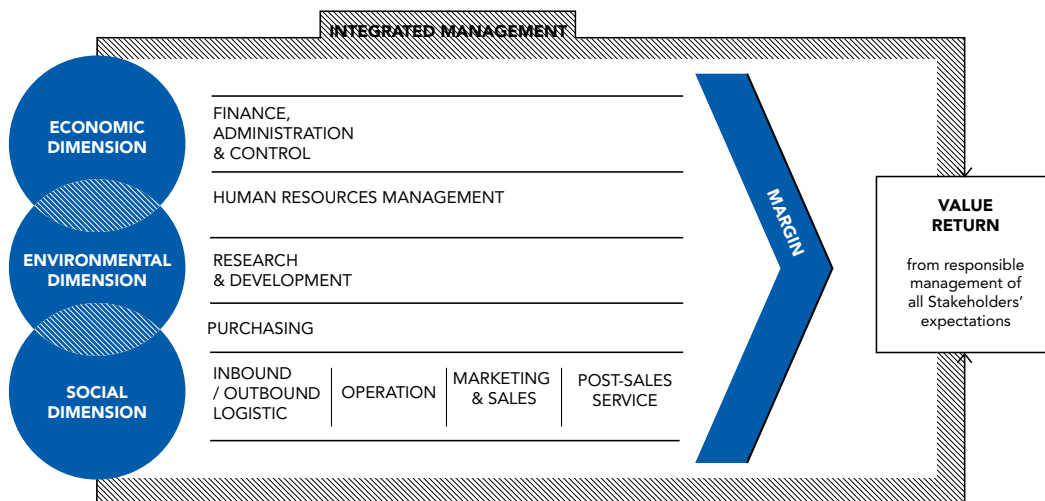
The Policy, which was officially revised by the Chairman in 2009, has been distributed to all employees in their local language. It has also been published in the Sustainability section of the PIRELLI institutional website, not only in the languages spoken by employees but also in those that are most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

### 1.2.2 Strategic model for sustainable growth

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

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

#### PIRELLI operating approach to generation of sustainable value



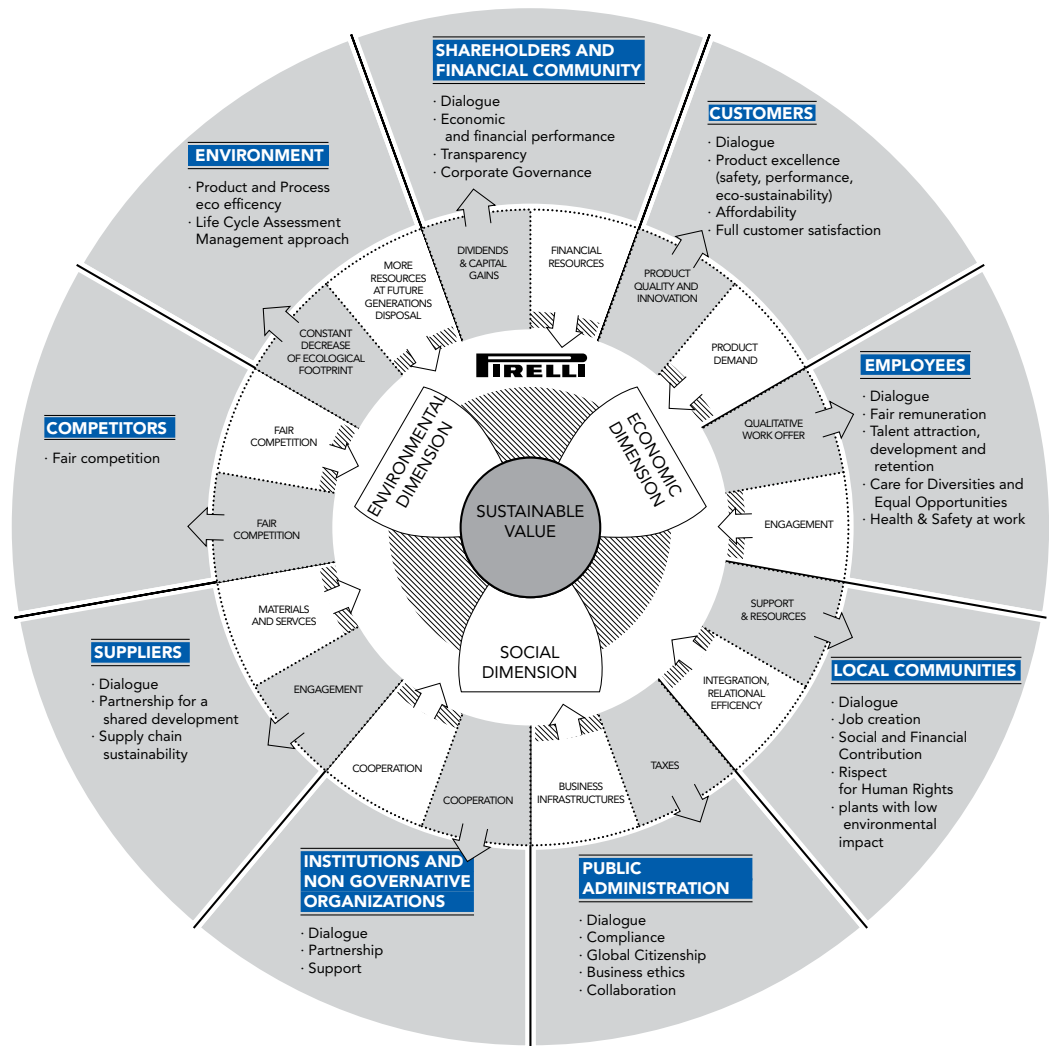
### 1.2.3 Stakeholder engagement

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.

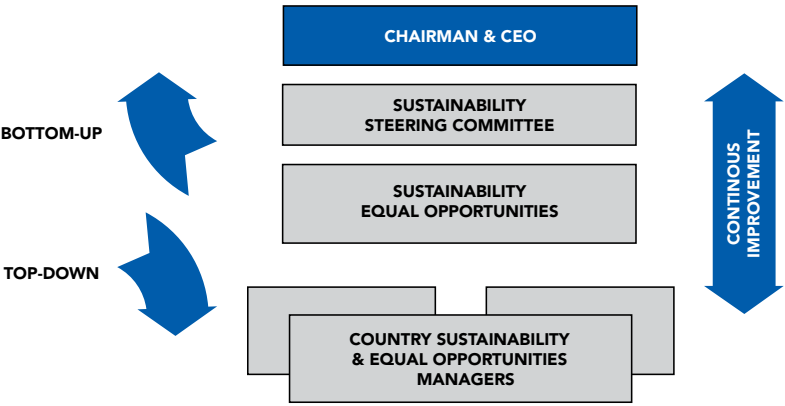
The graphic below illustrates the principal areas of value creation and return linked to individual stakeholders.

**PIRELLI stakeholder engagement model: maximization of the value flow from the Company to stakeholders and viceversa**



**1.2.4 Sustainability in the organisational structure**

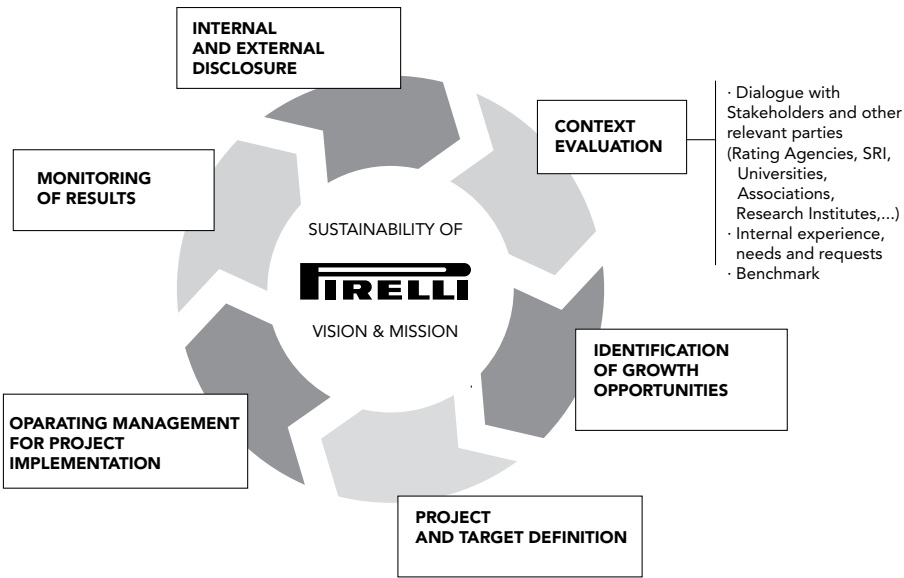
The organisational basis of sustainability governance is represented by the Sustainability Steering Committee, which is also responsible for equal opportunity issues and policy. This body, which was formed by the Chairman at the beginning of 2004 and is chaired personally by him, is responsible for setting policy and guiding the advancement of sustainability throughout the Group. Then, the organisational structure is made up of a Group Sustainability and Risk Governance (SRG) Department, which reports directly to the Group General Counsel. The SRG Department is comprised by the Group Sustainability and Equal Opportunities Office and Sustainability and Equal Opportunities Country Managers, covering all Group affiliates.



1.2.5 Planning and sustainable management operating system

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

PIRELLI process for sustainability management



1.3 STRATEGIC PLAN FOR SUSTAINABLE GROWTH: 2012-2014  
INDUSTRIAL PLAN AND VISION TO 2015

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

On November 9, 2011 PIRELLI top management presented the Group Industrial Plan with vision to 2015 and adjustment of its targets from 2011-2013 to 2012-2014 to the financial community. This 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 focused strategy previously illustrated in the business plan that was presented in 2010.

To reach this objective, PIRELLI 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.

In the car segment alone, plans call for rolling out 18 products, which will lead the business unit to earn 57% of its net sales from new projects.

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 organisation and geographical scope, with more and more new factories (in the Premium car tyre segment, 64% 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 Moto 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.

Thanks to the focus on the Premium segment, use of the price/mix component, the growing weight of the consumer segment and replacement channel, which are more profitable and less cyclical, PIRELLI expects high revenue and profitability in 2015. The EBIT margin will top 16% in 2015%, almost double the 8.4% of 2010 and one of the best in the sector. Profitability will increase in all regions with a balance between mature markets and emerging markets. The impact of the Premium segment will increase in all regions, and especially in Europe, which is now the world's principal Premium market. In this region, 80% of consumer sales will be generated by this segment in 2015.

The strong cash flow expected to be generated by 2015 (euro 3.2 billion, compared with euro 2.1 billion forecast in the previous business plan) will not only permit support for a major, growing investment plan (up to euro 2.4 billion, compared with euro 1.9 billion under the previous plan), but also further improve its solid financial position, by reducing the debt/EBITDA ratio to 0.4 in 2015.

In a market that exhibits signs of slowing down, PIRELLI has also prepared a "contingency plan" to assure itself the necessary flexibility for optimum management in case of negative business cycles worsening.

In 2012-14 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 the safety of individuals and on 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 CO<sub>2</sub>, and a 15% reduction in the specific consumption of energy from 2009. In 2011 these values have already been reduced by 28% for water and by 8% for both energy and CO<sub>2</sub>.

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, USA and Mexican markets.

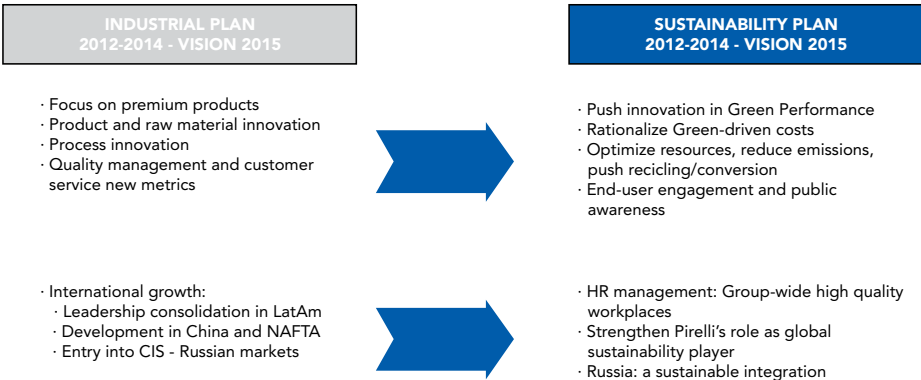
In the area of social responsibility, specific attention has been focused on workplace safety, in the form of prevention and training plans at plants, with the challenging goal, within 2015, of reducing the accident frequency index (FI) by 60% from its 2009 level. In 2011 the first fruits of this plan were already clear with a 28% reduction in FI from 2010 and 42% in the three-year period 2009-2011.

Moreover, ethics, diversity, leadership, dialogue and welfare will be at the centre of programmes 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 (from 6.2 in 2011). Activity will continue on monitoring the social and environmental sustainability of the supply chain, also thanks to a new and advanced management system.

The corporate Model for sustainable management and development 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.

#### 2012-2014 Sustainability plan and vision to 2015

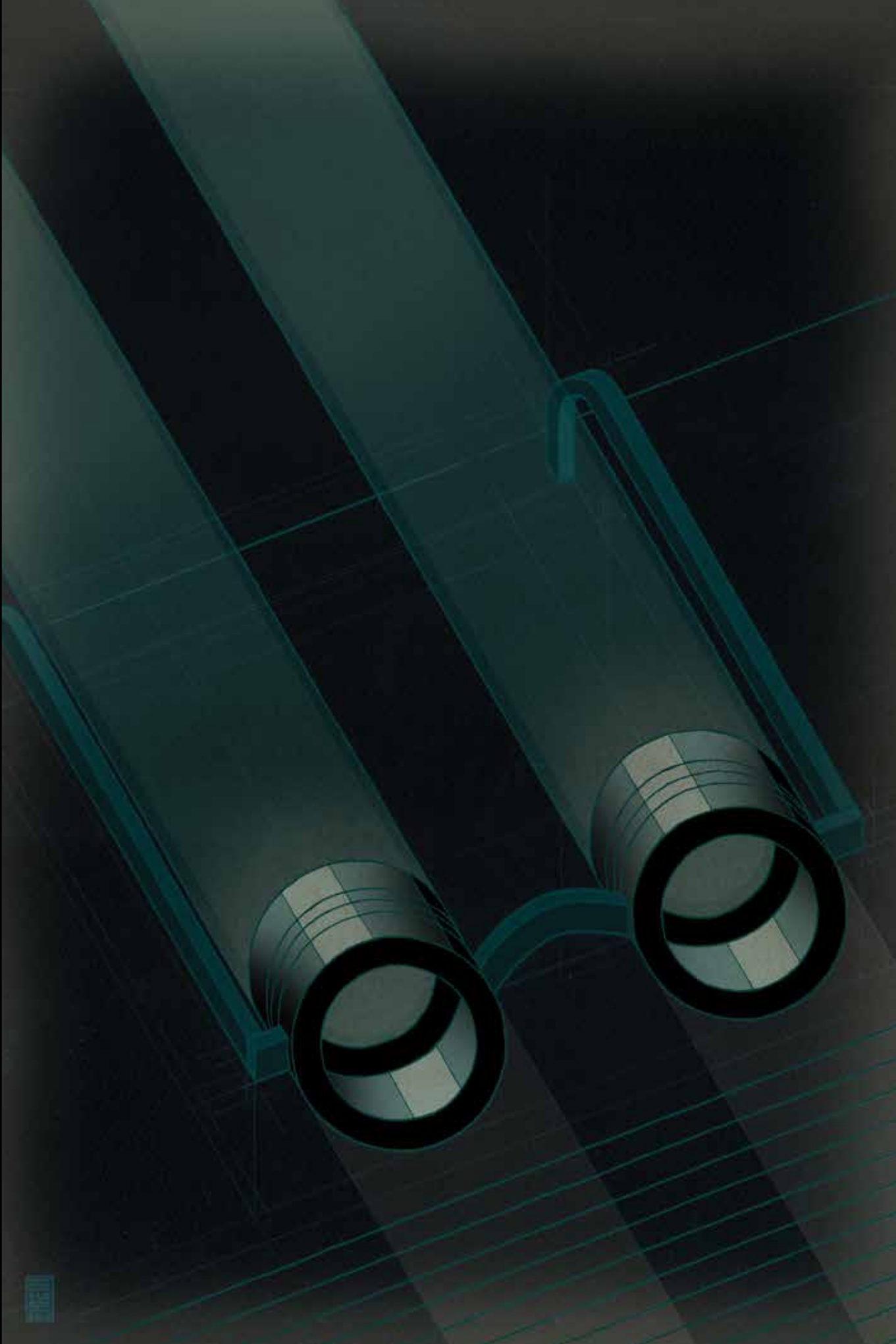
Integrating, supporting and protecting Group targets and values



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.

Fig. 1

**Looking ahead**



## 1.4 GOVERNANCE TOOLS FOR LONG-TERM DEVELOPMENT

### 1.4.1 Corporate governance

The PIRELLI Corporate Governance system is based on: (i) 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; (ii) the central role of independent directors who represent the majority of members on the Board of Directors; (iii) a consolidated practice in the disclosure of choices and processes of taking corporate decisions and an effective internal control system; (iv) an innovative system for managing risks proactively; (v) 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; (vi) rigorous rules governing conflicts of interest and solid principles of conduct for executing transactions with related parties.

For the second consecutive year PIRELLI has been recognised for the "Best Corporate Governance in Italy" as part of the World Finance Corporate Governance Award 2012. Moreover, in January 2012 Governance Metrics International (GMI) confirmed its 10/10 rating of PIRELLI corporate governance in its home market (the last "Country Ranking" of September 2010 gave Italy an average rating of 5.25/10) and an 8/10 rating on the global market, the highest rating achieved by Italian companies. Among the 40 companies assessed in Italy at December 2011: (i) only two companies (one of which was PIRELLI) received a 10/10 rating on its home market and (iii) only three companies (including PIRELLI) received a 8/10 rating on the global market.

PIRELLI & C. has adhered to the Corporate Governance Code of listed companies ever since it was first published by Borsa Italiana (in 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 at [borsaitaliana.it](http://borsaitaliana.it).

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 making and/or consultative duties. The Board is also supported by managerial committees whose members are drawn from Group senior management to implement the directives and policies issued by the Board and delegated bodies, with which they collaborate on the definition of proposals to be made to the Board of Directors as a whole.

Since 2004 the "voting list" mechanism assures non-controlling interests the right to designate one fifth of all Directors, in case of submission of two lists at least.

At December 31, 2011 the PIRELLI Board of Directors had 18 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 di-*

rector as the contact person for contact and 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.

In particular, definition of the duties of the Nominations and Successions Committee gave prominence to the growing importance that direct involvement by the Board of Directors in defining succession policies has for PIRELLI and the market. This occurs (i) not only and not so much in consequence of any normal rotation of directors with executive authority (where shareholder decisions play a key role) but (ii) especially for top and senior management in order to monitor the strategies implemented by the Human Resources Department in view of assuring continuity in management activity.

The Strategies Committee instead has advisory and policy making functions in the definition of strategic business guidelines and identification and definition of the conditions and terms of strategic operations.

Beginning in the 2011 financial year, and thus one year ahead of the statutory deadline, PIRELLI defined a Remunerations Policy, submitting it to vote by the shareholders.

The aim of PIRELLI human resource policy is to attract, motivate and retain resources possessing the professional qualifications necessary for profitable pursuit of Group goals.

The Remunerations Policy reflects that objective. The Policy is defined in such a way as to align management interests with those of shareholders, with the primary objective of creating sustainable value over the medium/long-term through a strong link between compensation, on the one hand, and individual and Group performance on the other. Definition of the Policy is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors play a key role.

Readers are referred to the Remuneration Policy for 2011 published on the PIRELLI website. Pursuant to new laws and regulations, the Remuneration Report updated for the 2012 financial year will be submitted to the PIRELLI Shareholders' Meeting (that report will contain the Remuneration Policy for 2012 and the Report for 2011). The Remuneration Report for 2012 will be made available on the PIRELLI website no later than 21 days before the Shareholders' Meeting scheduled for May 10, 2012, and to which it will be submitted for consultation.

For more details on the Corporate Governance System, please refer to the "Annual Report on Governance and Share Ownership" – Volume B of the Annual Financial Report at December 31, 2011.

#### 1.4.2 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, guided by the awareness that the assumption of risk is a fundamental part of business management. Strategic objectives are not only economic but also social and environmental, reflecting full integration of the sustainability system in corporate development plans.

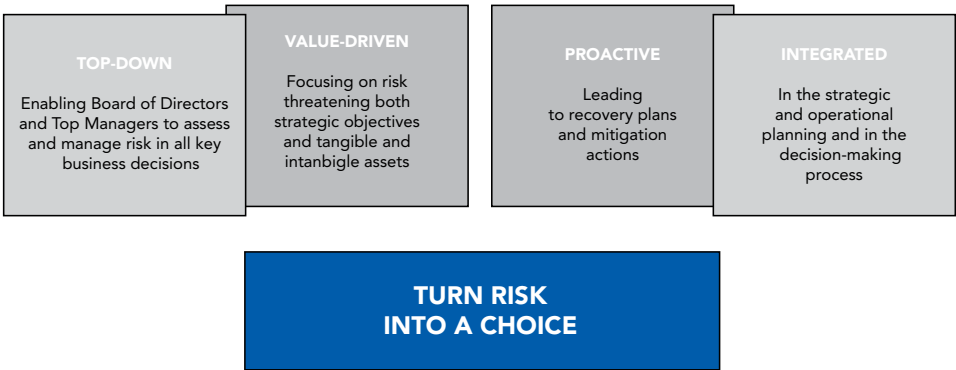
In accordance with this philosophy, PIRELLI has implemented an integrated risk management system (Enterprise Risk Management) aimed at:

- ▶ 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 characterised 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.

**PIRELLI risk management approach**



For more details on the PIRELLI Risk Management System, please also refer to the “Annual Report on Governance and Share Ownership” – Volume B of the Annual Financial Report at December 31, 2011.



## 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 A of the Annual Financial Report at December 31, 2011, to which the reader is referred for detailed discussion of these issues. A summary of these risks and uncertainties is provided as follows:

- ▶ **Strategic risks:** these are closely tied to the Group's objectives and consequent strategic choices. This category includes the risks stemming from evolution in the external context where the Group operates and the risks stemming from internal factors, such as financial risks, the risks connected with typical business processes and human resource/organisation risks. In 2012, 80 risk/opportunity events have been identified and assessed in reference to the strategic plan horizon. Thirty-three of these events are considered material in pursuit of Group strategies.

First and foremost among the most significant risk factors for 2012 is the business cycle. In line with the forecasts made by leading analysts, PIRELLI expects an economic slowdown. In this regard, PIRELLI has already prepared a Contingency Plan to respond as flexibly as possible to the changed context, should global macroeconomic conditions significantly deteriorate.

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. The PIRELLI Group adopts this strategy for its operations in countries such as Argentina, Brazil, Mexico, Russia, China, Egypt, Turkey and Venezuela, where the general political and economic context and tax systems might prove unstable in future. In order to adopt prompt (or even preventive, when possible) measures to mitigate the possible impact stemming from changes in the local context, the Group constantly monitors the evolution of political, earnings, financial and safety risks associated with the countries where it operates.

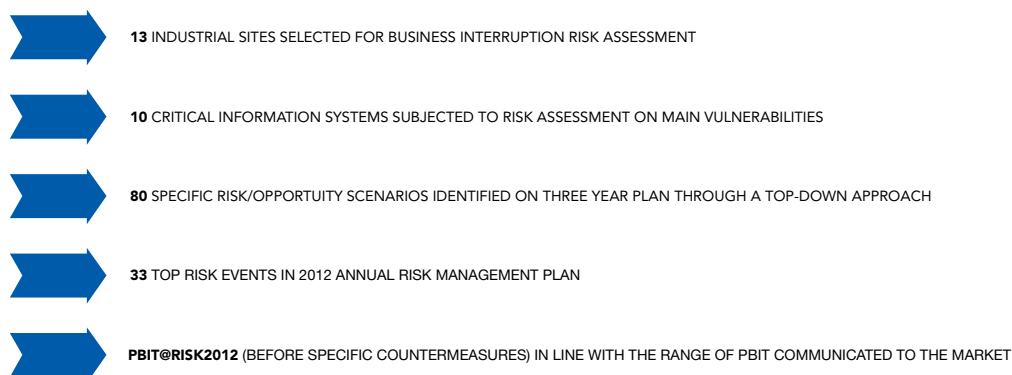
In regard to market risks, competition continues to stiffen in the markets where PIRELLI operates, especially in Europe and Latin America. In response to this pressure and to protect its overall profitability, PIRELLI will be able to adjust the commercial price/mix component and internal component to recover cost efficiency.

In 2012 natural rubber, synthetic rubber and petroleum based raw materials (especially chemicals and carbon black) will 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.

- ▶ **Cross business risks:** the complexity of the information environment and of the system used, the distribution of activities worldwide and links between them may increase the level of risks connected with information and communication technology. The global scale of Group operations exposes it to a plethora of risks (stemming from natural events, malicious acts, malfunction of auxiliary plants or interruption in the supply of utilities) that might even cause an interruption in business activities for an indefinite period of time. For this reason, in 2011 PIRELLI elaborated mitigation actions and laid the bases for realisation of business continuity plan for each of the 13 production sites analyses. In 2010 the Group finished mapping the principal risks connected with the ten most important information systems supporting core processes (production, purchasing, sales, and logistics). Specific measures for further upgrades to physical, logical and infrastructure safety measures were developed for the principal "vulnerabilities." Their implementation was constantly monitored in 2011 by the Managerial Risk Committee. Implementation of the risk mitigation measures will be completed in 2012, and mapping of the risks facing other information systems (finance, human resources, etc.) will be undertaken.



## 2012 - 2014 Plan Risk Assessment



### 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, 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 commissioned from specialised independent firms. Special attention is dedicated to the sustainability of PIRELLI and supplier sites in "countries of concern" (as defined by EIRIS).

The 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 Social Responsibility for Occupational Health, Safety and Rights, and Environment, from the Group Ethical Code and the Group Code of Conduct (which is focused on anti-corruption).

With reference to PIRELLI own sites, in 2011 the company commissioned new, independent audits at its production sites located in Argentina, Venezuela, Brazil, China, Egypt, Turkey and Romania. In 2008 audits were conducted at Company sites located in Turkey, Brazil, Venezuela, Argentina, Egypt, China, Romania, Colombia, Mexico and Chile.

All managers at the affiliates involved in the audits have been adequately trained about the audit aims and procedures by the delegated headquarters functions: Sustainability and Industrial Relations.

The audits, each of which lasts an average of at least three days in the field, have included extensive interviews of workers, management and labour representatives.

Although the instances of non-compliance revealed by the audits were not serious, they were addressed in recovery plans agreed with the concerned suppliers by PIRELLI local and central management.

With reference to Suppliers' sustainability at their sites, fifty-six audits were conducted between the end of 2010 and the beginning of 2011, while 72 audits were conducted between the end of 2009 and the beginning of 2010. The audits involved suppliers operating in the emerging countries where PIRELLI has a presence (Brazil, Argentina, Egypt, China, Romania, Turkey, and Venezuela) or suppliers from which it purchases raw materials, such as suppliers in Indonesia, India, Malaysia and Thailand. Among the western countries where PIRELLI operates, audits were conducted of suppliers in Italy, England and Germany.

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.

The instances of non-compliance that were most frequently encountered at suppliers and in countries "of concern" involved the adequacy and level of implementation of safety and environment management systems, in response to which were agreed compliance plans setting out the necessary remedial measures.

For more information about these audits, please see the "Suppliers" section elsewhere in this report.

As from 2012 the Internal Audit function will be directly involved in the process of monitoring undertaken recovery plans following audits – both at PIRELLI sites and by suppliers. The PIRELLI Internal Audit function is exquisitely independent insofar as it reports to the PIRELLI Internal Control, Risks and Corporate Governance Committee, which is comprised solely of independent directors.

### 1.4.3 Compliance

Compliance management is conducted by the Group Compliance Office, under the supervision of 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 and Ethical Code. 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, consequently also damaging Group's reputation.

During 2011 work continued on revision of the "231" Compliance Programmes adopted by Group companies, resulting in adjustments that were deemed necessary in light of the new "presumed offences," including criminal violation of environmental protection and the criminal offences committed by their employees and/or collaborators. 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.

The updated version of the Group Code of Conduct was also published in 22 different languages, both internally and on the Group website.

Specifically in regard to corruption, an anti-corruption programme was launched in 2011 in the fifteen principal countries where PIRELLI operates. Its aim is to examine the local statutory and regulatory contexts and assess the definition of specific anti-corruption compliance programmes. The programme 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 Ethical Code and Code of Conduct also constitute a training module dedicated to newly hired Group employees.

In 2011 training and communication of the administrative liability of companies continued, pursuant to Legislative Decree 231/2001: one of the key themes addressed was the prevention of corruption. As at December 31, 2011, this activity, which will be completed in 2012, had reached 86.2% of 1,605 employees at 12 Italian companies, including seven that report-

ed a training course attendance rate of over 90% and four of 100%. Special note should be taken that 85% of the cadres and executives of these companies have completed such training.

All Group affiliates are periodically monitored for their corruption risk by the Group Internal Audit function. The Internal Control System relies on an integrated process of identification, measurement, management and monitoring of major risks, monitors the efficacy and efficiency of business operations, while guaranteeing that documents and decisions are traceable. It also audits the reliability of accounting and management information, legal and regulatory compliance and the protection of company assets.

As mentioned at the presentation of the 2012-2014 Industrial Plan with Vision to 2015, PIRELLI intends to give its support to the activities of *Transparency International* in 2012.

#### 1.4.4 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 other acts or omissions that might cause direct or indirect financial damage or harm to the image of the Group and/or its subsidiaries.

The Procedure explicitly encourages employees who are aware of potential or actual violations to report them immediately to the Company, either anonymously or openly. They are guaranteed 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 Department and are to be used by all Group affiliates.

The PIRELLI Internal Audit Department is responsible for:

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

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

In February 2012, the Whistleblowing Procedure was being revised and updated in order to improve the efficiency of the reporting process even further. Once this procedure is completed in 2012, it will be adequately distributed to PIRELLI employees.

In 2011, the Whistleblowing Procedure was activated twice, following an anonymous report of presumed conduct in violation of Company rules and procedures, particularly in regard to the internal rules that govern fair, transparent remuneration policies and purchasing processes. The analyses carried out by the Group Internal Audit Department did not reveal conduct confirming the allegations made in that anonymous report. The other report made at the end of 2011 is still under investigation.

## 1.5 STOCK MARKET INDICES AND ETHICAL FINANCE

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

PIRELLI is 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 following ethical finance indices on which PIRELLI appears and changes in 2011 are illustrated as follows.

### 1.5.1 Dow Jones sustainability indices

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

For the fifth year in a row, PIRELLI was confirmed as global sustainability leader in the Auto parts & Tyres segment in September 2011, as part of the Dow Jones Sustainability World and Europe indices.

PIRELLI's overall rating for 2011 was 91% (+1% from 2010), compared with an industry average of 53% (-2% from 2010).

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

In January 2012 PIRELLI was named world sustainability leader in the "Auto parts 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 Yearbook is one of the most complete and authoritative global benchmarking tools for sustainable finance specialists. It includes only the top sustainability scoring companies, ranked as such by SAM Group in the Dow Jones Sustainability Assessment, or 15% of firms in 58 business sectors.



### 1.5.2 FTSE4GOOD indices

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

PIRELLI's March 2012 rating in the Automobiles & Parts sector was 99 on a scale from 1 to 100, up from September 2011 rating of 98/100

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



### 1.5.3 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 ECPI Italia SRI Leaders indices were launched on September 19, 2010 by ECPI and FTSE Group.

They represent the first series of indices on the Italian market for responsible investment.

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.



#### 1.5.4 AXIA indices

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 five consecutive years (i.e. the top score possible in terms of "ethical class"), with a 2011-2012 score of 88.9.



#### 1.5.5 ASPI Eurozone® index

PIRELLI has been included since the beginning of 2005 in the ASPI EUROZONE® (Advanced Sustainable Performance Indices) index, which includes the 120 best-performing companies in terms of sustainability on the basis of ratings issued by Vigeo, a social and environmental rating agency. The ASPI survey pool is comprised by the companies included in the DJ EURO STOXX index. The 120 companies with the best sustainability performance are ranked on the ASPI EUROZONE® index.



#### 1.5.6 Kempen indices

PIRELLI has held "Pass Status" since 2003 in the entire Kempen Capital Management "KEMPEN SNS Socially Responsible Investing Universe," with continually improving ratings.

Its rating reflects the screening based on strict criteria of ethical, social and environmental performance, and considering its continuous presence in the Kempen / SNS SRI Universe.

According to Kempen, "PIRELLI demonstrates that it has clear corporate social responsibility strategies."

The investing universe includes companies listed in Europe that prove they have adopted the highest standards in terms of ethical, environmental, and human resource standards and reporting.



### 1.6 PRINCIPAL AWARDS RECEIVED DURING THE YEAR

PIRELLI received numerous awards in 2011 for its sustainable performance accomplishments, the diversity of which reflects the sustainable approach throughout the entire value chain and towards all stakeholders. Some of the awards it has received are listed below in reverse chronological order, from January 2012 to January 2011:

#### 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 "Auto parts 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 interests 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 Istituto 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 RepTrakTM100, 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 arrived before 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, without awesome track performance using highway tyres. It got the highest score for road hold and grip in dry conditions.
- In China PIRELLI won the "best marketing award" during the "China Auto Aftersales Summit Forum Awards".

## APRIL 2011

- PIRELLI was rewarded at the London Stock Change 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 Brasile 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.
- ▶ P Zero 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, P Zero 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, P Zero 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).







# Economic Dimension

LEADING  
INTANGIBLE  
VALUE  
TO  
TANGIBLE  
GROWTH

## 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)

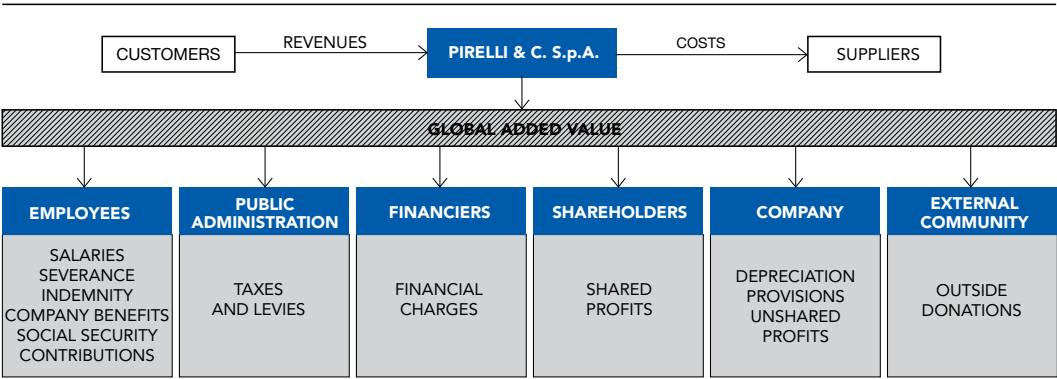
*“The Pirelli Group intends to contribute to the prosperity and growth of the communities it operates in by providing efficient and technologically advanced services.”*

(The Values and Ethical Code – The Wider 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. Group in 2011, 2010 and 2009 is broken down as follows.

**GROSS OVERALL ADDED VALUE\***

	€/000	€/000	€/000
	2011	2010	2009
<b>Total</b>	<b>1,918,054</b>	<b>1,495,881</b>	<b>1,293,255</b>
Remuneration of personnel	(1,123,507)	(1,063,648)	(949,217)
	58.6%	71.2%	73.3%
Remuneration of Public Administration	(34,457)	(137,358)	(90,350)
	1.8%	9.2%	7.0%
Return on credit capital	(89,440)	(65,793)	(70,112)
	4.7%	4.4%	5.4%
Remuneration of venture capital	(81,151)	(81,151)	(81,132)
	4.2%	5.4%	6.3%
Remuneration of the company	(584,435)	(144,306)	(99,144)
	30.5%	9.6%	7.7%
Outside donations	(5,064)	(3,625)	(3,300)
	0.3%	0.2%	0.3%

\* The figures for 2010 do not include the operations discontinued during the year that belonged to PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A) and Broadband Solutions. The figures for 2009 were consequently restated on a comparable basis.

The value generated by appreciation of PIRELLI stock on the stock market must also be considered. Stock market performance in 2011 confirmed PIRELLI as the best stock in the European sector, with a gain of +7.5% compared with -24% of DJ Stoxx Auto&Parts.

The trends of the items comprising gross overall added value as indicated hereinabove are adequately explained in the Volume A - Annual Financial Report at December 31, 2011, to which reference is made for further details.

With reference to outside donations, the table below shows the contributions and donations made by PIRELLI in the three-year period 2011, 2010 and 2009, broken down by category:

**OUTSIDE DONATIONS\***

	€/000	€/000	€/000
	2011	2010	2009
Education	674	770	696
Culture	2,616	1,035	1,215
Research	703	1,119	629
Solidarity, Sport	1,071	701	760
	<b>5,064</b>	<b>3,625</b>	<b>3,300</b>

\* The figures for 2010 do not include the operations discontinued during the year that belonged to PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A) and Broadband Solutions. The figures for 2009 were consequently restated on a comparable basis.

In order to correctly measure and understand the proportion of money spent among the above categories, it must be remembered that the amounts shown are consolidated figures indicated in euro, although they were mainly spent in local currency in the various countries (often emerging markets / developing countries) – where PIRELLI operates. This is particularly true for the categories “Education” and “Solidarity”. Paradoxically, although the reported figures shown are lower in absolute terms than what was spent on Culture and Research, they were used to finance a universe of development projects in the countries receiving the donation. Even more so, it should be emphasised that the item “Solidarity, Sport” grew sharply in 2011 from the previous years.

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

During FY 2011, no significant penalties were levied and paid on a final basis for violation of laws and regulations, including any penalties connected with the supply and use of Group products and/or services.

Finally, the Pirelli Group *"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 – The Wider Community).

## 2.2 LOANS AND CONTRIBUTIONS RECEIVED FROM THE PUBLIC ADMINISTRATION IN 2011

In March 2011 and July 2011, the European Investment Bank (EIB) granted PIRELLI Tyre S.p.A. euro 20 million, under a new loan agreement totalling euro 50 million made in support of the investment of euro 250 million for expansion of the PIRELLI plant at Slatina in Romania, dedicated to the production of car and light commercial vehicle tyres. The new loan complements a similar loan made in 2007 to support establishment of the same production plant.

In April 2011 PIRELLI Tyre S.p.A. was granted euro 631 thousand by the Region of Piedmont in R&D contributions for Cyber Tyre, Next Mirs and PTSM.

In 2011 the Romanian subsidiary, S.C. PIRELLI Tyres Romania S.r.l., received euro 8.3 million from the Romanian government as incentives for local investment.

Finally, in February 2011, PIRELLI Neumaticos S.A. de C.V. received euro 2.7 million in grants from the Guanajuato State Government in Mexico for investments to generate employment.

## 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.

In 2011, financial communication aimed to promote the PIRELLI Equity Story illustrated in the Industrial Plan. PIRELLI aims to achieve global leadership in the Premium segment by 2015. This is the highly profitable, high-end tyre segment.

The 2012-2014 Industrial Plan with Vision to 2015 submitted to the financial community in London on November 9, 2011 envisages in summary:

- ▶ an additional push for technological innovation with expansion of the production range
- ▶ streamlining of the production organisation and geographical coverage with more new plants located in countries with rising demand and favourable industrial costs
- ▶ new distribution and consumer marketing models to establish closer ties with customers and encourage customer loyalty

- ▶ brand strength as a strategic asset
- ▶ additional push towards environmental and social targets, as fully described in Chapter 1 of this report.

### 2.3.1 Financial communication

In 2011 PIRELLI further intensified meeting occasions with investors on major financial markets (Milan, London, Edinburgh, New York, Boston, San Francisco, Los Angeles, San Diego, Paris, Frankfurt, Zurich, Copenhagen and Stockholm), visiting Asian markets (Shanghai, Singapore, Hong Kong and Beijing) and Latin American markets (São Paulo) for the first time.

During the year, PIRELLI met with 510 institutions, comprised of both current and prospective investors (25% more than the previous year) during dedicated road-shows and participation at industry conferences.

Formula 1 also represented a major opportunity for strengthening ties between the financial community and PIRELLI. During the 2011 Grand Prix races (from Monte Carlo to Singapore, from Montreal to Monza, etc.), PIRELLI organised meetings with financial analysts and leading local investors with detailed sections dedicated to technology, product, brand and distribution.

To increase equity investments by United States investors, PIRELLI launched the level 1 (over-the-counter) ADR (American Depositary Receipts) programme in cooperation with JP Morgan in 2011. Since November 2011 American investors may invest in PIRELLI through dollar-denominated financial instruments.

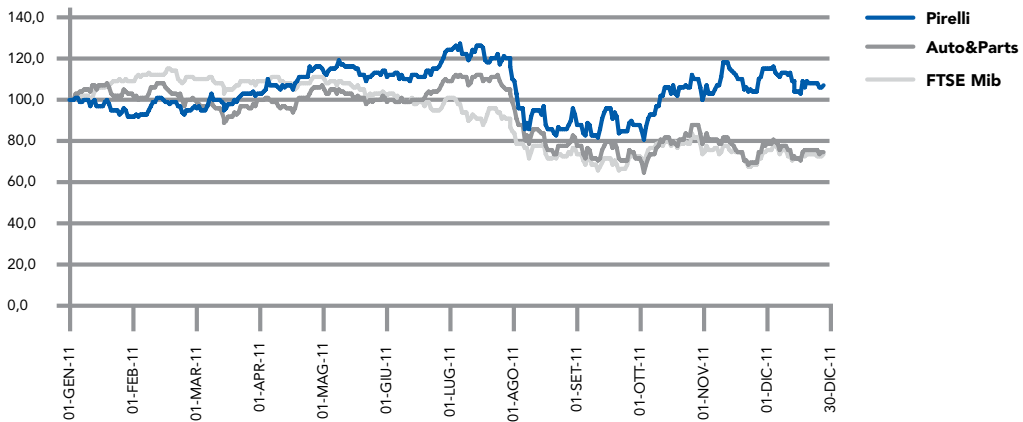
In 2011 the Company continued its dialogue with socially responsible investors through participation at international conferences on governance and sustainability issues and organisation of road-shows dedicated to SRI funds in major financial centres, particularly in Great Britain, The Netherlands, Germany, France, Switzerland and the United States.

PIRELLI has also improved communication with individual investors by creating a web space dedicated to retail investors, found in the Investors section of the institutional website. This allows users to keep up to date on the principal corporate events, stock performance, strategy implementation, business evolution, earnings results, and PIRELLI and PZero innovation and products. The services offered include: the weekly stock market report, calculation of the stock return on investment, the quarterly newsletter IN, Blog (Investor Channel), E-mail/SMS Alert, and more.

Finally, coverage of PIRELLI stock by leading investment banks was extended. At December 31, 2011, 24 brokers publish periodic reports on PIRELLI (21 in 2010), of which 43% are global (25% at December 31, 2008). The stock reached a market price of euro 8.74 (average target price) at December 31, 2011, compared with euro 7 in January 2011. The most frequent recommendation given by analysts (88%) was "buy."

The variation in PIRELLI stock price over 2011, as illustrated in the following graphic, confirms that it was the best-performing stock of its sector in Europe: +7.5% vs. -24% for DJ Stoxx Auto&Parts.

### FY2011 stock price performance



For more details, reference is made to the "Investors" section of the website [pirelli.com](http://pirelli.com).

It provides a complete, updated information tool for matters of interest to shareholders and the financial community.

## 2.4 OUR CUSTOMERS

*"The Pirelli Group bases the excellence of its products and services on non-stop 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)

The business of PIRELLI Tyre is divided into two main segments: Consumer (tyres for cars, SUV, light commercial vehicles and motorcycles) and Industrial (tyres for buses, trucks, agricultural machinery and steel cord).

These businesses are focused in turn on two different sales channels:

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

A macro-distinction can be made between "Specialised Resellers" and "Dealers" in the "Replacement" channel. Specialised Resellers are tyre specialists that operate as independent businesses. They are a key point of contact between PIRELLI and end customers. Special attention is devoted to them in terms of shared development, to enhance the offer of products integrated with high-quality service that is consistent with PIRELLI values and customer expectations.

"Dealers" are key partners of PIRELLI in guaranteeing continuous supply of tyres to specialised resellers, by offering local delivery and distribution services throughout the whole territory.

In addition to the Business Tyre customers, there is a heterogeneous group of customers classified in the "other businesses" category, which is a quality niche comprised of:



- ▶ PIRELLI & C. Ambiente, active in the waste-to-fuel and photovoltaic renewable energy sectors and in environmental clean-up;
- ▶ PIRELLI Eco Technology, which operates in the diesel vehicle and heating plant emissions control technology sector;
- ▶ PZero, the fashion design project supporting the Tyre business, which focuses on the Premium and prestige segment where fashion exerts a special appeal, and with the tyre business shares a constant commitment to research, innovation and technology. The first PIRELLI brand rubber apparel appeared over a century ago, initiating an uninterrupted relationship between industry and fashion that was relaunched in 2002 with the new PZero project.

#### 2.4.1 Customer focus

Customer focus – a key aspect of the Values and Ethical Code of the PIRELLI Group – presumes that PIRELLI has a constant and on-going commitment in terms of:

- ▶ comprehension of the market context in which the Group operates;
- ▶ consideration of the impact of the Group's actions and behaviour on the customer;
- ▶ exploitation of every opportunity offered by doing business to satisfy the customer's needs;
- ▶ anticipation of customer needs;
- ▶ top product quality, as well as excellence of production systems and processes;
- ▶ constant focus on performance to satisfy customer performance and safety expectations;
- ▶ excellence and competitiveness on the market to offer customers quality products and services that efficiently satisfy their demands.

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

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

#### 2.4.2 Transparency

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

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

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

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

There were no cases of non-compliance with regulations or voluntary regulations applicable to marketing activity in 2011, including advertising, promotion and sponsorship.

#### 2.4.3 Information and training

In 2012 two new European regulations will enter into force. Their purpose is to improve road transport safety and its environmental and economic efficiency through the promotion of safe tyres that facilitate efficient consumption and low noise levels. **Regulation on General Safety of Motor Vehicles (EC 661/2009)**

With this regulation, which will enter into force on November 1, 2012, the European Commission has set itself the goal of improving road safety, through an integrated policy approach benefiting users, the environment and industry.

It envisages that certain safety equipment be mandatory on all vehicles, such as the "electronic stability control system". In regard to tyre safety measures, it envisages that "tyre pressure monitoring systems" be mandatory equipment on cars, while also imposing new limits on tyre rolling resistance on cars and all categories of heavy vehicles. For these types of wheeled vehicles and in regard to the limits already in force since 2001, the regulation also sets new limit values on rolling noise for tyres and wet grip for car tyres.

#### **Regulation on Labelling of Tyres (EC 1222/2009)**

From November 1, 2012, all new tyres for cars, light and heavy commercial introduced in the European market must have a label on the tyre tread that informs consumers of the fuel efficiency, wet grip and external rolling of the tyres that they are about to purchase. Fuel efficiency and wet grip are rated on a scale from class "A" (green class, the best) to "G" (red class, the worst). This classification system is similar to the one already used for electric appliances.

Instead, the United States mandates the Uniformity Tyre Quality Grading (UTQG) disclosure. These regulations are currently being revised and will include mention of rolling resistance class as well. All PIRELLI products are sold with a safety warning affixed to the side of the tyres, although this is not required under the law.

Voluntary tyre labelling requirements exist in Japan and will come into force this year in South Korea.

During the chairmanship of Francesco Gori, the Chief Operating Officer of PIRELLI who at the end of 2011 completed his second three-year term as Chairman of ETRMA (European Tyre & Rubber Manufacturers' Association), the association has worked intensively to perfect the rules being implemented in the aforementioned European regulations. PIRELLI, as a Premium tyre company, has fully supported and supports the new

regulations, especially for the transparency that it introduces in favour of consumers, who may make informed purchase decisions in reference to essential parameters.

Just as transparently, PIRELLI reminds consumers that the three indicators covered by labelling requirements (rolling resistance, noise, and wet grip), while essential, do not exhaust the parameters that have to be assessed for full comprehension of the "value" of a tyre in terms of its performance and safety. A long list of parameters – including braking in dry conditions, aquaplaning, and road hold – are essential and typical elements of PIRELLI tyres, which the company obviously tests with maximum care, while continually innovating.

Last but not least, it is important to transmit to consumers the concepts that fuel saving and highway safety highly depend also on the driving style of individuals, as well as proper tyre maintenance, control of wear and tear and tyre pressure.

In 2010 there were no cases of non-compliance with regulations or voluntary codes involving information and labelling of products or services.

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

The new international website [pirelli.com](http://pirelli.com) was completed in 2011. It was totally overhauled in 2010, in view of giving consumers greater support in choosing the product most suited to their own needs.

More specifically, the "Find your perfect tyre" configuration tool is a method for engaging the consumer by starting from his personal and driving characteristics, leading him step by step to determining the most suitable tyre for his needs, as described in detail by internationally recognised experts. This ideal tyre can even be "tested" by using virtual and interactive tests.

The local versions of the PIRELLI site were completed and made operational during the year, in coordination with the Formula 1 Grand Prix.

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

First of all, there is the tutorial on introduction of the previously mentioned European labelling regulations (Regulation EC 1222/2009). In addition to a technical explanation for each of the three criteria used to classify tyres (rolling resistance, wet grip and noise emissions), the consumer is guided through an innovative simulator that allows him or her to compare the performance of the different grading classes and discover the benefits of choosing higher performance tyres.

Already active for trucks, the tutorial will be implemented in the car section of European websites by the end of the Q1 2012, with the aim of facilitating end user comprehension and reading of labels. Partly in consequence of these major initiatives, 2012 will mark another major step forward by PIRELLI in the digital world and its commitment to consumers, be they car, motorcycle or truck customers.

GETTYRE is the PIRELLI and Metzeler e-commerce site dedicated to motorcycle and scooter owners. In collaboration with the network of dealers located in every region of Italy, GetTyre.it is the official online store that clearly features a range of tyres and special offers for consumers. The site is already active in Italy and Spain. By H1 2012, e-commerce should be integrated in the product catalogue of the new Metzeler site.

In 2012 PIRELLI also introduced a new digital newsletter aimed at its customers, Paddock News.

Its principal aim is to provide a new tool for communication and contact with the trade, comprised by an international edition, managed from Milan, and a local language edition for each individual market where PIRELLI operates. In five issues a year, Paddock News presents a gallery of new products and innovations by the company and its business units: Car, Motorcycle, Motorsport and Truck.

PIRELLI paper publications are dominated by the company magazines PIRELLI World and, for Brazil, Giro, in addition to publications for the international market, including Truck, the magazine dedicated to the truck transport world, which is also available online and published in four languages in Europe (Italian, Spanish, German and English) and in two languages in South America (Spanish and Portuguese). This last publication rep-

resents a steady channel for communication between PIRELLI and transport dealers and professionals. It offers a key tool for distributing information and updates on products and applications.

In 2011 the Tyre Campus project was reinforced at the local level, whereby PIRELLI aims at achieving excellence in product training, both in terms of content and methods, from factory visits to simulations of tyre performance. Information and training are now truly comprehensive. The number of product training participants in 2011 increased by 80% from the previous year, with extremely positive feedback by all markets.

In addition, the bases were laid for a 2012 project that envisages the creation of a PIRELLI e-learning platform dedicated to dealers. This platform will permit the exponential growth of customers who will have access to product training.

#### 2.4.4 Listening and exchanging ideas as sources for continuous improvement

Customer relationships are managed principally through two channels:

- ▶ the local sales organisation, which has direct contact with customers and, by using advanced information management systems, can process and respond on-site to all customer information requirements;
- ▶ the PIRELLI Tyre Contact Centers, which number 31 worldwide and are staffed by over 200 employees, providing both information assistance and order management (inbound), telemarketing and teleselling (outbound), with a CSI of 98%. A training programme dedicated to Contact Centre operators set up in 2010 was extended to all markets in 2011, in order to improve relationship skills with customers and developing greater technical and commercial skills. Specific reports and analyses are generated on the basis of available tools to assess efficiency, effectiveness and customer satisfaction. In 2012 the aim is to continue improving pro-active commercial contacts through targeted marketing, sales and caring.

PIRELLI is also present on Facebook (61,000 Fans for more than 23 million post views at

December 31, 2011), Twitter (audience of 180,000 persons plus 16,000 followers) and YouTube (with a dedicated channel that recorded more than 1 million video views). These three channels are constantly updated and show exponential growth of spontaneous participation by fans. The principal aims of this exposure is greater involvement by users interested in the PIRELLI brand and products, support for communication of the institutional website and exploitation of the opportunity to transform customer experiences into opportunities for continuous improvement.

The German brand Metzeler is particularly active through RIDEXPERIENCE, the multilingual blog where bloggers share their extreme travel experiences, technical advice and interesting news about the motorcycling world. The fan page dedicated to the Italian, German, English, Spanish, French and United States markets was also appreciated, with 35,000 fans at December 31, 2011. The channel dedicated to Metzeler on YouTube, also had a total of 450,000 video views.

Feedback received in 2011 again included the results of periodic Customer Satisfaction Surveys (on the supply of car tyres), covering the level of customer satisfaction compared with leading competitors in order to measure the impact of action plans implemented in 2010. These plans were defined with each country by engaging all affected functions (from Marketing to Logistics and Quality) on the basis of the results of the 2009 survey. The trend of general satisfaction towards the market average was extremely positive for PIRELLI, which is the best in class competitor in Italy (+3% compared to competitors), Belgium (+6.5% compared to competitors), Spain, Poland and Switzerland. Marketing was confirmed as a strong competitive advantage, with PIRELLI best in class in Italia (+5% and +8% vs. the average of competitors), Spain and Switzerland and a satisfaction index that has improved since 2009 in Poland and Belgium.

This same survey (Customer Satisfaction) was conducted for the first time in 2011 in four markets (Italy, Spain, United Kingdom and Germany) for customers of the Truck business unit. This survey showed that the level of satisfaction with PIRELLI was more than satisfactory in Italy and Spain (with a total score of 3.6 out of 5 on a scale from 1 to 5) and very good in the United Kingdom and

Germany (with a total score of 4 out of 5) according to a series of indicators: commercial conditions, complete product range, marketing tools and fleet services, sales force skills, contact centre efficiency, product and logistic quality.

In 2011, the Motorcycle Business Unit conducted Customer Satisfaction surveys in Italy (being ranked 3.9 out of 5), in Germany (4.2 out of 5), and in France, England and Spain, with an extremely high level of European satisfaction and consistent with what was measured in 2010. The figure for the survey conducted in the United States will be available by Q1 2012.

Always using listening and exchange of views as a source for continuous improvement of customer relations, we plan another Dealer Survey (regarding cars) in 2012 that will also be extended to prospective customers to measure the potential market of PIRELLI.

The Engaging the Consumers projects was also completed in the top ten markets of PIRELLI (Italy, Germany, Spain, France, United Kingdom, Brazil, China, United States, Turkey and Russia) in 2011. Using an in-depth analysis of the principal phases of the end customer purchasing process, this project made it possible to define, with the contribution of a highly structured research tool developed by GFK and McKinsey, effective consumer segmentation and consequent marketing plans in support of the PIRELLI Premium strategy. In particular, 10,000 surveys of end customers, 33 focus groups and 82 interviews of industry operators were conducted. The project has also made it possible to investigate the role of the brand, the dealer and the various touch points in influencing the end customer purchasing decision. One of the principal outputs was given by definition of the Premium core target of PIRELLI. Additionally profiling of these outputs are underway to define not only the socio-demographic profile but also general purchasing attitudes and lifestyle in order to provide support for consumer marketing, advertising and media planning activities.

The Engaging the Consumer Project will also continue in 2012 with the repetition of micro-surveys and monitoring the efficiency performance of PIRELLI activities in individual markets.

At the end of 2011, the Moto Business Unit

Fig. 2

# Flexibility





began an analysis on the "consumer decision journey" in the Italian, German, English, French, United States and Brazil markets. The results of this analysis will make it possible to reformulate marketing initiatives to enhance their effectiveness.

#### 2.4.5 Quality certifications

##### ISO 9001

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

##### ISO/TS 16949

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

##### ISO/IEC 17025

Since 1993 the PIRELLI Materials and Experimentation Laboratory, and since 1996 the PIRELLI Pneus (Latam) Experimentation Laboratory, have implemented the quality management system and are accredited in compliance with ISO/IEC 17025. This system is maintained in compliance with the current standard, and the capacity of the Laboratory to perform accredited tests is assessed annually. The Laboratory participates in proficiency tests organised by the International Standard Organisation, by ETRTO or by international circuits organised by car makers. PIRELLI's car tyres are an excellent example of the Company's focus on quality, which is confirmed by its pre-eminence in a large number of product tests, and also ensured by the Company's close links with highly prestig-

ious partners (famous car makers, specialist magazines, driving schools, etc.) for product development and experimentation.

#### 2.4.6 Care for 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.

The process adopted by PIRELLI extends the requirements and restrictions imposed by European standards – e.g. Regulation (EC) no. 1272/2008 on the new harmonised classification and labelling system, Regulation (EC) no. 1907/2006 known as the "REACH" Regulation – to all countries where it operates.

Monitoring of the producers and suppliers of raw materials used by the Group continues, especially as part of registration of these substances by Producers / Distributors / Importers pursuant to the "REACH" Regulation.

#### 2.4.7 Product safety, performance and eco-sustainability

PIRELLI annually invests about 7% of revenues in the Premium segment to research and development, one of the highest levels in the tyre sector, to create products that improve safety, benefiting persons and the environment and in accordance with its own Green Performance business philosophy.

Road safety, together with reduction in harmful emissions, is one of the key points of PIRELLI strategy for increasingly sustainable mobility that drives its industrial and commercial choices.

Research has enabled it to develop materials that are simultaneously ecological and capable of assuring top safety performance. In this sense, the new European labelling standard – for the labels that will disclose the technical and environmental characteristics of tyres – will enable consumers to make better informed choices, especially in regard to braking distance under wet conditions, noise levels and the impact of rolling resist-

ance on fuel consumption.

Eco-sustainable tyres range from the Scorpion Verde, the first high-performance ecological tyre for SUV and Crossover, to the Cinturato P1, a high technology green tyre used on small and medium sized cars, to the PZero Silver, the Ultra High Performance tyre derived from Formula 1. The Cyber Tyre, which is undergoing final testing before going on sale, represents further evolution in terms of safety, due to its capacity to "read" the road surface with an integrated chip that sends the driver important information for safe driving. In the commercial vehicle segment, the W:01, H:01 and G:01 lines were launched in 2011 to complete the Series 01, introduced in 2009 with the R:01 line. The new lines include tyres for long-distance use, in winter conditions and earth moving and construction equipment. The profound innovation of this product line represents another example of PIRELLI commitment. The eco-impact mark on the side of Series 01 tyres (although it is also found on the Cinturato and Scorpion Verde) identifies the products that permit reduced environmental impact through lower rolling resistance, fuel consumption and external noise, plus higher mileage. The new generations of tyres are already made in compliance with future European Union labelling regulations, which come into force in 2012. PIRELLI has also chosen early implementation for the early elimination of highly aromatic oils from Green Performance product compounds. It eliminated them in 2008, well in advance of the mandatory 2010 European deadline.

To achieve this, the company relies on its close ties with the most prestigious car makers in a segment that is particularly scrupulous and demanding in terms of safety and performance: the Ultra High Performance market. Continuous improvements in key performance parameters, such as braking performance under dry and wet conditions, offer customers top-quality products in terms of road safety. There are tyres that have been conceived primarily to offer safety and innovation, such as self-supporting tyres or Run Flat tyres, which guarantee vehicle mobility and control even in the event of a sudden loss in pressure. For more details about the eco-sustainable characteristics of PIRELLI products, please see the Environmental Dimension chapter in this report.

For more details about product safety,

performance and eco-sustainability, please see Chapter 3 – Environmental Dimension in this Report.

#### 2.4.8 Safety culture

PIRELLI is highly committed to the dissemination of road safety culture, by offering pro-active global contributions to the "Decade of Action for Road Safety 2011-2020" sponsored by the United Nations and World Health Organization. PIRELLI is also highly focused on the objectives to reduce road accidents imposed by the European Commission through the European Road Safety Charter, of which it is a subscriber.

According to research by the World Health Organization, about 1.3 million persons lose their lives every year due to road accidents worldwide. Unless prevention measures are taken, this figure will rise to 1.9 million in 2020. Road accidents are the primary cause of mortality for people aged 15-29. To this must be added the number of persons injured, estimated between 20 and 50 million annually, with a social and economic impact that is estimated to be between 1% and 3% of the gross domestic product in certain 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 culture is an issue of substantial social responsibility.

#### 2.4.9 The safety of end customers is the focus of Pirelli sustainability day

On January 23, 2012 the PIRELLI Sustainability day was held in Milan, with the title "Pirelli Sustainability: a safe road to the future," an international conference dedicated to evolving trends in attention to consumer health and safety, the environment and a focus on road safety.

The conference, opened by PIRELLI Chairman Marco Tronchetti Provera, included presentations by Environment Minister Corrado Clini, Antonio Tajani, Vice President of the European Commission and Commission-



er for Industry and Business, and Peter Bakker, President of the World Business Council for Sustainable Development (WBCSD). Other speakers included Nikhil Chandavarkar, head of Communications of the Sustainable Development Division – United Nations Department, Carlo Fidanza, member of the European Parliament Transport and Tourism Committee, Francesco Gori, Chief Operating Officer of PIRELLI, Toby Webb, founder and president of Ethical Corporation, and Jeremy Rifkin, President of the Foundation on Economic Trends.

The topics discussed included evolution of the figure and role of consumers in an economic system that has undergone profound changes in development models and market dynamics over the last several decades. For the economist Jeremy Rifkin, the “prosumer,” the new producer-consumer, will be the entity that will assume increasing importance in consequence of “distributed capitalism.” This entity embodies different interests that apparently conflict with those that businesses will have to confront more and more. Reconciling these interests will stimulate firms to identify new, more sustainable growth models.

During the event, PIRELLI signed a voluntary agreement with the Environment Minister, in which it agreed to calculate its carbon footprint for the entire life cycle of a tyre representative of its products, while identifying economically more sustainable and efficient measures to reduce greenhouse gas emissions. PIRELLI has been committed for years to reducing its greenhouse gas emissions (carbon management). The agreement signed by Minister Corrado Clini and PIRELLI Chairman Marco Tronchetti Provera is one of the different measures taken by PIRELLI to contain its environmental impact.

In accordance with the sustainable approach adopted by PIRELLI in all its activities, the “Sustainability Day” was certified according to the BS8901 standard, with it being classified as “Advanced”. The BS8901 standard regulates the system for sustainable management of events. Consequently, independent assessment for issuance of the certificate concerned management of all social, health and safety aspects throughout the entire supply chain involved in planning and realising the event. The CO<sub>2</sub> emissions generated during “Sustainability Day” were fully offset by reforestation activities.

#### 2.4.10 International road safety initiatives

A long list of measures have been taken by all European countries to reduce road accidents in accordance with the principles of the European Road Safety Charter (ERSC) signed by PIRELLI.

Worthy of mention is the protocol of understanding signed by PIRELLI and the Italian Minister of Education, University and Research to promote information and training campaigns targeting Italian drivers, newly licensed drivers and high school students. Signing of this agreement was accompanied by presentation of the first project resulting from collaboration between PIRELLI and the National Police: an educational video that explains the importance and central role of tyres to safe travel. This video was distributed in high schools, published on the website of the Home Affairs Ministry and used as educational material by the National Police.

Training programmes on the role of tyres developed with driving schools in a number of European nations represent one of the most important activities undertaken by the Company in regard to safety. Among these, the “Safety First” project launched in Germany is one of the most intense following acceptance by 51 driving schools across Italy that used the illustrative materials and informative kits provided by PIRELLI.

The training and awareness courses offered in Italy also targeted the most loyal resellers, for which specific communication campaigns were offered, for example the Safety Campaign for driver resellers, and informative and promotional materials were distributed on a wider scale, particular in regard to proper tyre replacement (e.g. the importance or statutory obligation to use winter tyres during certain periods of the year or when temperatures fall below 7°C).

The first Truck Safety Day organised by PIRELLI was held in Livigno in mid-January 2012. This event was organised with the awareness that, even if there is no European standard in the industrial vehicle sector that distinguishes specialised winter tyres from those marked M+S, it is necessary to guide users towards using the most appropriate and safest product even in winter conditions. The participants at the event held in the Livi-

gno ice arena (80 dealers, fleets and journalists from Italy, Germany, Austria and Switzerland) participated in various comparative tests of winter W:01 and summer H88 tyres, which demonstrated the superior performance of winter models on compacted snow surfaces. Since safety also involves proper maintenance, PIRELLI has presented CyberTM Fleet, the system that uses a sensor installed inside the tyre, constantly monitors its pressure and reports anomalies.

The world of motorcycle drivers is particularly sensitive to the issue of road safety. PIRELLI has targeted them with a campaign focused on active and passive safety aspects. The introduction of new sizes for the winter scooter tyre is extremely important in that regard.

In July the “Metzeler Summer Check-up” campaign began in Spain, aimed at guaranteeing a higher level of safety for its own motorcyclists. The 450 motorcycling enthusiasts were offered a free check-up and a maintenance kit for chains. The motorcyclists then submitted their motorcycles for adequate inspections before the summer holidays. All of these activities are part of the Metzeler philosophy and its flagship product, the Roadtec Z8, which launched the slogan *“Enjoy the distance, safely.”*

environmental responsibility.

*The PIRELLI system for sustainable management of its supply chain was audited by an independent entity using a high level audit procedure, in accordance with AA1000 Assurance Standard (2008) provisions, both in 2009 and presently and as stated in the letter of assurance accompanying this report.*

In accordance with the objective set for 2011, all PIRELLI buyers were trained and given in-service training on the best sustainable management practices applicable to the supply chain.

## 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).

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

In compliance with the Group Ethical Code and the “Occupational Health, Safety, Environment and Social Responsibility” Policy, PIRELLI has developed the necessary procedures in view of continuous improvement to assess and select suppliers and subcontractors according to their commitment to economic, social and

### 2.5.1 Sustainability clauses of contract

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

These clauses were revised in 2011, in view of summary simplification, while maintaining the key elements of social and environmental responsibility and business ethics that are currently included, and providing for audits by PIRELLI. In particular, the clauses:

- ▶ require awareness by our suppliers of the principles, commitments and values set out in the PIRELLI sustainability documents, i.e. "Values and Ethical Code," "Code of Conduct," and "Health, Occupational Safety, Environment and Social Responsibility" Policy published and accessible on the web. These set out the principles followed by PIRELLI in management of its activities and relations with third parties, whether or not contractual relationships exist with them;
- ▶ require that Suppliers confirm their own commitment to:
  - 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;
  - establishing and maintaining appropriate procedures to evaluate and select suppliers and subcontractors based on their commitments to social and environmental accountability;
  - not tolerating corruption in any way, shape or form in any jurisdiction, even if such activities are allowed, tolerated or non-prosecutable;
  - assessing and reducing the environmental impact of its own products and services throughout their entire life cycle;
  - responsible use of material resources, in view of achieving sustainable growth that respects the environment and the rights of future generations;

- imposing these principles, values and policies on their own subcontractors and sub-suppliers, regularly monitoring that the actually comply with this obligation.

On the basis of these sustainability clauses, PIRELLI is granted the right to conduct audits at any time, either directly or through third parties that the supplier has effectively satisfied its assumed obligations. In view of assuring maximum guarantees of compliance, the clauses impose the obligation on suppliers to report to a specific e-mail address (the same envisaged in the Group Whistleblowing Procedure) any violation or suspected violation that they find in regard to the "Values and Ethical Code," Code of Conduct and "Health, Occupational Safety, Environment and Social Responsibility" Policy of the PIRELLI Group.

The sustainability clauses have been translated into 24 foreign languages. This guarantees the maximum clarity and transparency towards the supplier in terms of his sustainability obligations under contract, which he assumes not only in his relations with PIRELLI itself but also at his own facility and in relations with his own suppliers.

### 2.5.2 Purchases performance

The following graphics show the value of PIRELLI Tyre purchases and percentage of suppliers broken down by geographical area. This information shows that the value of purchases in OECD countries is about the same as the value of purchases in non-OECD countries, but the number of suppliers in OECD countries is significantly higher. It should be pointed out that 76%<sup>1</sup> of suppliers are located in the same area as the supplied PIRELLI affiliates, in accordance with the Local for Local procurement policy.

1 Does not include suppliers of raw materials

**PERCENTAGE VALUE OF PIRELLI PURCHASING  
BY GEOGRAPHICAL AREA\***

		2011	2010	2009
OECD COUNTRIES	EUROPE	43.2%	50.0%	47.4%
	NORTH AMERICA	2.6%	2.4%	3.1%
	OTHERS	1.3%	2.5%	3.1%
NON-OECD COUNTRIES	LATIN AMERICA	27.0%	18.2%	26.4%
	ASIA	18.9%	20.8%	15.4%
	AFRICA	1.0%	1.5%	1.4%
	OTHERS	6.1%	4.6%	3.1%

\* The figures shown above do not include the discontinued operations that belonged to PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A) and Broadband Solutions. The figures for 2009 and 2008 were consequently restated on a comparable basis.

**PERCENTAGE OF PIRELLI SUPPLIERS  
BY GEOGRAPHICAL AREA\***

		2011	2010	2009
OECD COUNTRIES	EUROPE	59.2%	58.7%	63.5%
	NORTH AMERICA	3.3%	3.2%	4.3%
	OTHERS	0.3%	0.2%	3.4%
NON-OECD COUNTRIES	LATIN AMERICA	25.5%	26.7%	22.9%
	ASIA	5.2%	4.7%	4.5%
	AFRICA	1.2%	3.0%	1.3%
	OTHERS	5.3%	3.5%	0.1%

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

For more complete information, another two graphics show a breakdown of purchases by PIRELLI Tyre broken down by type and a snapshot of the number of suppliers corresponding to the types of goods/services acquired by PIRELLI Tyre.

The following table, which shows the percentage value of PIRELLI Tyre purchases by type, shows that raw materials remain the most important purchasing category, accounting for 58.5% of the total, while maintaining the growth trend of the previous years due to price increases. The total spent on "Capital goods" has also increased, being closely tied to the increase in industrial capacity during the period.

**PERCENTAGE VALUE OF PIRELLI TYRE PURCHASES  
BY TYPE**

	2011	2010	2009
Raw materials	58.5%	55.4%	52.4%
Supplies	4.6%	4.6%	4.8%
Services	23.8%	28.7%	34.1%
Capital goods	13.1%	11.4%	8.8%

In regard to the second table, Percentage of PIRELLI Tyre Suppliers by Type and Number, the criteria used to classify supply and service vendors were refined in 2010. The number of vendors in these two categories continues to account for more than 80% of the total, although their weight on the total value of purchases is much less than, for example, that for raw material purchases. The fragmentation of supply and service vendors is evident, in comparison with the substantial concentration of just a few vendors of raw materials.

**PERCENTAGE OF PIRELLI TYPE SUPPLIERS BY TYPE  
AND NUMBER**

	2011	2010	2009
Raw materials	2.8%	3.0%	3.3%
Supplies	40.5%	38.9%	9.7%
Services	46.2%	47.3%	73.8%
Capital goods	10.5%	10.8%	13.2%

What follows is a graph illustrating the percentage composition of the mix of raw materials purchased by PIRELLI Tyre in 2011. Alongside it we see the 2010 and 2009 data published in previous sustainability reports. Specifically in comparison with 2010, the weight of natural rubber rose in 2011 against a decrease in chemicals and textiles.

The volume of raw materials used in 2011 for the production of tyres was about 1 million tonnes, including about 7% derived from recycled material, with this last component growing continually from about 6% in 2010 and 4% in 2009.

## MIX OF PURCHASED RAW MATERIAL

	2011	2010	2009
Natural Rubber	35%	33%	24%
Synthetic rubber	27%	24%	23%
Carbon Black	11%	11%	13%
Chemicals	12%	14%	17%
Textiles	8%	10%	13%
Steel cord	7%	8%	10%

### 2.5.3 Interaction and dialogue between Pirelli and its suppliers

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

- ▶ **approval of new suppliers**, where the interdepartmental process based on specific quality standards led to the addition of the approved material/vendor to the Vendor List. This is the company's list of approved suppliers for each individual product. The sustainability limits have been integrated in this phase since 2007;
- ▶ **monitoring of vendor (Vendor Rating)**, assessed on the basis of the quality of the product supplied or service provided, the quality of the commercial relationship, technical/scientific cooperation, performance in terms of occupational safety, environmental and social responsibility through on-site audits and periodic monitoring of the progress of the actions scheduled in any improvement plans that have been signed.

The vendor's sustainability is assessed in an independent audit, as illustrated in detail elsewhere in this section.

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

These procedures are supported by a special website available online through the Purchasing Portal. This website supports the Regulations (including the Purchasing Manual, General Conditions to be applied to suppliers), the Vendor List, surveys, Vendor Rating with feedback and the definition of support actions. This portal provides both an assurance of process uniformity and a guar-

antee of transparency, in addition to being a communications, on-going training and knowledge sharing tool.

In view of shared development, the processes of dialogue and interaction with suppliers are the object of process improvement, in terms of both quality and tools. Specifically, the Vendor Rating results are regularly revised and commented on by the Purchasing Department. This process involves meetings organised with the vendors, aimed at identifying any corrective actions or measures to improve performance. Each purchase contract includes the name of the buyer contact, to provide the vendor with a company channel that is always available for any feedback.

Several new projects to improve the efficiency and effectiveness of the purchasing process were developed in 2011, where sustainable management of the supply chain has assumed prominence. This is specifically the case of the new Group "Purchasing Portal," whose implementation began in 2011 and that will be fully operational in 2012, becoming the key "platform" both for Group vendors and for corporate purchasing managers. The new IT tool will allow sharing information between the various countries where the Group operates and trace vendor compliance with the Group Sustainability System, beginning from the approval phase and continuing to entry of the status of implementation of any remedial plans agreed by PIRELLI and its vendors on the basis of independent audits of vendor sustainability.

Potential suppliers that want to be approved for inclusion on the PIRELLI Vendor List will have to use the portal. By accessing it, the first thing that they will have to do is respond to a pre-assessment questionnaire concerning economic, social and environmental sustainability. Responding to the questionnaire will be a pre-requisite for qualification.

The portal has also been designed to support the execution of communication, awareness and training campaigns for suppliers, whose sustainability will be a key element, particularly in regard to social and environmental responsibility.

An analysis of logistic service providers was conducted in 2011 to measure both the degree of environmental sensitivity and climate impact resulting from their activity for

PIRELLI. The analysis revealed significant opportunities for improvement, which will be mentioned by the company in communications with suppliers and during future training sessions. In view of properly measuring the environmental impact of logistics, it must be pointed out that in the life cycle of a tyre, the impact stemming from distribution accounts for less than 1% of the total impact stemming from the other phases of the life cycle (first and foremost the usage phase).

#### 2.5.4 Independent audits of vendor sustainability

The Company commissions independent audits from leading specialised firms to review compliance by PIRELLI vendors with their ethical, social and environmental responsibilities, as provided inter alia in the sustainability clauses that they sign.

Seventy-two audits were carried out between the end of 2009 and the beginning of 2010, and another 56 were carried out between the end of 2010 and the beginning of 2011. In most cases they involved vendors of PIRELLI Tyre, operating in Countries of Concern (as defined by the EIRIS classification) where the Company operates, i.e. Brazil, Argentina, Egypt, China, Romania, Turkey and Venezuela, or from which PIRELLI purchases raw materials, such as Indonesia, India, Malaysia and Thailand. Among the western countries where PIRELLI operates, audits were conducted of PIRELLI Tyre vendors in Italy, England and Germany.

The independent audits were carried out both at the PIRELLI sites, where the suppliers provide services with their own personnel, and at their administrative facilities. Workers, supervising managers and union representatives are interviewed on specific issues as part of these audits.

The auditors use a checklist of sustainability parameters based on the SA8000® standard, the PIRELLI Health, Occupational Safety, Environment and Social Responsibility Policy and the PIRELLI Ethical Code, and thus in compliance with the provisions of the Group's sustainability clauses signed by the vendors.

At the central level, a team comprised by the Group Sustainability and Purchasing Departments defines the guidelines for se-

lection of the vendors to be audited, while supporting the corresponding local departments that will manage the process, training and informing them about the purpose and procedures of the audit.

The instances of non-compliance that were most frequently encountered at suppliers and in countries of concern involved the adequacy and level of implementation of safety and environment management systems, in response to which were agreed compliance plans setting out the necessary remedial measures, precise responsibilities and deadlines by which the agreed actions have to be carried out.

In certain cases the plans resulting from the last audits (end of 2010 / beginning 2011) have already been carried out, while in other cases they will be fully implemented by spring 2012.

The Internal Audit function will be directly involved in the process of monitoring compliance plans following audits – both at PIRELLI sites and by suppliers – beginning in 2012. The PIRELLI Internal Audit function is exquisitely independent insofar as it reports to the PIRELLI Internal Control, Risks and Corporate Governance Committee, which is comprised solely of independent directors.

The adopted management system is proving to be unequivocally “win-win” both for PIRELLI and for its vendors, effectively in view of mutual substantial growth, where everyone benefits from collaboration.

#### 2.5.5 2012 Targets

- ▶ Training of Strategic Suppliers in “countries of concern” on responsible economic, social and environmental management.
- ▶ Extension of the new Vendors Portal at the Group level.
- ▶ New audits<sup>2</sup> to be carried out:
  - at PIRELLI Tyre raw materials, logistic and service vendors;
  - at PZero vendors.

<sup>2</sup> The areas and suppliers to be targeted for audits in 2012 were being identified in January 2011



# Environmental Dimension



A  
SAFE  
ROAD  
TO  
THE  
FUTURE

### 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 Social Responsibility Policy for Occupational Health, Safety and Rights, Environment, according to which PIRELLI undertakes to:

- ▶ manage its environmental activities in compliance with the highest international standards;
- ▶ communicating and providing material information to internal and external stakeholders;
- ▶ promoting use of the most advanced technologies to achieve excellence in environmental protection;
- ▶ assessing and reducing the environmental impact of its own products and services throughout their entire life cycle;
- ▶ using material resources responsibly, in view of achieving sustainable growth that respects the environment and the rights of future generations;
- ▶ establishing and maintaining appropriate procedures to evaluate and select suppliers and subcontractors on the basis of, inter alia, their commitment to environmental accountability.

In its Quality Policy, PIRELLI specifies that continuous innovation, product excellence and safety, and environmental protection throughout the product life cycle represent one of the principal sources of sustainable competitiveness in the global market.

The documents cited above have been distributed to all employees in their local languages and are published in the Sustainability section of the website [pirelli.com](http://pirelli.com), and not just in the languages spoken by employees but also in those that are most representative of the panel of suppliers.

3.1 SAFE FOR PEOPLE, SAFE FOR THE PLANET

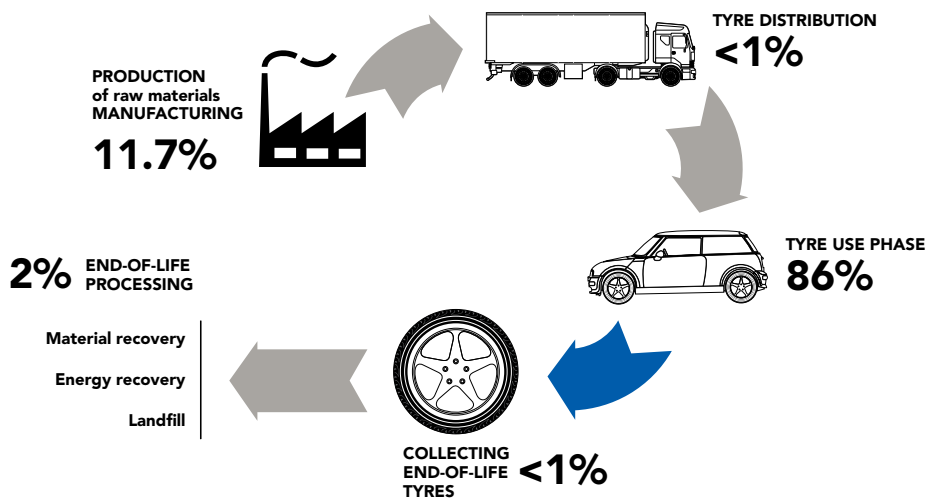
Personal and environmental safety are the guideposts used by PIRELLI to achieve balanced, effective economic sustainability.

The development and realisation of “Premium” products, even in environmental terms, are premised on a profound awareness of the interactions that the tyre has with the ecosystem over its entire life-cycle, from the production of raw materials to end-of-life management.

By managing its operations according to life cycle thinking, PIRELLI uses scientifically recognised tools to assess strategic decisions as objectively as possible (Life Cycle Assessment).

The following info-graphic illustrates the distribution of the environmental impact of a tyre over its entire life cycle, according to the Life Cycle Assessment published by ETRMA (European Tyre and Rubber Manufacturers Association).

*Life cycle assesement of an average european passenger car tyre*



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

As it has declared to the market since it presented the Industrial Plan in 2010, PIRELLI aims at full identification of its environmental footprint by 2013 on two issues whose sustainable management is of strategic importance for global development: water, with calculation of its own water footprint, and climate change, with calculation of its own carbon footprint.

The sustainable management and performance of PIRELLI products and processes will be examined in more detail elsewhere in this chapter.

3.1.1 Environmental culture: we(ek) care always

The first global PIRELLI week dedicated to Health, Safety and the Environment (HSE Week) was held in September 2011, with the aim of improving employee culture in these three fundamental areas of social and environmental responsibility.

Numerous participatory activities were held, in the form of meetings, courses, seminars and exercises. Their purpose was to emphasise the importance of individual and Group behaviour in view of the sustainable management of resources, including water and energy, as well as reducing the production of waste and promoting recycling. All of these activities are designed to improve the eco-sustainable culture of individuals, both at the workplace and especially in daily life.

Fig. 3

**Care**







## 3.2. PRODUCT ENVIRONMENTAL SUSTAINABILITY

In the Industrial Plan update presented to the market in November 2011, PIRELLI stated its objective to achieve global leadership in the Premium segment by 2015.

PIRELLI Premium products – which include the famous *Green Performance* family of tyres – are characterised by their high safety performance and reduced environmental impact.

This involves the production of products that are safe for People and safe for the Planet, based on an innovative approach that implies all phases of the tyre life cycle, and specifically in regard to:

- ▶ research and development of innovative materials in view of environmental protection inter alia,
- ▶ reduction of tyre weight,
- ▶ definition of forecasting models and models of tyre-vehicle interaction fundamental to the design of products offering ever-better performance,
- ▶ development of innovative production technologies where efficiency plays a key-role,
- ▶ creation of devices that help drivers use tyres in such a way as to exploit their full potential, reducing their environmental impact,
- ▶ identification and realisation of ways to re-use materials derived from discarded tyres.

### 3.2.1 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 underway on a new technology for selective de-vulcanization to recycle the materials resulting from discarded 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;
- ▶ nanofillers for more stable compounds, lighter structures and highly impermeable liners.

One of the principal biomaterials on which PIRELLI has concentrated its research is silica from rice husks. The company has already industrialised the process, and this biomaterial is being produced at some Group's Brazilian plants. By 2015, 30% of the silica used by PIRELLI in Latin America will be derived from rice cultivation scrap.

The production of silica from rice husks also allows the recovery of material and energy, as well as a significant reduction in the quantity of CO<sub>2</sub> generated by the production of traditional material.

In particular, rice husks are composed 20% of silica and 80% of largely organic substances that, when burned, generate the energy necessary for the process.

The ash obtained from this process contains an extremely high percentage of raw silica. Further processing renders it suitable for use as a raw material in tyres. This process is carried out at a temperature of several hundred degrees, but still at lower temperatures than those used in traditional processes. The absence of fossil fuels in the production process - and the consequent reduction in greenhouse gases - is one of the principal advantages of this technology.

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.

### 3.2.2 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, less rolling resistance and lower CO<sub>2</sub> emissions, reduced weight, and greater mileage. These are the characteristics of PIRELLI *Green Performance* tyres.

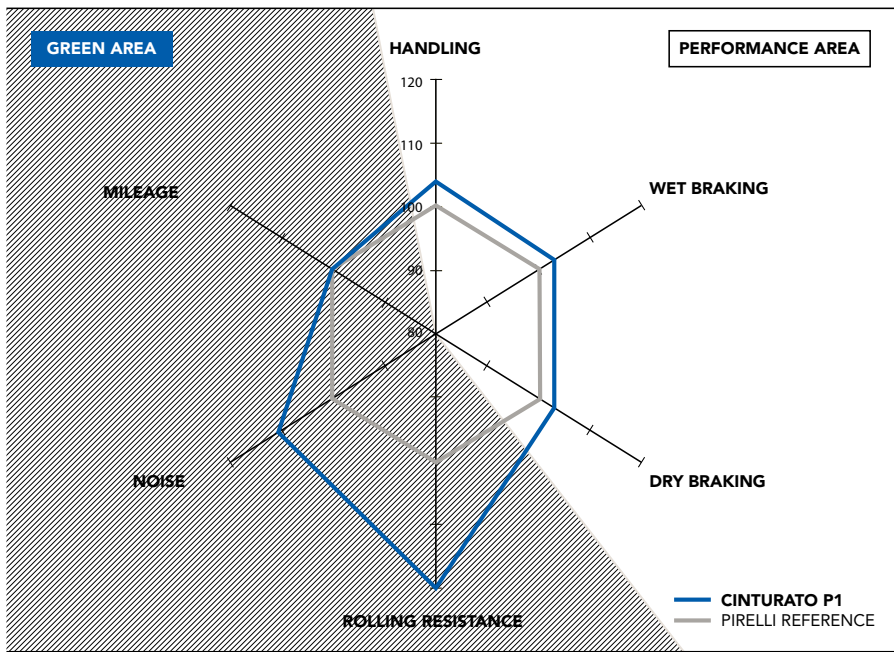


CAR TYRES

PIRELLI launched new *Green Performance* products in 2011. In March the Company presented the Cinturato P1, the high-technology *Green Performance* tyre designed for small and medium-sized cars, which can guarantee reduced fuel consumption, respect for the environment and safe driving on all road surfaces. The impact of safe for People, safe for the Planet is clearly illustrated in the following info-graphic.



Cinturato P1



Cinturato P1 has extended the PIRELLI Cinturato family of tyres to city-cars as part of development of its *Green Performance* product strategy. That strategy was launched three years ago with the Cinturato P4 and P6, and subsequently enhanced by the Cinturato P7 for medium-sized cars.

PIRELLI has extended the technology developed for Ultra High Performance tyres to the most recent addition to the Cinturato family. Developed at the Milan Research and Development Centre, the pulsing heart of PIRELLI technology where even Formula 1 racing tyres are designed, Cinturato P1 is conceived according to the most modern design criteria that have already been successfully experimented with the Cinturato P7, winner of the most important tests conducted by European certification bodies and the most authoritative automotive magazines.

Cinturato P1 has been designed for full compliance with the European labelling regulations that will come into force in 2012.

From the very first official tests, the newest PIRELLI tyre has swept away all of its competitors as measured by fuel savings and noise reduction, two fundamental parameters for receiving a high "environmental grading". As compared with the previous product, the use of innovative technological solutions has cut the weight of Cinturato P1 by 15%, resulting in up to 25% lower rolling resistance, thereby guaranteeing up to a 5% reduction in fuel consumption and pollution emissions.

For example: using the Cinturato P1 to drive from Milan to Rome means saving about 2 litres of fuel – as compared with the PIRELLI benchmark tyre mounted on a medium sized gasoline powered automobile – which translates into a saving of 6 kg in CO<sub>2</sub> emissions. When measured according to another green parameter, the Cinturato P1 reduced external noise by 1.5 dB as compared with the previous product (in accordance with EU Regulation 1222/2009) and internal noise by an average of 1dB to guarantee greater comfort and driving pleasure.

Representing a significant 27% of all sales worldwide, the Cinturato line is destined to grow in line with further reinforcement of the *Green Performance* strategy set out in the Industrial Plan.

#### TRUCK TYRES

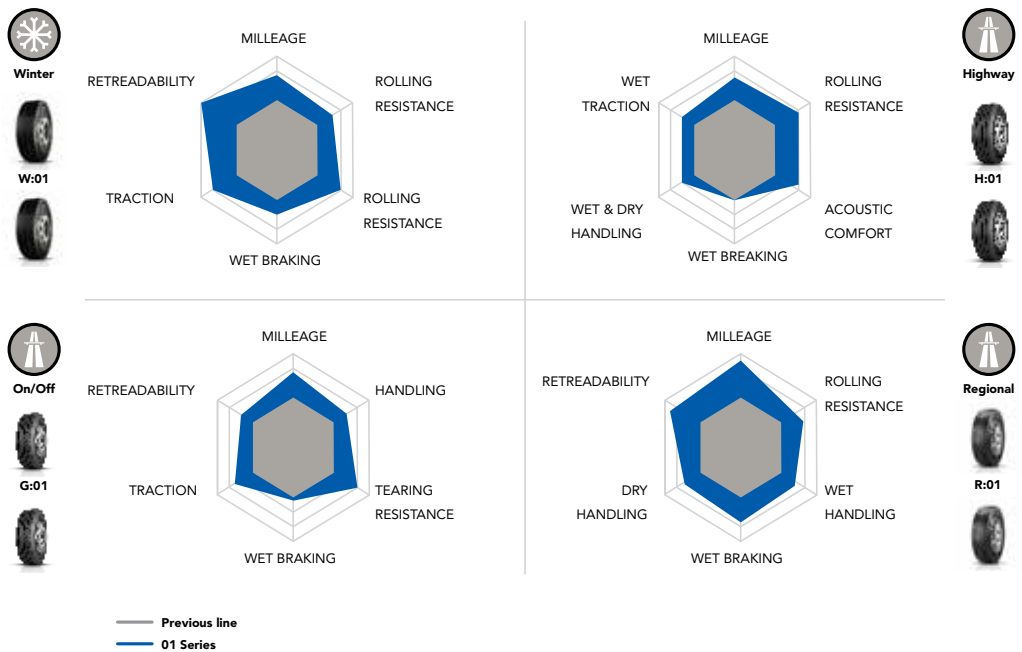
The objective of Research and Development for the Truck Business Unit is to strike the greatest possible balance amongst the top characteristics of a tyre: performance, safety and respect for the environment. In other words, this involves reducing its overall environmental impact while remaining focused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

From the design stage on, PIRELLI takes all product use condition, 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 surrounding 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 and energy needed to make them. But that is not all: 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.

Series 01, the tyre line for commercial vehicles launched in 2009 in the Regional (FR:01 and TR:01) and Trailer (ST:01) segments, was expanded in 2011 to three new lines designed for use in critical winter conditions W:01 (winter), long-distance auto transport H:01 (highway), and construction equipment G:01 (gravel, on/ off) for a total of six new products available in 22 different sizes. The key features of this product are illustrated as follows.

**Truck product - A specific design for any need**



All new Series 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 precise driving. Compounds and tread patterns are designed and optimised according to the performance requested for different uses.

In 2011 PIRELLI also introduced new tyres for use on semi-tractor trailers in the H segment (Highway – long distance). This is the 445/45 R 19.5" ST:01 tyre that, like the 435/50 R 19.5 size, is intended mainly for equipping "mega trailers", i.e. semi-tractor trailers for transporting large volumes. This tyre is enjoying broad application because it offers the possibility of maximising loads and volumes, allowing fleets to streamline their operating costs. At this time, PIRELLI is the only tyre maker in Europe with both sizes of tyres, confirming its wish to satisfy the demands of the most fleets.

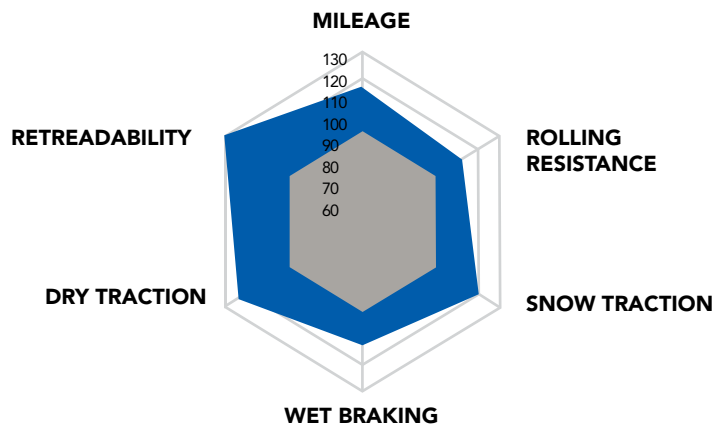
In Series 01 product lines, eco-impact icons on the tyre sidewall show a summary of its performance benefits. In particular:

- ▶ High durability and uniform wear of tyre treads, achieved by using high specific yield compounds, the new TWST structure together with an optimised profile assure even wear and tear of the entire tyre tread surface.
- ▶ Highly retreadable, 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 rolling resistance (already in compliance with 2016 regulatory limits) and consequent reduction in fuel consumption and CO<sub>2</sub> emissions.
- ▶ Low noise, construed as silence and driving comfort, anticipating the 2012 European noise abatement regulation.

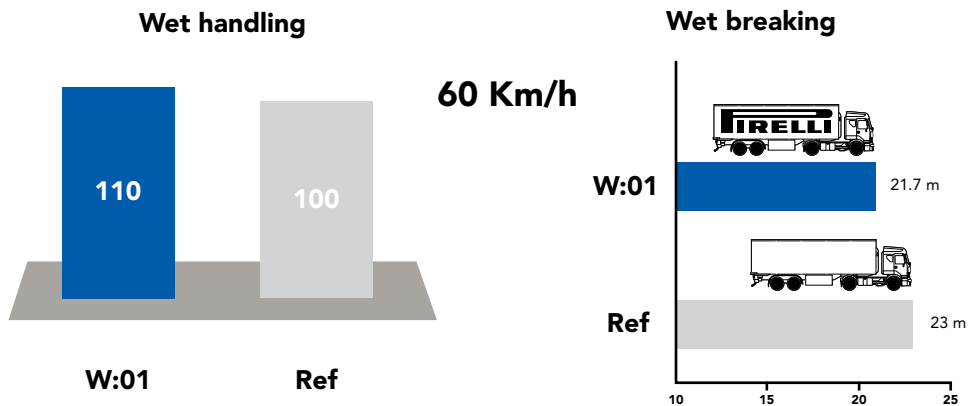
Between the characteristics described above and the use of materials without highly aromatic oils (HAOF), the Series 01 represents a major step forward towards reduction of environmental impact by simultaneously guaranteeing excellent driving performance.

The following info-graphics use an example to summarise the *Green Performance* innovation of the Series 01, with focus on the new Winter 01.

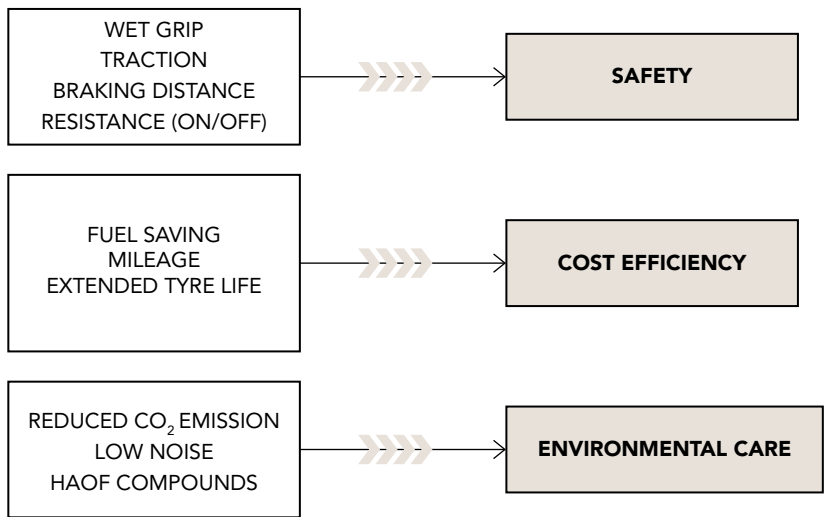
**WINTER 01: performance graph**



**WINTER 01: Wet performance**

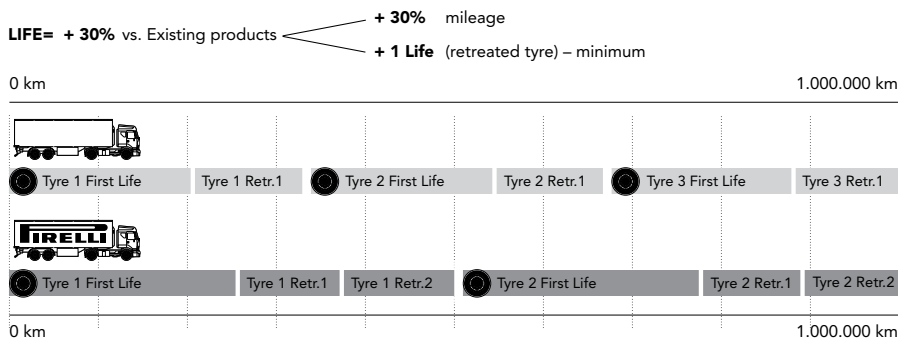


WINTER 01: Key points






The PIRELLI Novateck retreading system enhances the high quality of the tyre by extending tyre life by 30%, as clearly illustrated in the following graphics. This translates into reduced environmental impact, in terms of reduced quantity of raw materials used, greater production efficiency and reduced number of tyres requiring disposal.

Tyre life: environmental impact



ENERGY SAVINGS OF SERIES 01 COMPARED WITH EXISTING PRODUCTS

-  Impact on raw materials use - 20%
-  Impact on energy required fabricate new tyres - 22%
-  Fuel savings > 3%

3.2.3 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 who pressure is 20% than its recommended pressure may result in up to 3% higher fuel consumption, with a correspondingly greater environmental impact in terms of CO<sub>2</sub> emissions.

Studies by the U.S. National Transportation Safety Board 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.

After offering the K-Pressure<sup>TM</sup>Optic system to the replacement market in past years, PIRELLI is now able to offer the most advanced system for measuring tyre pressure and temperature: Cyber<sup>TM</sup> Tyre "Lean". This device provides a series of information that makes it possible to optimise tyre pressure under all load conditions, with additional benefits in terms of reduced environmental impact.

The extension to trucks of technologies previously developed by PIRELLI for car safety is represented by Cyber Fleet. The first generation of TPMS (Tyre Pressure Monitoring System) and RFId (Radio Frequency Identification) devices were introduced on the market for management of truck fleets at the beginning of 2012, on occasion of the Truck Safety Day held in Livigno (Italy – Alps).

This technology uses an electronic sensor embedded in the tyre to dialogue simultaneously with the driver and 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 anomalies 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.

The Cyber Tyre has been offered on the market in two generations:

- ▶ The first version by 2012 with the basic characteristics described above;
- ▶ The second, more advanced version by 2015, which will benefit from partnerships with McLaren, Ferrari, Volvo and other high-end car makers.

### 3.2.4 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 2010 about 2.7 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.

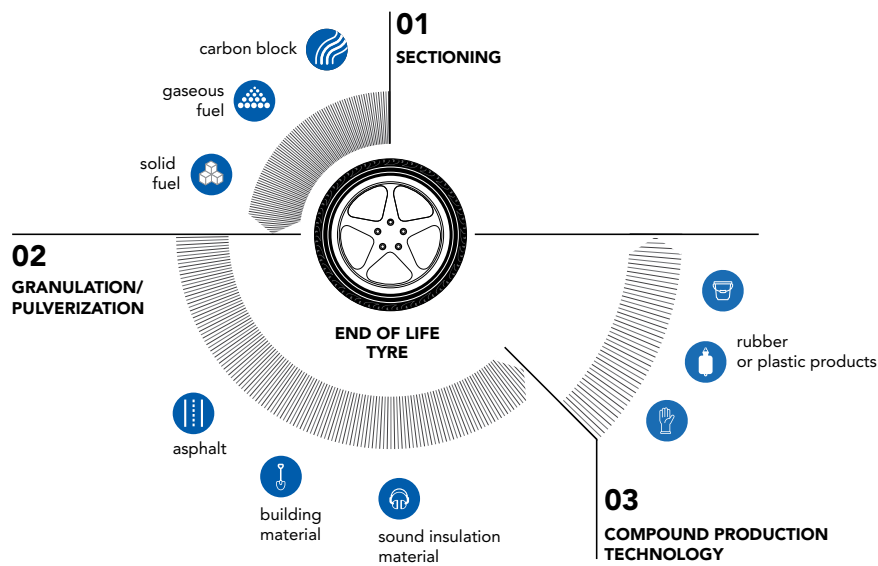
In these three cases, the efforts made by institutions, producers and recovery chains have made it possible to achieve extremely positive results. In Europe, 96% of end-of-life tyres (ELT) were recycled in 2010. In the United States, nearly 90% of ELT were recycled, while the corresponding amount for Japan is slightly higher (ETRMA ELT 2010 figures).

The PIRELLI Group has been dedicated for years to research on the management of ELTs, through research and innovation at PIRELLI Labs, and in collaboration with leading industry institutions inside and outside Italy. PIRELLI is active in the Tire Industry Project (TIPG) of the World Business Council for Sustainable Development (WBCSD), in the ELTs (End of Life Tyres) working group of ETRMA and, at the national and local level, it interacts directly with leading entities active in the recovery and recycling of ELTs.

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

The following info-graphic illustrates the phases of activity and type of materials that characterise tyre recycling.

Tyre recycling diagram



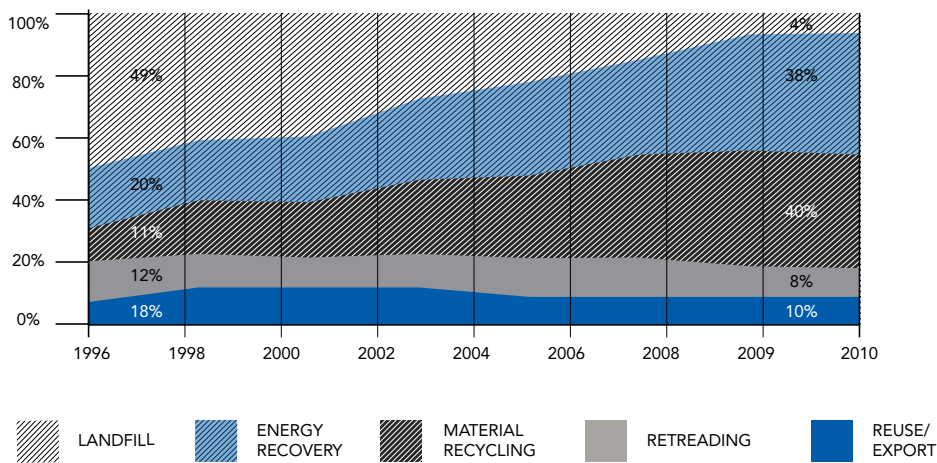
PRODUCTS THAT CAN BE OBTAINED FROM RECYCLING ELTS

Tyres are a mix of numerous materials that influence 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, they are used as fuel in thermoelectric plants and in the ovens of cement production plants. The presence of natural rubber means that the ELT has a biomass content that is near or above 20% of its total weight, thereby assuring a reduction in the greenhouse gas emissions of the plants that use them.

The following info-graphic illustrates the positive evolution of treatment of ELTs between 1996 and 2010.

*Evolution of ELTs recovery*



ETRMA – End of Life Tyre – 2011 Edition

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

PIRELLI Tyre has signed a collaboration agreement with 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 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 virgin compound, increasing the quantity used in the compound and then a further environmental benefit, together with a positive reduction in the consumption of virgin raw materials.



### 3.2.5 Other Businesses

#### PIRELLI ECO TECHNOLOGY

PIRELLI Eco Technology is the Group company that operates in the diesel vehicle and heating plant emissions control technology sector. Its head office is located in Italy, and it has commercial offices in major European countries.

In metropolitan areas, it is becoming increasingly urgent to find effective solutions for the reduction of air pollution, especially particulates – i.e. all those solid and liquid substances that are suspended in the air. One of the principal sources of particulate in urban areas are combustion processes in heating plants or in the endothermic engines of vehicles.

Direct action on these sources represents the most effective and immediate solution for improving urban air quality. PIRELLI Eco Technology is focused on providing concrete, sustainable solutions to the problem of reducing these emissions, particularly the Feelpure™ filtering system.

PIRELLI Eco Technology has been producing and developing Feelpure™ filtering systems since 2004 as mufflers to substitute the original equipment mufflers on diesel engines. They can reduce the mass of diesel engine PM10 emissions by over 90% and NO<sub>2</sub> emissions 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.

#### PIRELLI AMBIENTE

PIRELLI Ambiente is actively engaged on energy and environmental issues, and offers solutions for sustainable development through its subsidiary PIRELLI & C. Ambiente S.p.A., among other entities. By recovering urban solid waste through its associate Idea Granda, PIRELLI Ambiente produces HQ-SRF, a high-quality fuel developed and patented with the contribution of PIRELLI Labs. Through Solar Utility, PIRELLI Ambiente holds an equity interest in the Danish group Greentech, which is active in the renewable energy field (wind and photovoltaic power). All the photovoltaic plants previously constructed by Solar Utility have been contributed to this associate. PIRELLI Ambiente Site Remediation offers solutions for management of environmental problems by conducting environmental due diligence. Green&CO2 operates in the building energy certification and energy consumption streamlining fields to reduce pollution emission.

#### PZERO FASHION

PZero is the luxury brand extension that is active in the field of industrial design for apparel.

The attention and care dedicated to researching cutting-edge materials and technological solutions, both in terms of design and eco-friendliness, represent the *Green Performance* strategy taken by PIRELLI with initiatives like PZero.

### 3.2.6 2012-2014 target and vision to 2015

When it presented its “Sustainability” targets, integrated in the three-year 2012-2014 Industrial Plan and Vision to 2015 presented in London in November 2011, the company set itself targets in support of its strategy safe for People, safe for the Planet. This means:

- ▶ further improvement in the significant performance of its tyres in dry and wet conditions and noise abatement
- ▶ extension of the *Green Performance* safety characteristics to the consumer markets in China, Latin America, United States and Mexico and to the industrial markets in China and Latin America;
- ▶ strong commitment to research and development of product environmental characteristics in terms of:
  - lower rolling resistance – lower CO<sub>2</sub> emissions;
  - less noise – less noise pollution;
  - more mileage – lengthened tyre life;
  - improved retreadability – less material for disposal;
  - reduced weight – less raw materials used and less impact on natural resources.

The presentation has been published on the site dedicated to the PIRELLI three-year plan (<http://industrial-plan.pirelli.com/idayPost2011/jsp/index.jsp>), from which it can be downloaded.

## 3.3 PROCESS ENVIRONMENTAL SUSTAINABILITY

As previously mentioned, during the tyre life cycle, less than 10% 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 logic that drives development of the company also characterises the approach to process eco-sustainability, with the latter becoming a distinguishing characteristic of PIRELLI at the international level.

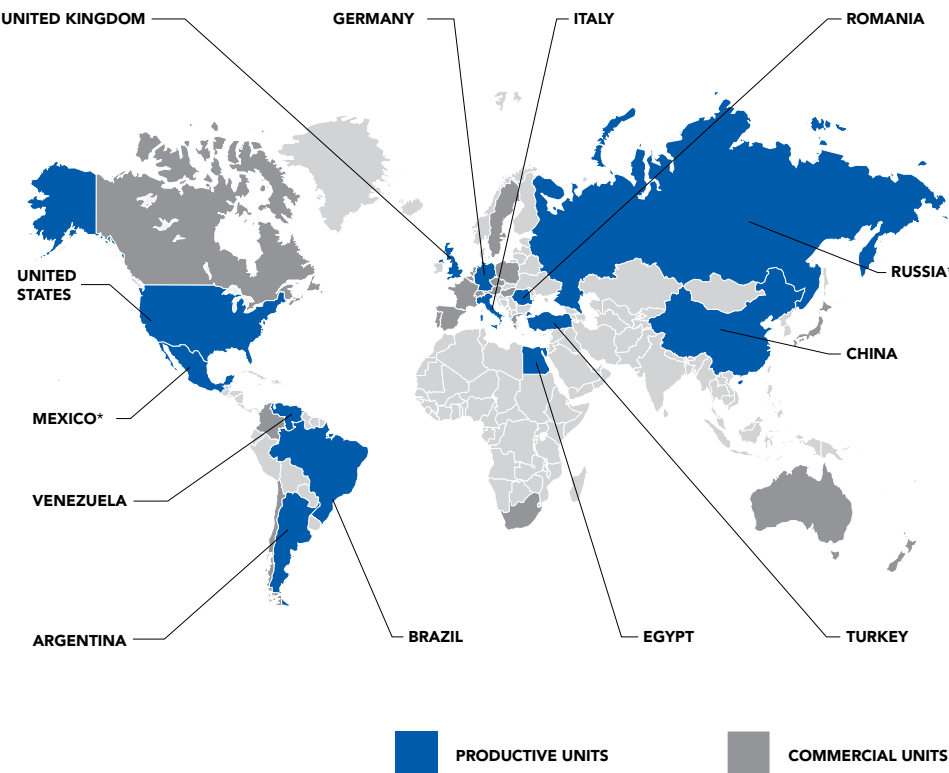
PIRELLI has set itself challenging objectives to reduce the impact of its own processes on the ecosystem. It announced them to the external community in its Industrial Plan 2011-2013 with Vision to 2015 and related 2012-2014 update (named Fast Forward) presented to the market in November 2011.

The objectives concern the specific consumption of energy, uptake of water withdrawal, CO<sub>2</sub> emissions, specific waste production and recovery and solvent consumption. They are defined in the following sections, to which reference is made for appropriate contextualisation and focus.

3.3.1 A note on methodology

SCOPE OF PERFORMANCE REPORTING

Scope of production sites



\* Excluded from reporting as specified in the chapter

The reported performance cover the three-year period 2009 – 2011 and the entire scope of Group consolidation, as also illustrated in Volume A of the Annual Financial Report at December 31, 2011. Since the scope of the report is based on the operating-control approach, the Chinese steel cord production site is not consolidated, insofar as it is an associate. Visibility is also given to the specific performance of the Tyre business in comparison with that of the other businesses (PIRELLI Eco Technology, PIRELLI Ambiente, PZero, and Corporate entities). The Tyre business includes both its production sites and associated commercial offices.

It should be emphasised that almost the entire environmental impact of PIRELLI processes is generated by its production sites (about 97%).

As previously specified in the last Sustainability Report, the companies PIRELLI Real Estate S.p.A. (now Prelios S.p.A.) and PIRELLI Broadband Solutions S.p.A. were sold in 2010. For the sake of transparent accounting, the numerical tables show the 2009 and 2010 figures related to the two sold entities on a separate line. Instead, the graphics show the three-year trend for 2009 – 2011 on a comparable scope of consolidation basis.

## EXPANSIONS AND NEW SITES

In December 2011, PIRELLI Tyre acquired a tyre and steel cord production plant located in Kirov, Russia. Since this acquisition was finalised just a few days before the end of 2011, the environmental performance of this plant has not been consolidated in this report insofar as it did not fall in the scope of PIRELLI operations during 2011. This performance will be reported beginning with the Sustainability Report at December 31, 2012.

In 2011, industrial development continued at Slatina, Romania, with expansion of the tyre and steel cord production plant, at Yanzhou, China, with expansion of the tyre manufacturing plant and a steel cord manufacturing plant, and at Silao, Mexico, where work continued on construction of a plant that will make high-performance and ultra-high-performance tyres. This latter plant will start up operation in 2012, so its performance will be reported beginning with the next sustainability report. Each project has been executed by dedicating maximum attention to all environmental issues, from the design of buildings to the definition and installation of processes and production machinery, with the awareness that these choices will impact environmental and other types of performance over the years to come.

### 3.3.2 Environmental management system and certifications

All PIRELLI production sites operating at the end of 2011, 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.

This standard was adopted in 1997, and since 2011 all certificates have been given 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 of their environmental management system pursuant to the ISO 14001 standard. This activity, together with control and maintenance of previously implemented and certified systems, is coordinated on a centralised basis by the Health, Safety and Environment Department.

### 3.3.3 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 elaborated and managed at the corporate level 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 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.

No spills or other significant environment-related incidents occurred and no fines were imposed in 2011. A fire in the raw materials warehouse took place at the Gravatai plant. This fire was promptly controlled and extinguished after prompt response by factory firemen assisted by local fire departments. The preparation of internal personnel, who are constantly given initial and in-service training, combined with the presence of adequate emergency response systems and equipment, made it possible to reduce the environmental and human impact to a minimum.

### 3.3.4 The process phase

#### HOW A TYRE IS CREATED

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), plasticizers (petroleum derivatives) and binders (mainly carbon black and silica). The sum of these components represents about 90% of the compound, with the remaining 10% or so being accounted for by other components with specific functions (e.g. accelerating agents, anti-decomposition agents, vulcanizing agents...).

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, both for the ingredients from the silos and for the various ingredients that compose the compound.

During the second phase of mixing, special chemicals – vulcanizing agents and accelerants – necessary for the subsequent phases are added to an open mixer consisting of two big rollers.

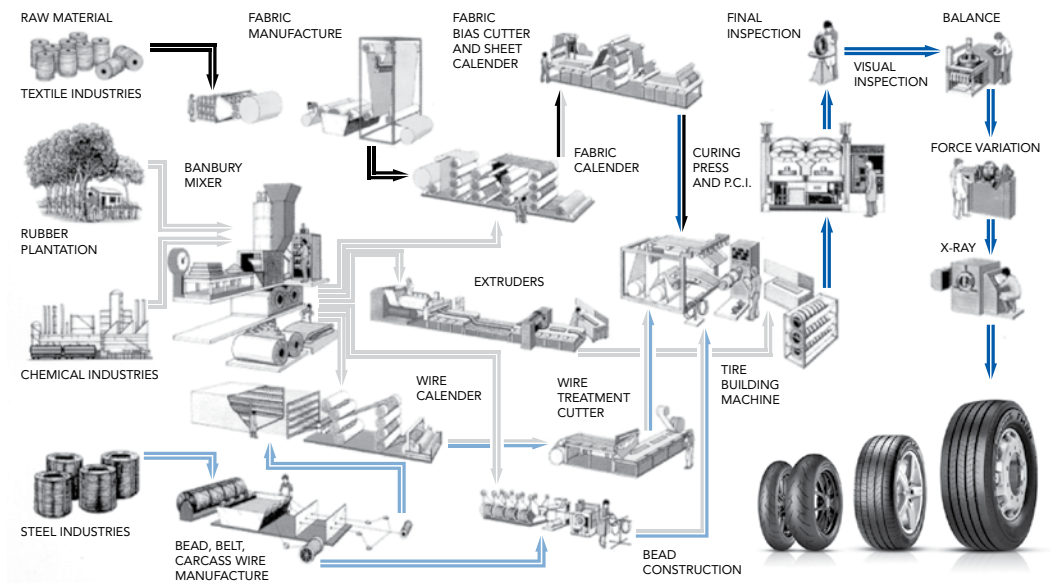
Then, the compound sheet is plunged into a vat (“batchoff”) for final cooling. At this point, the compound is ready and used to fabricate the tyre tread or other components of the tyre. It is then extruded into the appropriate form for the subsequent steps.

The heart of the tyre structure is represented by the fabrics, which are formed by longitudinal threads (weft) and 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 is the area close to the metal rim, which is called the “bead.” 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. The components described thus far must be assembled together to make the finished tyre. This assembly process is carried out by using devices that are called “building machines.”

The resulting tyre (called a “raw tyre”) is then sent to be vulcanized, which involves a genuine solid state chemical reaction. After being cooled, the vulcanized tyre is deburred to remove any imperfections that might alter its appearance. Then it undergoes an initial visual inspection (both internal and external, to check that there are no obvious fabrication defects), which is then followed – in the case of truck tyres – by an X-ray inspection in specially shielded areas.

## The birth of a tyre



Source: Science and Technology of Rubber, 2nd edition, Academic Press

ENVIRONMENTAL DIMENSION

### SUSTAINABLE IN-HOUSE TECHNOLOGICAL INNOVATION

The development of production processes is one of the keys to achieving a sustainable competitive advantage.

PIRELLI boasts a long history of radical innovations in this field, developed in-house, like the new generation of *MIRS* – *Modular Integrated Robotized System* – an exclusive PIRELLI robotic process, or extension of the *PTSM* – PIRELLI *Twin Screw Mixing* process – which represents evolution of the compound system CCM - *Continuous Compound Mixing System*, which produces top-quality and top-performance compounds.

These processes guarantee extremely high quality products that are characterised by their low energy use.

#### Next MIRS

*Next MIRS* is the second generation of the PIRELLI process for robotic production that has already gained fame around the world. The eco-sustainable efficiency of *Next MIRS* is realised in processes and products, as illustrated below.

#### Extrusion process

In contrast with the *MIRS* project, the *Next MIRS* process has adopted a new “cold,” i.e. low temperature extrusion system, with consequent reduction in heat use. The efficiency of extruder screws has also been improved. All of this translates into lower emissions and also improved product performance, especially in terms of maintaining the original characteristics of the compounds during use.

#### Vulcanization process

PIRELLI has developed a new concept that will lead to a more uniform degree of vulcanization between the different parts of the tyre.

The production efficiency of the vulcanizer will increase up to 30%, resulting in a substantial reduction in environmental impact, and particularly:

- ▶ a proportionate reduction in the number of vulcanizers and moulds, and thus a reduction in CO<sub>2</sub> emissions during production;
- ▶ a considerable reduction in the energy used, mainly for the energy dispersed by the vulcanizers and thermal plants serving them.

## Products

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

Consequently, it is possible to reduce the weight of specific products by about -4/5% and thus, in addition to a corresponding reduction in raw materials used, realise a significant reduction in the rolling resistance base load of the product in use. This will reduce the environmental impact associated with fuel consumption, beginning with CO<sub>2</sub> emissions.

### The CCM

The PIRELLI CCM process for producing compounds uses a 100% computer-controlled pneumatic distribution system to transport the ingredients from their storage silos to the twin-screw extruders that operate continuously. This production technology was designed by PIRELLI to manage the complexity of the process deriving from the large number of ingredients required to produce the compound, while simultaneously improving its quality, and thus that of the finished product.

By means of a specially designed capture and recycling system for solid materials, CCM technology has reduced dust levels in production areas to extremely low levels.

Compared with a traditional process, the CCM process also saves energy, enabling a reduction of approximately 20% in energy consumption per unit of product.

### PTSM

PTSM (Twin Screw Mixing) is the new PIRELLI process for preparation of compounds and is the result of a combination of traditional batch mixing with continuous CCM technology.

It offers high levels of quality, reliability and efficiency, developed specifically for the production of compounds used in the new PIRELLI tyres. This technology makes it possible to realise major improvements in terms of compound uniformity, reduced dispersal of ingredients and a 30% reduction in energy consumption as compared with traditional techniques.

The PTSM process has optimised the silanization reaction of silica based compounds. This has made it possible to significantly reduce tyre rolling resistance, which directly translates into vehicle fuel savings and lower CO<sub>2</sub> emissions.

The PTSM technology streamlines production efficiency, guaranteeing productivity increases of at least 300% as compared with the previous continuous CCM technology.

During execution of the PTSM project, special attention was also dedicated to definition of the layouts, significantly limiting the final dimensions of the plants and reducing their industrial impact.

As previously illustrated (when describing open innovation activities), within the context of the framework agreement for construction of the Settimo Torinese Technological and Production Centre for the fabrication of *Green Performance* and thus lower environmental impact tyres, in 2011 PIRELLI Tyre and the Turin Polytechnic continued their joint research and technological innovation projects begun in 2008, dedicated to further innovation of PTSM and Next MIRS processes and the "intelligent" Cyber Tyre, as previously described in this report.

### 3.3.5 Environmental performance

In 2011 tyre production volumes surpassed the levels reported in 2010. The specific performance indicators reported below were calculated on these volumes.

The effect of efficiency improvement measures combined with better use of production plants to achieve saturation, have resulted in good environmental performance, although the effects resulting from expansion of certain sites and production have materially impacted certain environmental parameters, with the most visible effect on waste output.

Performance as measured by energy consumption and greenhouse gas emissions is cal-

culated on the basis of coefficients obtained from the following official sources:

- ▶ PCC: Guidelines for National Greenhouse Gas Inventories (2006);
- ▶ IEA: CO<sub>2</sub> emissions from fuel combustion;

and are reported according to the scheme proposed by:

- ▶ GHG Protocol: a Corporate Accounting and Reporting Standard.

Specifically in regard to scope 2 equivalent CO<sub>2</sub> emissions, the average national coefficients are defined according to the last year available in the aforementioned reports and are updated annually.

#### ENERGY

PIRELLI monitors and reports its own energy consumption by using two principal indicators:

- ▶ absolute consumption, measured in TJ, which includes the total consumption of electric 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. The specific consumption is the index used to measure process quality, regardless of annual production volumes.

The PIRELLI Industrial Plan has set a target to reduce its specific consumption of energy by 15% from its 2009 level by 2015.

In 2011, 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;

**2015:  
-15%**

**SPECIFIC  
ENERGY  
CONSUMPTION**

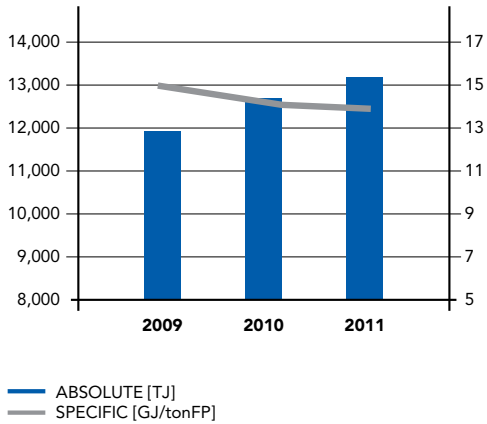
**VS.  
2009**

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

The following tables and graphics illustrate the trends of absolute and specific consumption by the Group during the three-year period 2009 – 2011.



### Energy consumption



### ENERGY CONSUMPTION

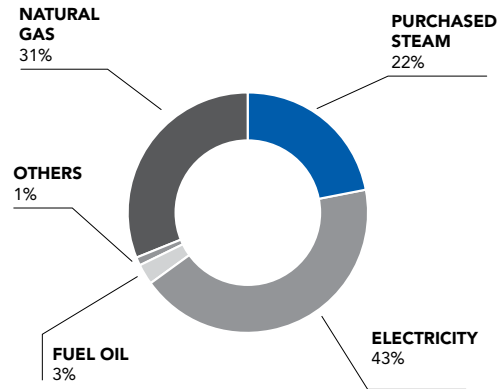
	2009	2010	2011
Tyre (TJ)	11,850	12,600	13,080
Other Businesses (TJ)	80	70	50
ABSOLUTE (TJ)	11,930	12,670	13,130
Dismissed businesses (TJ)	40	30	-
SPECIFIC (GJ/tonFP)	15.01	14.15	13.82

The downward trend in specific consumption as measured by the targets set for 2015 appears to be firmly underway, and at December 31, 2011 shows a performance of over -2% compared with 2010 and about -8% compared with 2009. In 2011 efficiency measures made it possible to save over 310 TJ. The previous year they generated savings of about 770 TJ.

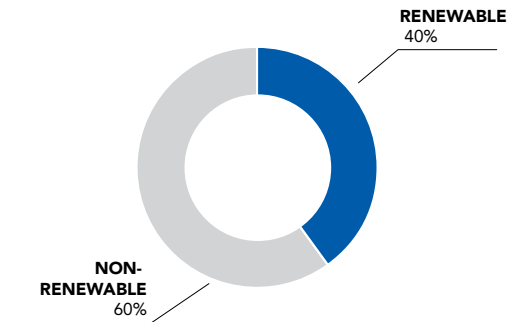
This excellent result has been achieved in spite of the negative impact stemming from growing focus on the production of higher energy content products, i.e. Premium products, local contingencies having nothing to do with planned efficiency measures, and the growing impact of the steel cord business on Group consumption indices. All these variables have rendered the efficiency plan more dynamic and continuously up to date.

The following graphics illustrate the different energy sources used by PIRELLI in 2011 and, in particular, the proportion of renewable energy against all electric power purchased.

### Distribution of energy sources - 2011



### Distribution of primary energy of purchased electricity - 2011



### GREENHOUSE GAS EMISSIONS

PIRELLI has monitored and reported its CO<sub>2</sub> equivalents emission since 2002. CO<sub>2</sub> is defined as "equivalent" insofar as it accounts for the contribution – albeit marginal – made by methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O). 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.

# 2015: -15% SPECIFIC CARBON EMISSIONS VS. 2009

The first are called “direct emissions” or scope 1 emissions insofar as they are produced at company production sites, while the emissions resulting from electric 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.

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 CO<sub>2</sub> emissions (either scope 1 or scope 2 as defined above) by using two principal indicators:

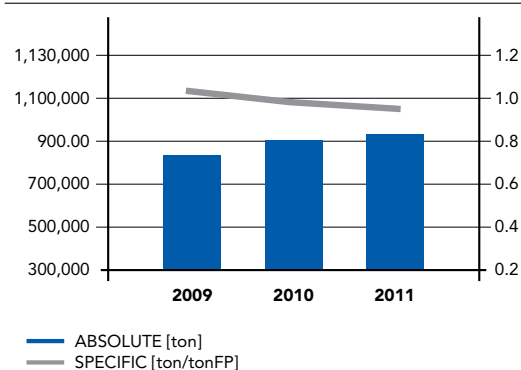
- ▶ absolute emissions, as measured in tonnes;
- ▶ specific emissions, as measured in tonnes per tonne of finished product.

The PIRELLI Industrial Plan has set a target to reduce its specific CO<sub>2</sub> emissions by 15% from its 2009 level by 2015.

The following tables and graphics illustrate the performance of absolute and specific emissions of the Group during the three-year period 2009 – 2011. There was a reduction of over 3% in specific emissions in 2011 as compared with the previous year, and about 8% from 2009.

ENVIRONMENTAL DIMENSION

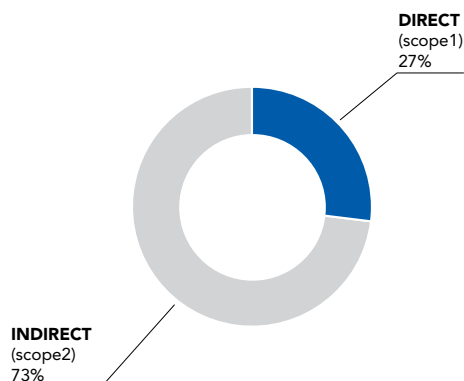
Emission of CO<sub>2</sub> equivalents



EMISSION OF CO<sub>2</sub> EQUIVALENTS

	2009	2010	2011
Tyre (ton)	825,850	890,200	913,230
Other Businesses (ton)	7,780	6,480	4,120
<b>ABSOLUTE (ton)</b>	<b>833,630</b>	<b>896,680</b>	<b>917,350</b>
Dismissed Businesses (ton)	3,430	2,200	-
<b>SPECIFIC (ton/tonFP)</b>	<b>1.050</b>	<b>1.002</b>	<b>0.965</b>

The achieved performance benefited mainly from the lower specific consumption of energy, resulting from efficiency measures. Again in 2011 direct emissions represent the lesser part (about 27%) of total emissions, as illustrated in the following graphic.

CO<sub>2</sub> equivalents emission by scope - 2011

The management system of PIRELLI regarding CO<sub>2</sub> emissions will be verified by third party audit within May 2012. The verification will be carried out under the standard ISO 14064-3 and will satisfy the criteria of relevance, competence, independence, terminology and methodology.

Also in 2012 PIRELLI will join the Carbon Disclosure Project - Investor. In 2011 questionnaire Pirelli obtained a disclosure score of 80 points on 100 and it has been classified in the highest scoring area: Senior Management.

INITIATIVES FOR OFFSETTING  
AND MONITORING CO<sub>2</sub> EMISSIONS

**Sustainability Day 2012**

The PIRELLI Sustainability Day was held on January 23, 2011. This was an international conference on sustainability and road safety, entitled "A safe road to the future". During the event, PIRELLI initialled a voluntary agreement with the Environment Ministry in order to reduce the climate impact of activities involved in the production and use of its tyres.

In accordance with the sustainable approach adopted by PIRELLI in all its activities, the "Sustainability Day" was subject to certification according to the BS8901 standard, with it being classified as "Advanced". The BS8901 standard regulates the sustainable management of events. Consequently, independent assessment for issuance of the certificate concerned management of all social, health and safety aspects throughout the entire supply chain involved in planning and realising the event. In this context, the CO<sub>2</sub> emis-

sions generated during "Sustainability Day" were fully offset by reforestation activities.

In fact, PIRELLI decided to finance about 4,000 square metres of forest for one year as part of the project to restore degraded areas and reforestation in the provinces of Cáceres and Cravo Norte in Colombia, where PIRELLI operates a commercial affiliate. The reforestation project, also known as "Asorpar", identified through collaboration with South Pole Carbon, began in 2002 and is located in an area of Colombia where forest resources have been heavily damaged by illegal gold mining, the cultivation of coca and unsustainable agricultural practices. In light of normal reforestation practices, this project aims to recreate the native forest. Biodiversity is being restored through the planting of land with over 20 different plant species. This has led to a rapid repopulation of the area by other wild plant species and a multitude of local animals, such as turtles, parrots and monkeys. Thus far, the project has created more than 11,000 hectares of protected and monitored forest, and it has received validation and certification by the Climate, Community and Biodiversity Alliance with the CCBS Standard, the certificate that covers the most virtuous reforestation projects in terms of their environmental and social benefits, while certification for reduction in CO<sub>2</sub> emissions has been issued by the independent auditor Environmental Services, Inc. in compliance with the VCS (Verified Carbon Standard).

**Vizzola Ticino test track**

PIRELLI Tyre has financed 5,657 square metres of forest growing inside the Parco Rio Val-lone and 5,829 square metres of forest growing in Costa Rica, thereby offsetting the CO<sub>2</sub> emissions generated by the cars used for tests at the PIRELLI Vizzola Ticino Test Track. This activity is part of the Lifegate Impatto Zero project.

**Company car fleet policy**

A new internal policy was drafted at the end of 2011 that is applicable to the management of the company car fleet in Italy. It will involve all cars assigned to executives and the sales force. This policy envisages

that the CO<sub>2</sub> emissions of every vehicle be offset by means of reforestation of areas inside and outside Italy, which are duly and officially certified.

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.

Monitoring CO<sub>2</sub> for transport

During 2011 monitoring of CO<sub>2</sub> emissions from train, air and car travel by Italian employees continued. This contribution has been estimated to account for about 0.7% of all Group emissions. In view of reducing this impact, internal policies have been implemented to reduce travel whenever they can be substituted for by conference or video calls.

The providers of logistic services had a marginal impact. An analysis was conducted in 2011 to measure both the degree of environmental sensitivity and climate impact resulting from their activity for PIRELLI. The analysis revealed significant opportunities for improvement, which will be mentioned by the company in communications with suppliers and during future training sessions.

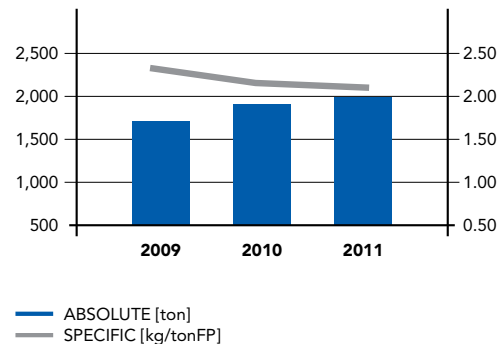
In view of properly measuring the environmental impact of logistics, it must be pointed out that in the life cycle of a tyre, the impact stemming from distribution accounts for less than 1% of the total impact stemming from the other phases of the life cycle (first and foremost the usage phase).

NO<sub>x</sub> EMISSIONS

NO<sub>x</sub> emissions (both in absolute terms and according to unit of output) are directly impacted by the energy consumption illustrated above. Therefore, both the recorded trends and forecast future trends track those for energy consumption.

ENVIRONMENTAL DIMENSION

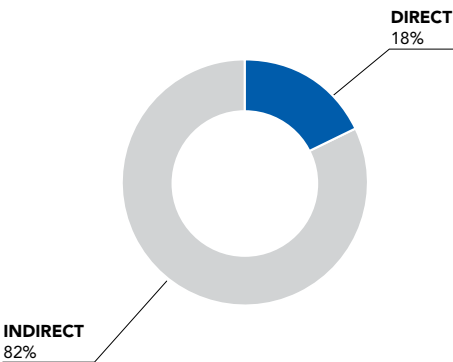
NO<sub>x</sub> Emissions



NO<sub>x</sub> EMISSIONS

	2009	2010	2011
Tyre (ton)	1,730	1,860	1,970
Other Businesses (ton)	20	10	10
ABSOLUTE (ton)	1,750	1,870	1,980
Dismissed Businesses (ton)	10	5	-
SPECIFIC (kg/tonFP)	2.192	2.089	2.087

Distribution of NO<sub>x</sub> emissions- 2011



WATER

The economic, environmental and social value of water continues to increase, with the consequent need to increase the commitment and energy dedicated to reducing the exploitation of water resources through more efficient use.

Although the tyre production process is not water intensive, responsible water management is one of the key points of PIRELLI

policy, in the conviction that all members of society must do what it can to support global sustainability.

**2015:  
-70%**

**SPECIFIC  
WATER  
WITHDRAWAL**

**VS.  
2009**

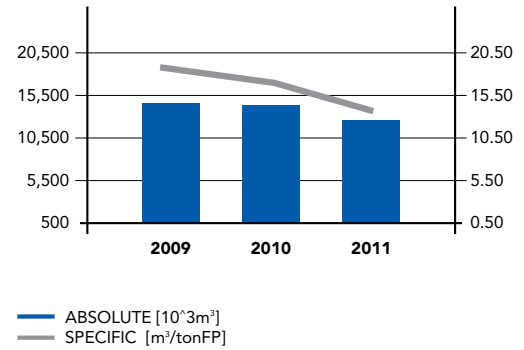
PIRELLI initiated a specific project in 2010 to reduce its impact on water resources. On the one hand, the "Water Project" aims to continue existing measures for streamlining internal consumption, while complementing them with new ones as necessary, and on the other hand, identifying and managing its own water footprint, i.e. the impact made on water resources tied to the existence and activities of PIRELLI throughout the world.

PIRELLI monitors and accounts for its own water withdrawal by using two principal indicators:

- ▶ absolute withdrawal, as measured in cubic metres;
- ▶ specific withdrawal, as measured in cubic metres per tonne of finished product.

The PIRELLI Industrial Plan has set a target to reduce its specific water withdrawal by 70% from its 2009 level by 2015.

#### Water withdrawal

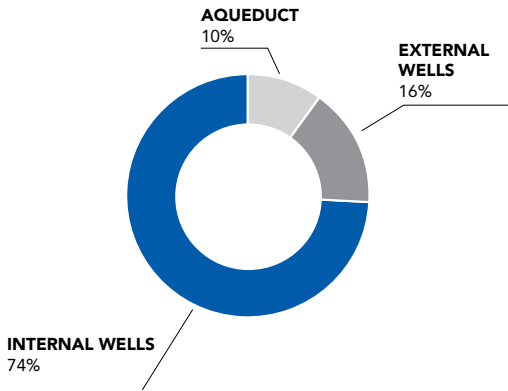
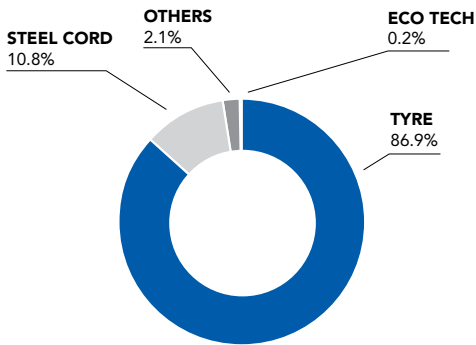


#### WATER WITHDRAWAL

	2009	2010	2011
Tyre ( $10^3\text{m}^3$ )	14,150	14,420	12,440
Other Businesses ( $10^3\text{m}^3$ )	70	50	40
ABSOLUTE ( $10^3\text{m}^3$ )	14,520	14,470	12,480
Dismissed Businesses ( $10^3\text{m}^3$ )	50	30	-
SPECIFIC ( $\text{m}^3/\text{tonFP}$ )	18.3	16.2	13.1

As shown by the trends illustrated in the following graphics and tables, results have already started to be seen: at December 31, 2011 the specific withdrawal of water had fallen by 19% from 2010 and by 28% from 2009.

In turn, the following graphics show the different sources of water used by PIRELLI activities in 2011 and, in particular, the portion used by different businesses.

Distribution of hydric sources - 2011Distribution of water by type of activity - 2011In regard to water discharges and emissions into water:

- ▶ the volume of discharged water is about 8 million cubic metres, of which more than 70% was returned to surface catch basins, while about 30% was collected in sewage systems, into which non-industrial waste water was also channelled;
- ▶ 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 allowed by local standards.

Specifically in regard to the quality of discharges, the data elaborated thus far show that for a tonne of finished product, about 110 g of Total Suspended Solids, 140 g of COD and about 30 g of BOD<sub>5</sub> are discharged.

## ENVIRONMENTAL DIMENSION

Current levels of economic growth and social development impose new models for consumption and production. On global scale, mankind is extracting a quantity of resources for the production of goods and services that far exceeds the capacity of our planet to regenerate them. The consequences of this phenomenon negatively impact economic variables, increases in the price of raw materials, conservation of the environment and the quality of life of all of us.

For this reason, the capacity to reduce resource waste and increase the quantity of raw materials resulting from waste recovery will represent increasingly strategic elements for enhancing business values.

2015:  
+15%

RECOVERED  
WASTE

VS.  
2009

The previous sections of this report have described the activities promoted by PIRELLI in regard to use of alternative raw materials that are derived from, inter alia, waste recovery. Now it wishes to complete 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 discards 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 their recovery and recycling;
- ▶ 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 need to produce them.

PIRELLI monitors and accounts for waste output and recovery by using the following principal indicators:

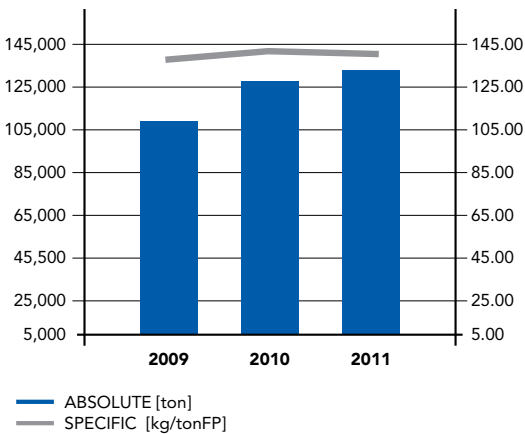
- ▶ absolute production, as measured in tonnes;
- ▶ specific production, as measured in kilograms per tonne of finished product;
- ▶ recovery, measured as the percentage of total waste produced.

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.

There was a slight increase in the specific production of waste in 2011, or +0.7% from 2010. This result confirms the effectiveness of the measures adopted to manage waste, considering that the annual growth rate had reached +3.2% in 2010 from 2009. But that is not all: the +0.7% figures consolidates the 2011 impact of expansion and industrialisation of certain sites, which by their nature involve the production of extraordinary quantities of waste as compared with a fully operating production site.

In turn, the following graphics illustrate the percentage weight of hazardous and non-hazardous waste as measured against the total of waste produced, with the trend for waste recovery over the last several years having grown in 2011 from 2010.

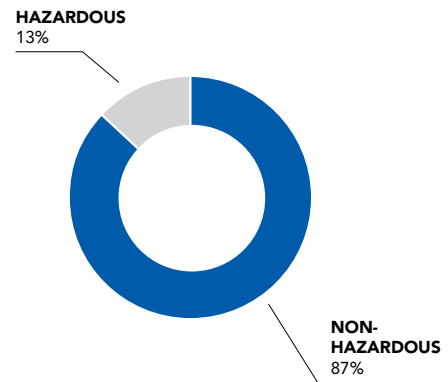
#### Waste production



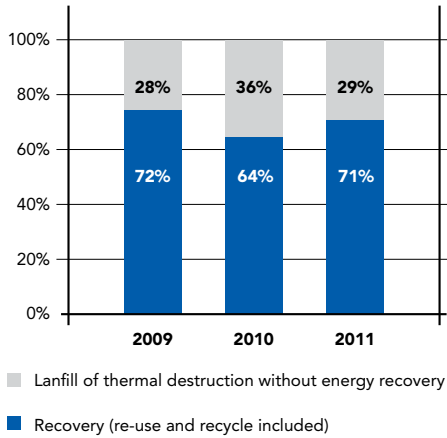
#### WASTE PRODUCTION

	2009	2010	2011
Tyre (ton)	108,550	126,060	134,420
Other Businesses (ton)	80	60	60
ABSOLUTE (ton)	108,360	126,120	134,480
Dismissed Businesses (ton)	-	-	-
SPECIFIC (kg/tonFP)	136.2	140.5	141.5

#### Distribution of waste type - 2011





**Waste - distribution by type of treatment****Handling of packaging**

Different procedures for handling packaging materials exist for different types of products. While tyres are sold without packaging materials, steel cord and particulate filters are sold in specific containers. It should be pointed out that tyre sales accounted for 99% of all Group sales in 2011.

In order to reduce the packaging materials used for making product sales, 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 useful life. More specifically, attention has been focused on replacing traditional wood pallets with new plastic or metal pallets, which are highly reusable. A plastic pallet can be reused about ten times, as opposed to the possibility of using a traditional wood pallet once or at most twice. Reducing waste generates obvious benefits.

At December 31, 2011 about 90% of pallets are returned by customers to steel cord production sites, and all the pallets transiting in these flows are made of plastic or metal. The remaining 10% is comprised of wood pallets. Assessments are currently underway to identify the most sustainable solutions for the types of flows in which they are used.

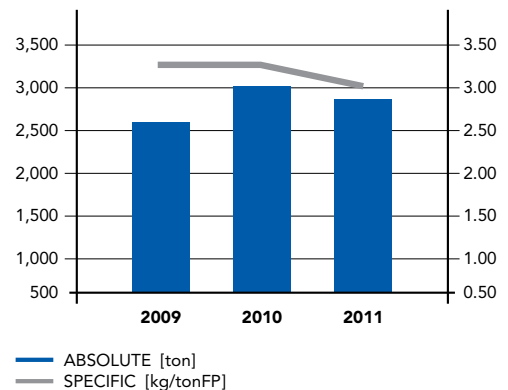
Solvents are used as secondary process inputs, mainly for cleaning vulcanized rubber. In turn, emissions of volatile organic compounds (VOC) are released by the evaporation of solvents.

PIRELLI monitors and reports its own consumption of solvents (and thus emission of VOC) by using two principal indicators:

- ▶ absolute consumption, as measured in tonnes of solvent
- ▶ specific consumption, as measured in kilogrammes of solvent per tonne of finished product.

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. As shown in the following graphic, the absolute consumption of solvents fell by 6% in 2011 from 2010, while their specific consumption fell by 10%.

Following the installation and activation of catalytic abatement plants at certain production sites, the estimated quantity of volatile organic compounds (VOC) released in the atmosphere in 2010 was significantly lower than the tonnes of solvents consumed.

**Solvent consumption**



## SOLVENTS CONSUMPTION

	2009	2010	2011
Tyre (ton)	2,640	2,990	2,850
Other Businesses (ton)	-	-	-
ABSOLUTE (ton)	2,640	2,990	2,850
Dismissed Businesses (ton)	-	-	-
SPECIFIC (kg/tonFP)	3.31	3.33	3.00

## OTHER ENVIRONMENTAL ASPECTS

## Substances harmful to the ozone layer

The presence of substances harmful to the ozone layer is entirely attributable to liquid refrigerants used in 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.

SO<sub>2</sub> Emissions

Direct emissions of SO<sub>2</sub>, stemming from the combustion of diesel and fuel oil, was estimated to be about 200 tonnes in 2011.

## Biodiversity

For PIRELLI, the integration of its sites within the local territorial context is an essential aspect of its sustainable activity. It does so by focusing the greatest attention on guaranteeing that its own activities do not interfere with the biodiversity that characterise them. 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 biodiversity in the area is not significant. Nonetheless, a ISO 14001 certified environmental management system has been implemented to assure the greatest possible level

of environmental protection, including the relationship with principal stakeholders.

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

In January 2012, the Gravatai, Brazil production site sponsored and actively participated in renewal of the Rio Gravatai, which flows near the site. The event, organised by public authorities, engaged the local community for organisation of this precious source of natural water and its ecosystem, in order to enhance and protect its biodiversity.

CAPITAL EXPENDITURE FOR IMPROVEMENT  
OF ENVIRONMENTAL PERFORMANCE

Capital expenditure in 2011 to improve the environmental performance of production sites totalled Euro 4.2 million, increasing by a little less than 25% from the previous year and 33% from 2009.

A new "green accountability" procedure was introduced at the end of 2011, aimed at improving the monitoring of environmental variables characterising environmental sustainability.





# Social Dimension

**TAKING  
OUR  
SUSTAINABILITY  
MODEL  
BEYOND  
OUR  
BOUNDARIES**

## 4. SOCIAL DIMENSION

### 4.1. INTERNAL COMMUNITY

*"The PIRELLI Group recognises 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 considers respect for workers' rights as fundamental to the business.*

*Working relationships are managed by 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 the Ethical Code – Human Resources).

*"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.*

[...]

*The PIRELLI Group is committed to the prevention of discrimination in all areas of working life, including selection and all decisions related to remuneration, professional status, the assignment of responsibilities, training and career development. 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 principles of the Ethical Code are detailed in the Group Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment. The commitments made by Pirelli with this Policy are based on the SA8000® Standard, which for years has been the benchmark for Group social responsibility, and the Principles of the United Nations Global Compact, of which PIRELLI has been a member since 2004.

#### 4.1.1. Pirelli employees around the world

##### A NOTE ON METHODOLOGY

The headcount at December 31, 2011 was 34,259 employees (29,573 in 2010 and 29,570 in 2009), including the acquisition of 2,772 employees at the Kirov, Russia plant in December 2011. The social and environmental performance of the Kirov plant has not been considered in this report since the plant was not included in PIRELLI scope during 2011. Its performance will be accounted for in the Sustainability Report beginning in 2012.

Therefore, all the social performance indicators mentioned in this report are calculated on a comparable basis to the previous years, and thus without reflecting the impact of Kirov.

On a comparable basis, the headcount at December 31, 2011 was 31,487. The following table reflects their distribution on four continents.

BREAKDOWN OF EMPLOYEES BY CATEGORY\*

2011	EXECUTIVE	WHITE COLLARS	BLUE COLLARS	TOTAL
TYRE	280	5,317	25,227	30,824
OTHER BUSINESSES	45	451	167	663
PIRELLI TOTAL	325	5,768	25,394	31,487
Acquisition of Kirov Russia plant				2,772
GRAND TOTAL				34,259
2010				
TYRE	253	5,093	23,519	28,865
OTHER BUSINESSES	49	464	195	708
PIRELLI TOTAL	302	5,557	23,714	29,570
2009				
TYRE	232	5,029	22,220	27,481
OTHER BUSINESSES	175	1,637	277	2,089
PIRELLI TOTAL	407	6,666	22,497	29,570
2011 vs 2010				
TYRE	27	224	1,708	1,959
OTHER BUSINESSES**	-4	-13	-28	-45
PIRELLI TOTAL	23	211	1,680	1,914
2011 vs 2009***				
TYRE	48	287	3,007	3,343
OTHER BUSINESSES	-130	-1,186	-110	-1,426
PIRELLI TOTAL	-82	-899	2,897	1,917

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

\*\* This includes Corporate, P. Ambiente, P. Zero, P. Eco-Tech; for 2009 it also includes the businesses sold in 2010 (Real Estate S.p.A., now Prelios S.p.A., and Broadband Solutions S.p.A.), whose resources were no longer on the payroll at December 31, 2010. discontinued in 2010, whose employees were no longer on the payroll at December 31, 2010

\*\*\* The delta 2011 from 2009 in the section "Other Businesses" includes the reduction of 1267 units for the discontinued operations sold in 2010 (Real Estate S.p.A., now Prelios S.p.A., and Broadband Solutions S.p.A.).

EMPLOYEES BREAKDOWN BY GEOGRAPHIC AREA AND GENDER

2011									
	TYRE			OTHER BUSINESSES*			PIRELLI TOTAL		
	Man	Woman	TOT	Man	Woman	TOT	Man	Woman	TOT
EUROPE	9,565	1416	10,981	347	275	622	9,912	1,691	11,603
NAFTA	432	58	490	0	0	0	432	58	490
CENTRAL AND SOUTH AMERICA	12,675	527	13,202	0	0	0	12,675	527	13,202
MEA	3,288	68	3,296	0	0	0	3,288	68	3,296
ASIA PACIFIC	2,427	428	2,855	37	4	41	2,464	432	2,896
TOTAL	28,327	2,497	30,824	384	279	663	28,711	2,776	31,487

\* it includes Corporate, P Ambiente, PZero, P. Eco-Tech; for 2009 it includes also the businesssed Real Estate and Broadband Solutions dismissed in 2010, the resources of which weren't anymore in the organic at 31.12.2010

2010									
	TYRE			OTHER BUSINESSES*			PIRELLI TOTAL		
	Man	Woman	TOT	Man	Woman	TOT	Man	Woman	TOT
EUROPE	9,293	1335	10,628	391	283	673	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
<b>TOTAL</b>	<b>26,602</b>	<b>2,263</b>	<b>28,865</b>	<b>423</b>	<b>286</b>	<b>708</b>	<b>27,025</b>	<b>2,548</b>	<b>29,573</b>

2009									
	TYRE			OTHER BUSINESSES*			PIRELLI TOTAL		
	Man	Woman	TOT	Man	Woman	TOT	Man	Woman	TOT
EUROPE	9,229	1297	10,526	1,112	973	2,085	10,341	2,270	12,611
NAFTA	242	45	287	0	0	0	242	45	287
CENTRAL AND SOUTH AMERICA	11,190	522	11,711	4	0	4	11,194	522	11,715
MEA	2,780	54	2,834	0	0	0	2,780	54	2,834
ASIA PACIFIC	1860	263	2,123	0	0	0	1,860	263	2,123
<b>TOTAL</b>	<b>25,301</b>	<b>2,180</b>	<b>27,481</b>	<b>1,116</b>	<b>973</b>	<b>2,089</b>	<b>26,417</b>	<b>3,153</b>	<b>29,570</b>

\* It includes Corporate, P. Ambiente, P. Zero, P. Eco-Tech, for 2009 it includes also the businesssed Real Estate and Broadband Solutions dismissed in 2010, the resources of wich weren't anymore in the organic at 31.12.2010

2011 vs 2010									
	TYRE			OTHER BUSINESSES*			PIRELLI TOTAL		
	Man	Woman	TOT	Man	Woman	TOT	Man	Woman	TOT
EUROPE	271	82	353	-44	-8	-51	228	74	302
NAFTA	186	19	205	0	0	0	186	19	205
CENTRAL AND SOUTH AMERICA	700	-20	680	0	0	0	700	-20	680
MEA	301	12	313	0	0	0	301	12	313
ASIA PACIFIC	266	142	408	5	1	6	271	143	414
<b>TOTAL</b>	<b>1,724</b>	<b>234</b>	<b>1,959</b>	<b>-39</b>	<b>-7</b>	<b>-45</b>	<b>1,686</b>	<b>228</b>	<b>1,914</b>

2011 vs 2009**									
	TYRE			OTHER BUSINESSES*			PIRELLI TOTAL		
	Man	Woman	TOT	Man	Woman	TOT	Man	Woman	TOT
EUROPE	335	119	455	-765	-698	-1,463	-430	-579	-1,008
NAFTA	190	13	203	0	0	0	190	13	203
CENTRAL AND SOUTH AMERICA	1,486	5	1,491	-4	0	-4	1,482	5	1,487
MEA	448	14	462	0	0	0	448	14	462
ASIA PACIFIC	567	165	732	37	4	41	604	169	773
<b>TOTAL</b>	<b>3,026</b>	<b>317</b>	<b>3,343</b>	<b>-732</b>	<b>-694</b>	<b>-1,426</b>	<b>2,294</b>	<b>-377</b>	<b>1,917</b>

\* it includes Corporate, P. Ambiente, P. Zero, P. Eco-Tech. for 2009 it includes also the businesssed Real Estate and Broadband Solutions dismissed in 2010, the resources of wich weren't anymore in the organic at 31.12.2010

\*\* the delta 2011 vs. in the section "Other Businesses" includes the reduction of 1267 units related to the dismissed activities (Real Estate and Broadband Solutions) during 2010



### TYPE OF EMPLOYMENT CONTRACT

Type of employment contract	2009	2010	2011	11 vs 10	11 vs 09
Unlimited term	92.4%	91.2%	91.6%	0.5%	- 0.8%
Limited term	7.0%	8.4%	8.1%	- 0.3%	1.1%
Temporary	0.6%	0.4%	0.3%	- 0.1%	- 0.3%
Part-time (% on total FTE)	0.7%	1.0%	0.8%	- 0.1%	0.1%
Internship/Others	401	612	415	- 197	14

### EMPLOYEE FLOW BY GEOGRAPHIC AREA, GENDER 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. Breakdown of flows by gender and age group relate to 2011.

Employees flow by geographic area in the three-years 2009 - 2011						
	2011		2010		2009	
	IN	OUT	IN	OUT	IN	OUT
EUROPE	1,606	1,218	1,449	1,445	852	2,164
NAFTA	245	35	38	32	18	18
CENTRAL AND SOUTH AMERICA	3,191	2,525	2,978	2,025	1,741	1,956
MEA	1,018	688	732	527	429	421
ASIA PACIFIC	1,142	693	895	523	555	298
<b>TOTAL</b>	<b>7,202</b>	<b>5,159</b>	<b>6,093</b>	<b>4,552</b>	<b>3,595</b>	<b>4,857</b>

2011 employees flow by gender and age group										
	IN					OUT				
	<30	30-50	>50	Man	Woman	<30	30-50	>50	Man	Woman
EUROPE	62%	35%	3%	85%	15%	49%	40%	11%	88%	12%
NAFTA	68%	31%	0%	89%	11%	40%	60%	0%	74%	26%
CENTRAL AND SOUTH 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%
<b>TOTAL</b>	<b>75%</b>	<b>25%</b>	<b>1%</b>	<b>91%</b>	<b>9%</b>	<b>64%</b>	<b>31%</b>	<b>4%</b>	<b>93%</b>	<b>7%</b>

The PIRELLI headcount at December 31, 2011 was 34,259 employees, including the acquisition of 2.772 employees at the Kirov, Russia plant in December.

On a comparable consolidation basis, the headcount at December 31, 2011 was 31,487 employees, for a net increase of 1,914 employees a year earlier, including 234 executives and white collar employees and 1,680 blue collar workers.

The overall change in employees in 2011 was characterised by substantial growth. In the mature countries<sup>1</sup>, efficiency improvement plans continued with technological and organisational restructuring at Settimo Torinese, with the launch of the new Car and Truck Centre (-23 resources). The same was done in Germany, in accordance with the targets defined in the 2009 agreement (-70 employees). At the same time, young, new university graduates and senior employees were hired in Italy to support new growth initiatives in the Product, Operations and Sales & Marketing areas (+86 employees).

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

In emerging markets<sup>2</sup>, the increases in production volume contributed to expansion of the workforce in China (+409), Romania (+348), Turkey (+199) – following the start-up of Formula 1 tyre production – Brazil (+594) – both in terms of volumes and specific industrial projects – and in Mexico (+199), with training planned for start-up of the new factory. The changes resulting from incoming and outgoing employees in 2011 shows a sharp increase in hiring from the previous year, mainly due to the increased volume of factory production.

PIRELLI does not employ anyone under the age of 14. The Tyre Sector employs 30 young workers between 16 and 18 years of age (12 in Brazil, 9 in Germany, 3 in Switzerland, 2 in the United Kingdom and 4 in Venezuela), and 4 young workers between the ages of 14 and 16 on an exceptional basis (2 in Brazil, 1 in Germany and 1 in Switzerland), as part of training and induction schemes in compliance with local laws.

#### 4.1.2. Diversity management

PIRELLI is characterised 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 opportunity 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 Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment 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 scope is a defining characteristic of the Group: we operate in over 160 countries on five continents, and 88% of its employees work outside Italy at December 31, 2011. Awareness of the cultural differences that create our identity underlies the Group's reliance on managers having local origins: 83% of senior managers work in their country of origin. In order to develop the innovative and managerial potential inherent in multiculturalism and in different professional contexts, the company promotes the growth of its managers through international intercompany transfers (see the following paragraph). It is no accident that 54% of the senior managers on active duty in 2011 have had at least one intercompany assignment in another country during their professional career. Moreover, at December 31, 2011, 15% of all managers on foreign assignment were women.

PIRELLI is also committed to promoting maximum awareness of the positive and dynamic differences that exist between the two sexes 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 2009/2010/2011, 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 2011 the number of women in the Cadre category increased by two percentage points: this category represents the springboard to executive positions. The percentage of women in managerial positions was 18%, a significant figure within the Autoparts & Tyres industrial sector in which PIRELLI operates.

<sup>2</sup> These are countries where Pirelli operates that are internationally defined as "emerging," i.e. Romania, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Egypt, Turkey and China.

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 for the PIRELLI Board of Directors beginning from the renewal scheduled to take place at the Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013.

PERCENTAGE OF WOMEN						
	EXECUTIVES	CADRES	EXECUTIVES + CADRES	WHITE COLLARS	BLUE COLLARS	TOTAL
2009	9%	18%	17%	32%	4%	9%
2010*	8%	18%	17%	31%	4%	9%
2011	8%	20%	18%	31%	5%	9%

\* the organic related to the dismissed REAL ESTATE and BROADBAND SOLUTIONS in 2010 is excluded

Analysing the following table, the breakdown by gender in terms of employment agreement 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 agreement, while there are more men with a temporary employment agreement. This is an extremely 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		
	Man	Woman	Total	Man	Woman	Total
UNLIMITED TERM	92%	95%	92%	92%	93%	92%
LIMITED TERM	8%	4%	8%	8%	6%	8%
AGENCY	0%	1%	0%	0%	1%	0%
TOTAL	100%	100%	100%	100%	100%	100%

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

The countries considered in the analysis at December 31, 2011 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% in favour of men in the white collar category and 2% in favour of men in the cadre category.

The most virtuous countries deserve mentioning:

- Italy, which exhibits a 4% difference between the average pay for men and the average pay for women, in favour of men both in the cadre category and in the white collar category;
- Turkey, where the ratios are in favour of men in both categories, with the differences amounting 3% for cadres and 2% for white collar employees;

- Romania, where pay difference was 2% in favour of men in the white collar category, while there were no differences in average pay for men and women in the cadre category (with a ratio of 0%).

Finally, in the executives category, where women represent 8% of all members, there was an average pay difference of 5% in favour of men.

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

The method used to calculate the pay differences indicated above has been modified since 2010. Therefore, the 2010 figures have not been imported, not being comparable with the 2011 figures. Until 2010 the pay differences between men and women were calculated at the same macro levels (cadres and white collar employees) without considering the effective weight of the positions in each macro level, which was instead a factor considered this year. The new approach is methodologically more correct, insofar as it compares the pay of individuals who hold positions of comparable weight, and insofar as the averages for each level are less influenced by the different number and distribution of men and women.

Generally speaking, on the various markets far more men than women have belonging 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 in 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 will have grown sufficiently to be assimilable to that of men in most markets. This will generally and 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 even in regard to individuals with disability. In order to standardise the

## SOCIAL DIMENSION

corporate culture of affiliates towards disabled persons, the PIRELLI Equal Opportunities Policy lists disability among protected differences, as a value and operating model applicable to all affiliates. 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 candidates with disabilities, as well as between the Group and foreign candidates. The percentage measurement of employees with disabilities 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 thus there is not a clear definition of disabilities as well as monitoring criteria, and because in many countries this information is deemed confidential and protected by privacy laws.

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, is the same in 2011.

Average age by category and gender - 2010*					
	Executives	Cadres	Staff	Blue Collars	Grand Total
Women	45	42	36	33	36
Men	47	44	38	35	35
Grand Total	47	43	37	35	36
Average age by category and gender - 2011**					
Women	46	42	37	33	36
Men	48	44	38	35	36
Grand Total	48	44	38	35	36

\* Figure cover 96% of group employees

\*\* Figure cover 97% of group employees

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. 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 by category and gender - 2010\*

	Executives	Cadres	Staff	Blue collars	Total
Women	15	14	10	5	9
Men	17	15	12	9	9
Grand Total	17	15	11	9	9

Average job seniority by category and gender - 2011\*\*

	Executives	Cadres	Staff	Blue collars	Total
Women	16	14	10	4	8
Men	17	15	11	8	9
Grand Total	17	15	11	8	9

\* Figure cover 96% of group employees

\*\* Figure cover 97% of group employees

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 balanced 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, with the next scheduled for 2012. 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. The answers "I am absolutely in favour" – the highest ranking amongst the possible positive answers – totalled 82% in regard to respect of gender differences, 85% in regard to respect of

cultural differences, and 85% in regard to respect of age differences.

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

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 own 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, prevention campaigns, company discount arrangements with various service providers (from medical exams to car rental).

More details are found in the section "Measures in favour of the Internal Community" in this report.

As announced in November 2011 at the presentation of the update for 2012-2014 and vision to 2015 of the Industrial Plan, PIRELLI confirmed that its growth and value creation goals include increasing management diversity, which will be accomplished through the launch of a three-year hiring plan at the Group level, as well as definition of guidelines on corporate welfare that will be applied to the affiliates.

#### 4.1.3 Compensation and international mobility

PIRELLI compensation 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. They are consequently defined and articulated in such a way as to reward the quality of professional contribution and individual performance in view of sustainable remuneration.

The individual countries apply the Group compensation system with great leeway, except for policies and processes applicable to executives, which are managed centrally.

The Job Evaluation methods were further refined in 2011. They make it possible to define a clear framework for the weight and materiality of executive positions in view of analysing internal equity and the competitiveness of the offered remuneration packages, as well as implementing a logic of "clustering" this segment of the population to which certain compensation systems can be easily tied, e.g. incentives.

The remuneration policy adopted for executives presumes that an increasingly important component of the remuneration package be variable, i.e. increasingly related to Group and/or individual performance, consistent with market best practice.

All PIRELLI executives are entitled to an Annual Bonus (MBO) tied to achievement of the annual Group, Business Unit and/or corporate function targets. Most are also entitled to a three-year long-term incentive (LTI) plan, based on achievement of the targets defined in the Industrial Plan.

The long-term incentive plan aims at creating sustainable value over the medium-long term and develops a strong link between remuneration and Group performance, favouring the retention of human resources in view of aligning shareholder and management interests. The plan also envisages that the bonus paid out at the end of the three-year period (pure LTI) be complemented by co-investment of a portion (50%) of the annual MBO bonus. The three-year bonus, including the "deferred" portion of the annual incentive with the additional amount granted by the Company on the basis of a certain predefined multiplier is paid out only when the three-year targets are met.

If the three-year targets are not met, the annual "invested" amount of the bonus is returned, less 50%.

The long-term incentive plan is entirely self-funded by the results of the business during the three-year reference period.

In 2012 most compensation programmes will target the non-executive staff, whose mapping will be updated in all countries with the support of corporate headquarters in order to assure consistency throughout the Group. This activity is connected with definition at corporate headquarters of the principal guidelines used for salary reviews.

The issue of international mobility, which has always been dear to PIRELLI in view of cultural and values integration, has interested 90 new expatriate workers in 2011, 55% more than in 2010.

More than a third of these 90 new expatriates have been assigned to new industrial initiatives in Mexico and Russia. So, international mobility is confirmed as a key tool in support of the Group geographical expansion strategy, which is organised to disseminate PIRELLI corporate culture worldwide and transfer precious technical know-how to the new start-ups. At December 31, 2011, the aggregate expatriate population was 220 persons, with 74% consisting of non-executive employees, 15% of them were women, representing 16 different nationalities and transferred to 29 different countries on all five continents.

In 2012 the caring policy applicable to internationally transferred employees will be enhanced by tax advice provided by a major specialized tax consultancy, in addition to that already offered by corporate headquarters functions.

Also in 2012, the metrics/KPIs used to measure the ROI of corporate investment in international mobility will be perfected to obtain management solutions improving the effectiveness of this precious tool for resource development.



#### 4.1.4 Employer branding, development and training

##### KNOWING PIRELLI: EMPLOYER BRANDING ACTIVITIES

Activity was particularly intense in 2011. Numerous initiatives were taken to enhance the appeal of PIRELLI amongst leading universities and management schools.

PIRELLI launched its new Employer Branding campaign. Its tough, gutsy image is inspired by the company's involvement as supplier to Formula 1 and fully reflects the dynamic spirit that characterises the Group. Presented at all leading Italian and foreign universities of interest to the Group, this campaign was accompanied by an illustrative brochure that specially created for students and new graduates, and was distributed at career days and special meetings.

Group orientation and presentation meetings were held at Business Schools, universities and technical institutes, delegations from Italian and international universities were hosted, special lectures were given by PIRELLI management as part of university courses, and career and recruiting days were organised.

Special mention should be made of the project work dedicated to mechanical engineering and aerospace engineering students at the Milan Polytechnic, with the aim of offering them the possibility of learning about and confronting specific issues of "corporate life" involving, for example, their aptitude for continuous improvement. This allowed PIRELLI to raise the consciousness of its potential job candidates on matters that are both a part of corporate culture and critical factors of success. To facilitate transferral of this practical experience, face-to-face lessons and software simulations of the production process were used, complemented by subsequent exercises.

International programmes continued in 2011, including Politong. This project originated at three major engineering schools: Milan Polytechnic, Turin Polytechnic, and Tongji University in Shanghai, which give the programme its name. Through study in alternate years by Italian and Chinese students at the various universities in Milan, Turin and Shanghai, Politong trains students by giving them an international education, in a dynamic context and, above all, with the possibility of earning a double degree that is recognised both in Italy and in China.

The Bocconi Merit Awards also continued, offering scholarships to the best Italian and foreign students enrolled at the university.

The Italian Lessons project was also developed in 2011. This programme is aimed at teaching Italian to highly promising foreign students of interest to PIRELLI, facilitating their future employment at the Company. Through Italian Lessons, PIRELLI has had the great opportunity – for both the Company and students – to identify young talents from areas of the world where PIRELLI has a presence, thereby laying the groundwork for preparing a new multicultural generation of PIRELLI employees.

This programme can be summarised by the following numbers:

- ▶ 190 foreign students are candidates;
- ▶ 50 students have passed the curriculum vitae screening, have taken the online Italian test and have been interviewed by PIRELLI HR;
- ▶ 15 students have been chosen to participate in the PIRELLI Italian course;
- ▶ 3 students have been introduced to operations for internships, including:
  - 2 Turkish engineers assigned to R&D Truck + Engineering;
  - 1 Russian engineer in Risk Management.

Collaboration also continued with the University of Craiova, in an IT research project and through the creation of a master in management engineering that was fully supported and developed by PIRELLI. Other collaborations involved the Chinese university in Shandong and the Brazilian polytechnic in Santo André. The first of these involves a research and development project, and the second involves a plan designed for qualifying specialised technical personnel.

The web is one of the key tools for talent attraction and employer branding. The Career section of pirelli.com is constantly revised to offer maximum clarity and transparency for users. The site presents PIRELLI in terms of its vision, the opinion of employees who work there, by indicating the career paths that characterise the different professional families inside the firm, training policies and remuneration development.

## DEVELOPMENT

### Performance Management

PMT – Performance Management Tool – is the online performance management and assessment tool launched at the Group level in 2007 and gradually extended to all staff (executives, cadres and white collar staff) at PIRELLI business units around the world. This process engaged over 5,700 employees in 2011, about 100 persons more than in 2010, following extension of the online tool to Group affiliate employees in Southeast Asia. The PIRELLI PMT is extremely dynamic, easy to use, capable of interpreting and expressing the innovative values and cultural changes promoted by the Group, while facilitating their sharing and learning.

Just as in the previous year, the Performance Management Tool accompanied the Leadership project in 2011, which was inspired by the new model introduced in 2010. The section dedicated to identification and assessment of skills specifically reflects this alignment. Since 2010 it has included the nine drivers for the new leadership programme for everyone at the Company who holds positions of responsibility and manages other employees.

In accordance with the importance attributed to behaviour by the leadership project, since 2010 the *Performance Management* process envisages that assessment of not only the achieved results but also the actions taken to achieve them be highlighted. This facilitates maximum transparency in the assessment and discussion dynamics between supervisors and their team. The section of the PM dedicated to the *Development Plan* plays a key role. It was created in 2010 to host the supervisor's and subordinate's thoughts in regard to growth and development possibilities.

### Competence Mapping

In 2011 the skills mapping process was launched on the Performance Management platform 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.

## SOCIAL DIMENSION

The professional families involved by the process were Industrial, Quality and HSE, for a total of 732 persons, originating in seven countries (China, Egypt, Italy, Romania, Turkey, United Kingdom, United States, and Germany).

The online version of the process made it possible to measure the extent of specific skills exactly, in view of the mobility and polyvalence of resources.

### Scouting & Talent Management Activities

The principal process of talent scouting at the Group is connected with the *Development Centre*, the initial part of the *PIRELLI international Career Development Programme*.

Various initiatives were undertaken in 2011 to motivate, engage and retain talented individuals at the company.

The first step was to redefine the criteria for identifying talents at the Company. Then the department, business unit and Company management were asked to list the names of talented individuals and define a *development plan for each one*. When Performance Management 2010 was opened, the talented individuals discussed and agreed on a medium-term development plan with their own supervisor.

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

The pool of talented individuals will be used as a primary source for covering key personnel openings at the Company.



## TRAINING

The approach taken by PIRELLI towards the training of its employees involves programmes aimed at improving their professional skills according to strategic challenges, finding occasions and new stimuli for performing their work better or differently, widening their professional horizons and sharing experiences with colleagues. Training courses are normally defined when targets are assigned at the beginning of the year. At that time, the supervisor and his/her subordinate also define strategies to meet the assigned targets and the ways to improve the skills to be used.

The *Performance Management Tool* contains a section dedicated specifically to training actions in view of providing better support for growth at the Company. Here, everyone can decide with his/her own supervisor on a personal training path and track it over the years. Many training programmes are also defined at the general corporate, functional or business unit level in order to support and implement new business strategies and orientation.

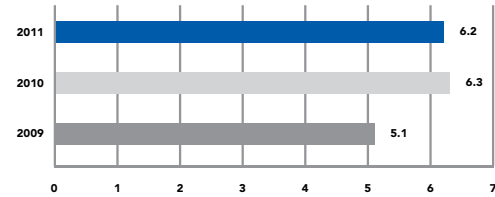
The training courses, which are broken down into international programmes and country-specific programmes, are increasingly visible to all employees through the training portal, which is in turn directly accessible from the intranet home page.

### Learning Lab

The international programmes are broken down in turn into training and development paths for managerial skills and paths tailored according to specific professional family.

The following graphic shows that significant investments in continuous skills improvement through on-going training courses were made once again in 2011. This approach is going to continue, considering that the 2015 target forecasts achievement of seven average days of training pro-capita.

Average days of training pro-capita: PIRELLI total

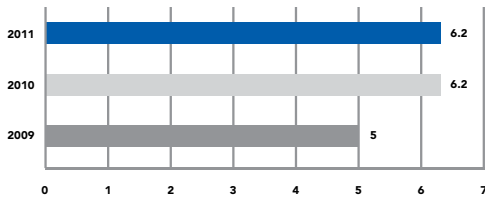


In 2011 most training in the various countries focused on safety issues and in-service technical training at plants and on alignment with leadership strategies in the business units, particularly in regard to the Premium segment for managerial and white collar staff.

The countries that offered a high number of training days pro-capita to blue collar workers at plants and laboratories in 2011 were:

- ▶ the Settimo Torinese Industrial Centre in Italy (in 2010 it had undertaken a major training programme in support of an extensive project for technological and working process change at the new factory), with an average of almost six days pro-capita: this programme to upgrade professional skills significantly contributed to reaching the Centre's quality, efficiency and safety targets;
- ▶ Romania, which supports an intensive apprenticeship programme directly at the technical high school for incoming youths at the factory, alternating classroom lessons with practice on the machinery: an average of 23 training days pro-capita are offered annually;
- ▶ Mexico, where the first 100 blue collar workers and technicians hired at the new industrial start-up participated in training programmes lasting two months at best-in-class factories located in other countries;
- ▶ Argentina, where new expansion plans for production activity have led to investment in the training of personnel, with an annual pro-capita average of 14 days.

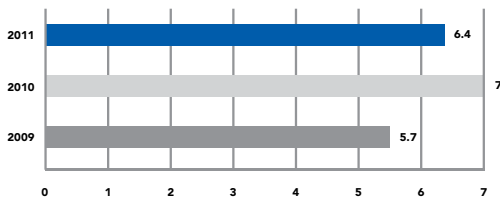
Average days of training pro-capita: blue collars



Special reference should be made to "Safety Week": a week of events, short courses, in-service training and awareness seminars, held simultaneously at all company sites during working hours, aimed at disseminating safety culture in all working environments and in the personal and family life of all employees. In fact, PIRELLI is aware that attention to safety and compliance with rules, after defining precise rules and adequately training personnel, must be related to the culture and level of individual sensitivity that each individual has.

The leadership programme launched in 2010 that targets white collar management personnel (technicians and staff), and which is designed to reinforce leadership, remained a key feature of training in 2011 for all executives worldwide (about 300 persons).

Average days of training pro-capita: white collars



In this second year, the entire executive staff participated in another training session that included a new, comprehensive evaluation of their management style, on the basis of which improvements could be planned. During 2011 middle management in all countries were also involved in local development of the leadership programme set up in 2010.

About 400 persons participated in specific training activities, which were also offered in the local language. These activities aimed to disseminate knowledge of the leadership programme and also give middle management experience with the comprehensive process of feed-back and evaluation of their leadership style.

Another important training activity involved distribution of the Premium strategy to commercial functions, promoting the log-

ic of the corporate strategy and exploring its commercial and marketing implications in various markets. More than 300 persons in the European markets participated in the intensive three-day programme, which will be extended to other regions in 2012, involving the participation of about 300 additional commercial staff members.

The "Managing to Le(a)rn" programme involved 170 managers and senior professionals at production units and quality functions of all Group plants. It was developed into modules divided up over twelve days and aimed at illustrating and complementing the Lean Manufacturing approach in production processes.

The international project Career Development Programme continued in 2011, as has been the case now for several years. It is broken down into development modules (called Development Centres) and training modules (seminars entitled Understanding Business Complexity and Managing Growing Complexity). The programme, which involved 160 persons from all countries where PIRELLI operates, was reconfigured in several parts so that the skills subject to diagnosis and development would be aligned with the previously mentioned leadership programme and requested behaviour drivers.

#### 4.1.5 Listening to grow: the 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.

The employee opinion survey is conducted once every two years: thus a new, worldwide survey is scheduled in 2012.

#### 4.1.6 Interaction and awareness, internal communication in 2011

More interactive procedures, capable of promoting full participation in corporate life, including through increasing use of multimedia language, characterised internal communication in 2011, with the aim of bringing all employees closer to the strategic choices made by PIRELLI.

Internationalisation, focus on the tyre business, leadership in the Premium segment, and technological innovation: these were the key words of the internal communication strategy, in harmony with the objectives of the 2012-2014 Industrial Plan.

The corporate intranet and house organs were the principal communication tools used in initiatives that, over the course of the year, directly engaged employees through increasingly prompt and immediately usable formats of event communication that impacted the message and through channels developed specifically for plant staff, with intranet stations inside the factories, screens in company canteens and the new newsletters dedicated to blue collar workers.

Several statistics illustrating the development of intranet demonstrate a significant increase in the engagement of employees worldwide: first of all, the average time online quintupled from 2010 (from 1 minute to 5 minutes), probably in consequence of greater publication of news items (about 800) and steadily growing production of videos. Also of interest in this regard is the growing share represented by 'rest of the world' (which increased by 3 percentage points, from 62% to 65%) as compared with Italy, which corresponds to the process of internationalization desired by the company in communication.

The new intranet project, which engaged Internal Communications in 2011 and is scheduled for release in 2012, marks a major evolution in the process of awareness of the

role that each employee plays in his/her professional group, business unit and, ultimately, the entire Company.

#### PROXIMITY AND PARTICIPATION IN CORPORATE PROGRAMMES

Internal Communications, in collaboration with other corporate functions, has developed various initiatives to engage all employees in strategic corporate events, that are traditionally or by their nature aimed only at a narrow group or even external. Following are a number of examples that have involved all PIRELLI employees simultaneously at the global level through the intranet platform. For example, the Industrial Plan and the Executives Convention have been published for the first time live on :Pnet. Both initiatives were successes, considering the number of colleagues that watched the event live and by delayed broadcast.

Other significant examples are the Leadership and Organisational System, made accessible to everyone on :Pnet. In the first case, nine instalments were aired on :Pnet in July 2011, illustrating to everyone for the first time the new leadership model adopted by PIRELLI. This led to the choice of a television style format and language that engaged the participation of the Human Resources and Organisation Director as show host, flanked by six internationally recognised leaders from various fields (innovative businesses, medicine, academia, sports, and special units from law enforcement organisations).

Likewise, the Human Resources and Organisation Director illustrated the new organisational structure of PIRELLI to all employees in an October 2011 video broadcast. This was an informative broadcast that transformed the topic from an issued reserved for specialists into a theme more familiar to everyone.

#### "THE INTRANET THAT YOU WOULD LIKE": THE NEW :PNET WAS CREATED WITH CONTRIBUTIONS BY EVERYONE

The project to develop the new PIRELLI intranet directly involves all employees around the world by using three principal tools: interviews with top management, workshops for middle management, and surveys tar-

getting everyone. These three initiatives revealed the real needs of the various groups of employees. Among these is greater utility in daily work through the availability of work tools and collaborative environments. The project to revise :Pnet takes these priorities into account.

#### FOCUS : PBOOK, STARTING FROM BICOCCA

The :Pbook book club organised for employees at the Bicocca debuted at the end of January 2012. It is set up as a community model focused on interest in reading, exportable to various countries around the world. The community meets physically once a month, but interaction continues online. :Pbook was born as the pilot experience of collaboration that the new intranet project dedicates to non-professional PIRELLI communities, with the aim of promoting social relations amongst co-workers on a basis that transcends their professional groups.

#### FACTORY COMMUNICATION IS UPDATED

Internal communication dedicated ample space to production, processes, and persons, emphasizing the sustainability and other goals achieved in factories around the world.

The objective was to acquaint even blue collar workers with corporate strategy, by using direct communication tools such as Polonline. Launched in 2011, this is an online newsletter that recounts the principal events that have occurred at the Settimo Torinese Industrial Centre, in addition to PIRELLI events in Italy and around the world.

The world of PIRELLI production is characterised by the distribution of newsletters at all plants worldwide, each having its own characteristics according to local tradition. These include PIRELLI Voice, the newsletter published at Yanzhou, China, which has a target of over 2,000 blue collar workers and was recognised in January 2012 as one of the best corporate newsletters in Shandong Province. Stiri is the newsletter distributed exclusively to employees at PIRELLI Romania. This is a monthly that has generated a good return for three years in terms of loyal readership and feedback.

Another step has been taken in the process of engaging all employees in the life of the entire Company through the introduction of new intranet stations in factories.

#### 4.1.7 Initiatives for the internal community

For several years, the Group has been implementing a series of measures in various areas to support its employees, from healthcare to company discount arrangements with various entities, from social to leisure time activities and assistance for families and their children.

In 2011 it set up an ad hoc organisational function, 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 and 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 during 2011 to determine implementation of the guidelines.

Among the new initiatives taken in 2010 and continued in 2011, mention should be made of PIRELLI plus and Nasce una mamma (A Mother is Born) realised for the Milan area at the Bicocca centre.

"PIRELLI plus" embraces the numerous services provided to Bicocca employees, including those tied to health at the Ambulatorio Polispecialistico ("Multi-specialty Health Clinic"), which typifies the company healthcare that has been offered for over 80 years and housed in a new home since 2010. 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, new mothers are invited to participate in a training course designed to support the resumption of work and reconcile personal and professional commitments.

In 2011, 98% of Italian employees on maternity leave returned to their job. Parental leaves granted to new fathers represent an opportunity receiving growing attention from male workers, although they are still rarely requested in Italy.

PIRELLI is extremely sensitive to this issue, which has already been analysed both inside and outside Italy for the purpose of better understanding the dynamics – especially cultural dynamics – behind it, and giving additional support both to new mothers and new fathers in exploiting the statutory and corporate opportunities offered to them.

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

In the healthcare area, PIRELLI has always offered infirmary services at its production plants that offer all employees with specialised health and medical services during working hours. These facilities provide first aid care, advice on health problems unre-

lated to work and health supervision for workers who might be exposed to specific hazards.

Health promotion and health prevention campaigns are also supported at the infirmaries, being developed in the form of local programmes. Once again in 2011, PIRELLI offered all its employees the opportunity to be inoculated with the seasonal flu vaccine free of charge.

Safety Week was held in 2011 at all Group units (see its description in the section dedicated to training initiatives).

#### 4.1.8 Industrial relations

PIRELLI Group industrial relations are conducted on the basis of constructive dialogue, fairness and respect of the various roles involved. Guaranteeing and respecting free trade union activities is one of the key values on which PIRELLI bases its human resource management system.

Relations and negotiations with trade unions are managed locally by each affiliate in accordance with the laws, national and/or company-level collective bargaining agreements, and prevailing customs and 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.

This activity achieved important results in 2011 with the signing of renewed collective bargaining agreements at different Group sites, including Argentina, Venezuela, Mexico, the United Kingdom, Spain, Germany, Egypt and Romania. In this last country, the new Romanian law governing trade union representation was also incorporated in the agreement.

These accomplishments were accompanied by the major role played in Italy upon signing of three supplemental company agreements applying to the Milan Bicocca, Bollate and Figline Valdarno sites.

In Italy, the Company also continued the restructuring and reorganisation process undertaken at the Settimo Torinese Industrial Centre, undertaken in 2009. In particular, during the month of November, an agreement was signed with local trade union representatives and organisations for

the sharing, definition and management of the 2012-2014 Industrial Plan, which calls for additional investments totalling about euro 27.5 million to rebalance truck and car production, in accordance with the Industrial Centre guidelines aimed at encouraging higher value added (Premium) car production. With this agreement, the procedures for non-traumatic management of employment criticalities were also agreed, including recourse to welfare benefits.

At the PIRELLI Eco Technology S.p.A. plant in Arese, a cost containment plan was implemented to deal with the consequences of the drastic fall in sales of retrofit systems since the beginning of the year due to failure of issuance of previously announced environmental protection regulations. As part of this plan, two specific agreements were signed with trade union representatives and local union organisations. These acknowledged realisation of the new industrial plan and defined the terms for streamlining the company organisational structure, by encouraging reassignment of redundant employees to PIRELLI Tyre S.p.A.

At the Bollate plant, two major agreements were signed with trade unions in February and November. Then a euro 10 million plan of investments in environment, occupational safety and products was agreed for the three-year period 2011-2013, in accordance with the "green technology" strategy. A new work shift system was also agreed, involving 19 weekly shifts that replaced the previous continuous cycle system, in order to assure the most efficient management of productive assets.

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

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.

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. One such example is the aforementioned Bollate agreement.

#### THE 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 to delegates in view of transnational events involving significant changes to the corporate structure: new openings, restructuring or closure of sites and major, widespread changes in the organisation of work.

EWC delegates are provided with the IT tools that they need to perform their duties and a connection with the corporate intranet system, for the real time communication of official Company press releases. At the annual meeting with the Industrial Relations Department, scheduled for February 2012, the members of the EWC will be informed of the Group's annual operating and earnings performance and the contents of the Business Plan.

The Committee currently has 14 members from the PIRELLI sites located in the countries entitled to representation on it: Italy, Germany, Spain, France, Romania, and the United Kingdom.



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

PIRELLI Group policy has always been focused on 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. The holiday period is generally agreed by the employee and the company.

Likewise, and as also publicly declared in the Group Social Responsibility Policy, PIRELLI does not use child labour or forced or compulsory labour. In accordance with, inter alia, the prescriptions of the SA8000® international standard, which was adopted by PIRELLI in 2004 as the benchmark tool for management of social responsibility at its own affiliates, PIRELLI monitors application of the prescriptions governing social sustainability and, in particular, compliance with human and labour through periodic audits commissioned to specialised independent consultants. These audits are obviously conducted after constant coordination and monitoring by headquarters functions. Special attention is dedicated to the sustainability of PIRELLI and supplier sites in and emerging countries and countries at risk (also defined as countries of concern by EIRIS).

The 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 Group Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment and the Group Ethical Code.

In 2008 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.

All managers at the affiliates involved in the audits have been adequately trained and

informed about the audit aims and procedures by the delegated headquarters functions: Sustainability and Industrial Relations.

The audits, each of which lasts an average of at least three days in the field, have included extensive interviews of workers, management and labour representatives.

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.

The Internal Audit function will be directly involved in the process of monitoring undertaken actions beginning in 2012. The PIRELLI Internal Audit function is exquisitely independent insofar as it reports to the PIRELLI Internal Control, Risks and Corporate Governance Committee, which is comprised solely of independent directors.

## LABOUR AND SOCIAL SECURITY LAWSUITS

In 2011, as in previous years, the level of disputes remained low, generating a very small number of labour and social security lawsuits that was virtually unchanged from the previous year.

The level of litigation remains high in Brazil, to the point of representing about 90% of all the labour lawsuits currently pending against the entire Group, just as in previous years. Labour lawsuits are widespread in that country and reflects 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 four 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 2011 grew from previous years, reaching all'82% as compared with 78% in 2010 and 2009. This figure is associated with the historical, regulatory and cultural differences between each country.

The total number of disputes recorded in 2011 was quite limited, in line with what was reported in 2010. The industrial actions that occurred during the year mainly affected Italy and were focused on issues strictly tied to operating and/or labour organisation matters and actions in support of political and union issues of national interest.

#### OCCUPATIONAL PENSION AND 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 favour of defined contribution plans; since then, they only apply to retired employees but are not tied to wage increases) and in Germany (this scheme was closed to new hires in 1982). Other defined benefit plans exist in The Netherlands, but they represent a relatively insignificant liability for the Group.

Group affiliates still 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 24 ("Employee benefit obligations") and 32 ("Personnel expense") in Volume A of the Annual Financial Report at December 31, 2011.

#### SOCIAL DIMENSION

##### 4.1.9 Occupational health, safety and hygiene

*"The PIRELLI Group safeguards health, safety and industrial hygiene in the workplace, both through management systems that are continually improving and developing and by promoting an approach to health and safety based on prevention and the effective handling of occupational risk."*

(The Values and the 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, and 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."*

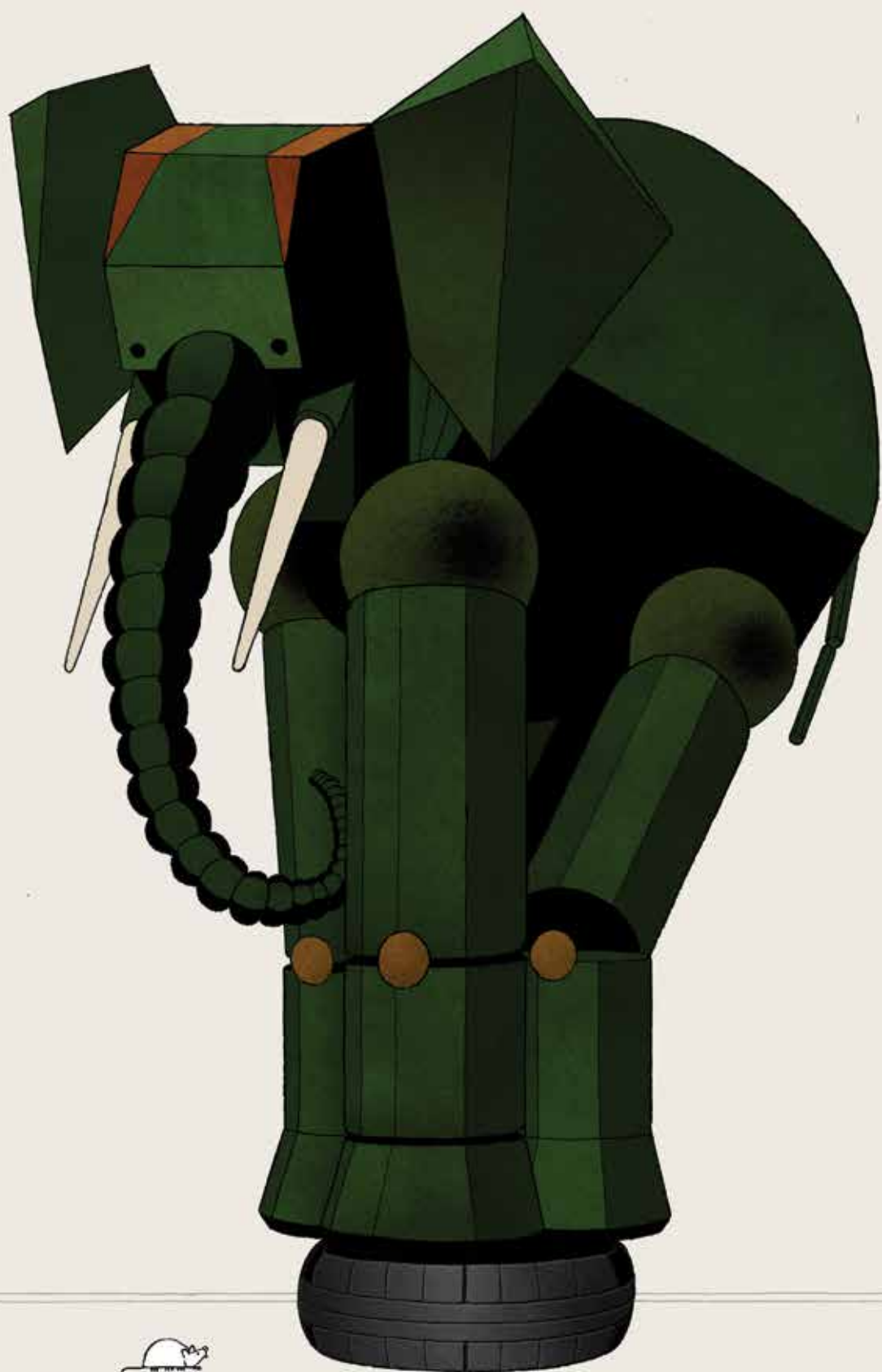
(Quality Policy)

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 re-



Fig. 4

# Reliability



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

#### 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).

Beginning in 2011 another step was taken to improve the level of transparency in the quality certification system. Consequently, although the current management systems were already in perfect compliance with the OHSAS 18001 standard, since 2011 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).

All PIRELLI Tyre production sites operating at December 31, 2011 are certified pursuant to OHSAS 18001, except for the Guacara plant in Venezuela, which is currently being certified after having passed the first step. The Rome plant has not been certified yet since the management system applied pursuant to local law is comparable to application of the OHSAS 18001 standard. This would render certification a parallel activity of only relative importance.

Certification of the Eco Technology plant (anti-particulate filters) operating in Romania was successfully completed in November 2011 and the certificate will be issued shortly.

The programme for certification of the environmental and safety management systems for the new plant that PIRELLI Tyre has built in Mexico for the production of tyres will be undertaken by the end of 2012.

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.

In 2011 the Safety Excellence project (launched in 2009) intended to introduce the Du Pont method (best in class for decades) was concluded at the production units, beginning with the new unit at Settimo Torinese.

In essence, the Du Pont method is characterized by its emphasizing the fact that Safety is:

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

During 2011 the Safety Excellence project at POLO consolidated the pillars developed in 2010, reinforcing attention on prevention indicators as compared with reaction indicators. Development and application of this methodology have reduced the production site frequency index by about 60%.

In spring 2012, DuPont will conduct a re-assessment by DuPont to assess the progress of safety culture, which will be measured with the Bradley Curve<sup>3</sup>.

In 2011 the project continued in collaboration with DuPont at five production sites in South America with the implementation of an action plan defined in 2010 that will go on throughout 2012.

The principles and guidelines for "Safety Excellence" have already been distributed to other operating units and are at the basis of Safety training during the start-up phase of new production sites in Mexico and Russia.

In 2011 initiatives were taken to further develop internal culture, including the monthly newsletter Safety Bulletin and the periodic publication of significant events through traditional internal communication channels.

<sup>3</sup> 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 event to occur before acting) or, through different levels, is pro-active and inter-dependent (i.e. whether it works on prevention and whether individuals care not only about their own safety but also that of others).

PIRELLI continued acting as official partner of the European Occupational Safety and Health Agency (EU-OSHA) in 2011.

The Agency confronts a different problem every two years. The theme for 2010 and 2011 was Safety Maintenance. The aim was to raise the awareness of Group employees about the importance of workplace maintenance and the risks that it posed if maintenance is not performed properly.

All production sites undertook to engage participation by maintenance staff, organizing specific training days on the topic.

The partnership will continue in 2012-2013: the campaign will focus on leadership and involvement of all corporate figures in reducing workplace accidents.

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 accordance with the rules, while maintaining a very clear idea of the responsibilities that everyone has towards oneself, towards others and towards one's own family. In this area as well, involvement and continuous internal dialogue between management and operators has proven winning.

#### 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 fourth edition of the PIRELLI Health, Safety and Environment global meeting was held at the Gravatai, Brazil plant, 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 HSE targets and vision were also shared for the 2012-2015 period to de-

fine operating guidelines and meet corporate sustainability targets.

The first PIRELLI Health, Safety and Environment Week (HSE Week) was held September 12-19, 2011 with the simultaneous involvement of all global sites on six fundamental issues for achieving health, safety and environmental targets.

The key theme of the Health focus was ergonomics and proper posture at the workplace.

In regard to Safety, the focus was concentrated on use of Individual Protection Devices and Safe Maintenance (as the natural continuation of the partnership with the European Occupational Health and Safety Agency EU-OSHA).

In accordance with sustainability targets, environmental themes addressed the proper management of waste, energy and water savings.

The HSE week, organised with theoretical and practical events aimed at improving behaviour, involved over 20,000 persons worldwide. Employee feedback confirmed the success and relevance of the initiative. Ways of repeating the experience are already under study.

#### MONITORING OF PERFORMANCE AND SHARING OF EXPERIENCE

Together with definition of specific guidelines and procedures for the implementation of 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 Department, 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, adopted corrective measures, etc.). If the dynamics of a particularly significant 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.

PERFORMANCE

The accident frequency index (FI) (the ratio of the number of reported accidents to the number of hours actually worked) in 2011 fell overall by 30% from the previous year. The gravity index (GI) was reduced by 29%.

The information in the following tables is also provided by businesses, i.e. PIRELLI Tyre and others (Corporate, Eco Technology, Ambiente and PZero). The trend of the frequency index for PIRELLI Tyre industrial was particularly significant, showing a reduction of 28% from 2010 and 42% during the three years 2009-2011. The target set in the Group strategic plan envisages a 60% reduction in the frequency index by 2015 from 2009.

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 aforementioned figures do not include "in itinere" incidents, which are nonetheless reported below in a specific table.

The following tables illustrates the principle indicators of the companies belonging to the PIRELLI Group, broken down by business as previously mentioned. The calculation of the indicators refers to the activities performed by both industrial and office employees (group consolidated scope).

SCOPE	Frequency Index (FI)		
	2011	2010	2009
Tyre (Total: Industrial + Commercial)	1.12	1.60	1.87
Other Businesses (Corporate + Eco Technology + Ambiente + P Zero)	0.18	0.33	0.45
<b>PIRELLI TOTAL (*) (continuing operations)</b>	<b>1.10</b>	<b>1.57</b>	<b>1.83</b>
Result of discontinued operations (**)	0	0.27	0.10
<b>PIRELLI TOTAL (continuing operations + discontinued operations)</b>	<b>1.10</b>	<b>1.53</b>	<b>1.76</b>

\* The 2011-2010-2009 figures are shown on a comparable basis and thus do not include the business units sold in 2010 and belonging to PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A.

\*\* Here, the 2010 and 2009 impacts are shown, including the business units sold in 2010 and belonging to PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A.

SCOPE	Gravity Index (GI)		
	2011	2010	2009
Tyre (Total: Industrial + Commercial)	0.27	0.38	0.54
Other Businesses (Corporate + Eco Technology + Ambiente + P Zero)	0.02	0.12	0.13
<b>PIRELLI TOTAL (*) (continuing operations)</b>	<b>0.27</b>	<b>0.37</b>	<b>0.53</b>
Result of discontinued operations (**)	0	0.06	0.02
<b>PIRELLI TOTAL (continuing operations + discontinued operations)</b>	<b>0.27</b>	<b>0.36</b>	<b>0.51</b>

\* The 2011-2010-2009 figures are shown on a comparable basis and thus do not include the business units sold in 2010 and belonging to PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A.

\*\* Here, the 2010 and 2009 impacts are shown, including the business units sold in 2010 and belonging to PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A.

SCOPE	Injuries in itinere		
	2011	2010	2009
Tyre (Total: Industrial + Commercial)	137	110	108
Other Businesses (Corporate + Eco Technology + Ambiente + P Zero)	5	2	5
<b>PIRELLI TOTAL (*) (continuing operations)</b>	<b>142</b>	<b>112</b>	<b>113</b>
Result of discontinued operations (**)	0	3	6
<b>PIRELLI TOTAL (continuing operations + discontinued operations)</b>	<b>142</b>	<b>115</b>	<b>119</b>

\* The 2011-2010-2009 figures are shown on a comparable basis and thus do not include the business units sold in 2010 and belonging to PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A.

\*\* Here, the 2010 and 2009 impacts are shown, including the business units sold in 2010 and belonging to PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A.) and Broadband Solutions S.p.A.

As previously stated at the beginning of this chapter, PIRELLI is firmly dedicated to promotion of the principle of equal employment opportunities, by implementing the provisions of the Group Equal Opportunities Statement every day worldwide.

Women, especially in the industrial segment, represent 5% of blue collar workers at the Group, the category in which most PIRELLI employees are classified. Considering the substantial predominance of males in the Company workforce, as well as implementation of the same operating and management procedures at all Group factories through exportation of a best practices system based on continuous training and the most severe legislation in favour of workers, regardless of an employee's gender, reporting the indices required by the LA7 indicator of GRI - G3.1 according to a breakdown by gender is not material.

#### Fatalities

No PIRELLI employee or employee of outside contractors working at the Group's operating sites suffered a fatal accident in 2011.

#### Best practices

Within the scope of PIRELLI Tyre, the year-on-year reductions in the frequency index at four production sites are as follows: New Turin Industrial Centre, Bollate, Sumarè and Merzig, with values close to 50% and, in the case of the New Industrial Centre, close to 60%.

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

#### 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 0.07 in 2011.

	FI OCCUPATIONAL DISEASES		
SCOPE	2011	2010	2009
Tyre (Total: Industrial + Commercial)	0.07	0.26	0.29
Other Businesses (Corporate + Eco Technology + Ambiente + P Zero)	0.00	0.00	0.00
<b>PIRELLI TOTAL (*) (continuing operations)</b>	<b>0.07</b>	<b>0.25</b>	<b>0.28</b>
Result of discontinued operations (**)	0.00	0.00	0.00
<b>PIRELLI TOTAL (continuing operations + discontinued operations)</b>	<b>0.07</b>	<b>0.25</b>	<b>0.27</b>

\* The 2011-2010-2009 figures are shown on a comparable basis and thus do not include the business units sold in 2010 and belonging to **PIRELLI & C. Real Estate S.p.A.** (now **Prelios S.p.A.**) and **Broadband Solutions S.p.A.**

\*\* Here, the 2010 and 2009 impacts are shown, including the business units sold in 2010 and belonging to **PIRELLI & C. Real Estate S.p.A.** (now **Prelios S.p.A.**) and **Broadband Solutions S.p.A.**

**HEALTH AND SAFETY EXPENDITURE**

In 2010 health and safety expenditure by **PIRELLI Tyre** totalled euro 12 million.

**PIRELLI Tyre Expenditure (millions of euros)**

- ▶ 2009 10.0
- ▶ 2010 14.1
- ▶ 2011 12.2

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

ACHIEVEMENT OF 2011 HEALTH AND SAFETY OBJECTIVES		
QUANTITATIVE:		
2011 – 2013	FI reduction at Pirelli Tyre industrial as specified in the strategic plan	satisfied
2011	Organisation of first Pirelli HSE WEEK at all sites worldwide	satisfied
QUALITATIVE		
2011	Definition of a new Group standard for maintenance activities	satisfied
2011	OHSAS18001 certification of the Eco Technology plant in Bumbesti, Romania	satisfied
2011	OHSAS18001 certification of Guacara plant in Venezuela	underway
2011	“Safety Bulletin” of leading safety indicators	satisfied

## HEALTH AND SAFETY TARGETS

### Quantitative - 2012-2015

- ▶ Reduction in Frequency Index of accidents in accordance with Industrial Plan:  
In 2015 the target is -60% compared with the 2009 figure

### Qualitative – 2011-2012

- ▶ Consolidation of new POWRA (point of work risk assessment) tool for maintenance activities
- ▶ Integration of HSE module in Process Kaizen Engineer training process
- ▶ Definition of a Group standard for HSE non-monetary rewarding

## HEALTHCARE ASSISTANCE DURING WORKING HOURS

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.

## PREVENTION CAMPAIGNS

Once again in 2011, 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

### 4.2.1 Relations with institutions and public authorities

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

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

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

*The PIRELLI Group does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation."*

(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 public decision-making process.



*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.*

When it develops its institutional relations, PIRELLI begins by carefully analysing the legislative and regulatory context, in order to determine possible implications of interest. In order to guarantee the most adequate comprehension of the activities performed and interests represented, institutional interlocutors are engaged through a constant flow of information about the industrial identity of PIRELLI, its principal business activities, the development of new process and product technologies, and elements of economic, environmental and social sustainability.

Accordingly, PIRELLI also promotes and undertakes numerous projects and initiatives in collaboration with institutions to support issues of public interest that are specifically related to road safety and other issues concerning social and environmental sustainability.

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

In Italy, the Group interacts in a system of relations involving numerous 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 specialised information and 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 dedicates special attention to relations with governmental bodies in the Regions of Piedmont and Lombardy, where PIRELLI owns major production plants.

The issues that are studied in greatest detail during meetings with public institutions have included, inter alia, industrial development projects, appropriate initiatives and procedures for improving road safety, concerning the use of tyres, employment,

and various opportunities for financing investment, scientific research and technology projects.

On March 19, 2011, the President of the Italian Republic, Giorgio Napolitano, and his wife Clio, accompanied by the Chairman of the Board of Directors of PIRELLI, Marco Tronchetti Provera, visited the new industrial technological centre at Settimo Torinese, where PIRELLI has operated for over 60 years. Other participants during this visit included the President of the Region of Piedmont, Roberto Cota, the President of the Province of Turin, Antonio Saitta, the Mayor of Settimo Torinese, Aldo Corgiat Loia, and the Prefect of Turin, Alberto Di Pace.

On May 19, 2011 the Group Chairman, Marco Tronchetti Provera, appeared before the Fifth Parliamentary Select Committee for the Budget, Treasury and Planning of the lower house of Parliament as part of the study "on effective spending and policies in support of underutilised areas," illustrating the history of construction of the Settimo Torinese Industrial Centre and describing its characteristics.

At the lower house of Parliament on October 6, 2011, a protocol of understanding between PIRELLI, the Home Affairs Ministry and the Education, University and Research Ministry was signed for the development of joint activities aimed at reducing road accidents. During the ceremony at the lower house of Parliament, an educational video on highway safety was presented. This video was produced in collaboration with the National Police and targets high school students.

Relations with European institutions – the European Commission, Council and Parliament – are also considered extremely important. Here again, activities are characterised by maximum transparency and fairness in view of participating in the process of making adequate and informed legislative choices through the distribution of specialised information and analyses. The PIRELLI Group is entered in the European Transparency Register, established and managed by the European Parliament and European Commission in view of further improving transparent decision-making in the European Union.

PIRELLI has operated for over a century in various regions around the world. This has meant constant management of institutional relations that are expressed in all nations

where the Group has industrial interests. In view of promoting widespread institutional involvement in development processes, PIRELLI sponsors meetings, projects and public initiatives with its principal institutional interlocutors.

In Mexico City in April, PIRELLI Group Chairman Marco Tronchetti Provera, accompanied by Chief Operating Officer Francesco Gori, presented the new project for the high-end tyre production plant for the NAFTA market to the President of Mexico, Felipe Calderon. Subsequently, the Governor of the State of Guanajuato presided at the cornerstone laying ceremony for construction of the new plant at Silao.

On August 30, 2011, Romanian Prime Minister Emil Boc inaugurated the PIRELLI tyre factory expansion at Slatina together with Group Chairman Marco Tronchetti Provera. The ceremony was attended by the Italian Ambassador to Bucharest, Mario Cospito, the Romanian Secretary of State for Finance, Bogdan Dragoi, the Secretary of State for Economic Affairs, Karoly Borbely, the Prefect of the Olt Region, Leonid Moisiu, and the Mayor of Slatina, Darius Valcov. The following day, Marco Tronchetti Provera illustrated the activities and developments of PIRELLI's industrial presence in Romania to President Traian Basescu.

During a meeting held in Buenos Aires in November 2011, at the Residencia Presidencial de Olivos, the Argentine President, Cristina Fernández de Kirchner, the Minister of Industry Débora Giorgi, and PIRELLI Chairman Marco Tronchetti Provera announced the project to build a new plant for fabrication of radial truck tyres. The site aims to reinforce the leadership already held by PIRELLI in South America and is part of the strategy that over the last several years has seen its direct industrial presence steadily increase in markets that, like Argentina, are characterised by higher growth rates and competitive industrial costs.

#### 4.2.2 Principal international commitments for sustainability

Certain 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.

#### SOCIAL DIMENSION

Under the chairmanship of Francesco Gori, Chief Operating Officer of PIRELLI, ETRMA worked intensively during 2011 in response to unprecedented regulatory changes in Europe, in order to complete drafting of the exact procedures for implementation of new regulations.

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

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

The Association, with the institutional support of the Group, is the principal partner of EU institutions for development of new regulations for the sector and rules for implementing them, with the aim of harmonising their adoption in all EU countries. In parallel, ETRMA stimulates those countries to develop policies for monitoring the compliance of tyres in the EU market with EU regulations.

In addition to playing an active role in finalising the new "Europa 2020" strategy, aimed at defining European Union action in the economic and social fields over the next decade, ETRMA and its Chairman have been invited to participate in relaunching CARS 21, the official advisory body of the European Commission, and contribute to the development of proposals that can guarantee the competitiveness of the European automotive industry.

In accordance with the commitments made upon signing the European Highway Safety Charter, ETRMA is continuing its programme to raise awareness of highway safety and sustainable mobility.

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

**WBCSD – WORLD BUSINESS COUNCIL  
FOR SUSTAINABLE DEVELOPMENT**

PIRELLI actively participated in the WBCSD – World Business Council for Sustainable Development once again in 2011. Headquartered in Geneva, this is an association of about 200 multinational companies based in over 30 countries that have made a voluntary commitment to link economic growth to sustainable development. PIRELLI Tyre is an active member of the Tire Industry Project, the project launched in 2005 to identify, from a sustainable development perspective, the potential impact on health and the environment of the materials associated with the manufacture and use of tyres. This project focuses on raw materials and tyre debris. It aims to further the development of knowledge and devise a new industrial approach that will not only meet but even anticipate the challenges of sustainable development. The 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.

**EUROPEAN OCCUPATIONAL SAFETY  
AND HEALTH AGENCY (EU-OSHA)**

PIRELLI continued acting as official partner of the European Occupational Safety and Health Agency (EU-OSHA) in 2011.

The Agency confronts a different problem every two years. In 2010 and 2011, the theme was Safe Maintenance. Its aim was to raise worker awareness of the importance of maintenance, and the risks of accidents stemming from not performing it correctly.

PIRELLI engaged participation by maintenance staff at all production sites, by organizing specific training days on the topic.

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

This partnership will continue in 2012-2013. The new campaign will focus on lead-

ership in the field of occupational health and safety, which is fundamental to involving everyone at the Company in reducing workplace accidents.



**CSR EUROPE**

PIRELLI acts as deputy chair of CSR Europe, and has been delegated 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 27 national partner organisations in 23 European countries. CSR Europe functions as the European platform for 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 di CSR Europe initiative as an example of business leadership that is particularly material 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.

The Multiculturalism Workshop has created the toolkit Multiculturalism, an Asset for Business. A *Comparison of Experiences and Programmes: Stimulus for Improvement of Company Life*. The Equal Opportunities Workshop produced a toolkit entitled Practising Gender Equality in Careers.

#### SIGNING OF THE 2°C CHALLENGE COMMUNIQUÉ

In 2011 PIRELLI continued its commitment to climate change, both by pursuing its own objectives to reduce CO<sub>2</sub> emissions, and through signing of the 2°C Challenge Communiqué.

Together with other business leaders, the company has signed the Corporate Leaders' Group on Climate Change, a programmatic document first drafted at Cambridge University on initiative by the Prince of Wales. Since the beginning, it has aimed at bringing together the biggest British, European and international business enterprises that share the conviction that new long-term policies are indispensable for dealing with climate change.

#### SOCIAL DIMENSION

The 2°C Challenge Communiqué invites to break the stall in international negotiations and take the necessary measures at the national level to guarantee sustainable growth and a climate-friendly economy.

In 2010 PIRELLI signed the Cancun Communiqué, after having signed the Copenhagen Communiqué in 2009 and the Bali Communiqué in 2007, which was the first document for development of concrete strategies through joint government action to reach a comprehensive global agreement on the climate.



#### 4.2.3 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 Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment, PIRELLI has developed a global strategy for protection of the territory, supporting health, education and training, environmental, cultural and sport initiatives.

The principal initiatives undertaken in 2011 are documented as follows.

#### 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 Asilo Nido Dr. Klaide in Santo André. 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 Romania the employees of PIRELLI Eco Technology organised themselves with Christmas gifts for disabled children at the Complexul de Servicii Comunitare PT. Copilul Cu Handicap centre at Targu- Jiu. In Turkey PIRELLI has supported the Foundation for the Training and Protection of Mentally Handicapped Children (ZIÇEV) by covering the cost of gas to heat the centre. Türk PIRELLI Tyres has also supported Bizimköy – Handicapped People Manufacturing Centre, a training and employment for disabled persons, by covering the cost of constructing new buildings. In China PIRELLI has supported the neediest families amongst its employees by offering money and food. In Germany PIRELLI has supported a centre to feed the poor and an association for poor people, as well as a hospice for children and the Red Cross. In Venezuela PIRELLI has organised donations for toys given to needy children.

In 2011 PIRELLI rallied all its employees in response to the serious emergency resulting from the tsunami in Japan. After the campaigns “My Time for Haiti” and “My Time for Indonesia,” PIRELLI launched “My Time for Japan,” another solidarity initiative that stands out for the mobilisation of co-workers and company together and direct involvement in choosing the destination of the project.

It was not easy to determine what solidarity project to which this money was to be donated. PIRELLI targeted children and their hunger for “food for the soul,” and their need to overcome the traumas and difficulties of a post-earthquake world.

With the aid of the UNHCR, United Nations High Commission for Refugees, which had already proved itself to be a valid partner in the project “My Time for Haiti,” PIRELLI made contact with SVA – Shanti Volunteer Association, an international NPO active in various regions of Asia, and particularly in the areas devastated by the earthquake in Japan. SVA proposed financing the community building project of “traveling libraries,” already tested with great success in other Asian countries in similar situations. With the traveling libraries, the volunteers create initiatives to bring together child victims of the earthquake and also engage their families, many of whom live in temporary housing. With the funds collected as part of the

“My Time for Japan” campaign, a vehicle was purchased for use as the traveling library, as well as thousands of books.

Destination: 32 stations in Iwate Prefecture, one of the areas devastated by the earthquake, Yamada Town, Otsuchi Town, Ofunato City and Rikuzentakata City, reaching a total of 2,500 children.

## HEALTH

PIRELLI considers contributing to improvement in 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, supports the professional training of medical and nursing professionals and the donation of medical equipment and devices to the Slatina Hospital. Over 100 professional who annually take care of more than 40,000 patients were trained in this programme. Together with two other companies operating at this location, PIRELLI Tyres Romania covered the costs for that hospital's 2011 audit. PIRELLI Tyres Romania has also provided for the dental care of 360 children in Slatina and Bals with the Overland for Smile project. Since 2010 PIRELLI supports the Hospital Pequeno Principe in Curitiba, the biggest paediatric hospital in Brazil. In 2011 it focused resources on treating high-risk patients. In the United Kingdom, PIRELLI has supported fund-raising events for Sheffield Children's Hospital, Burton Hospital, Rainbows Children's Hospice and Temple Street Children's Hospital, Dublin. As part of its sponsorship of Formula 1, PIRELLI UK Tyres Ltd. has made a commitment to support the not-for-profit Great Ormond Street Hospital Children's Charity. In July the Company co-sponsored a benefit party on behalf of the Charity and, coinciding with the Silverstone Grand Prix, donated all proceeds from the PIRELLI Activation Area to it. This commitment has been renewed for the 2012 season. Moreover, PIRELLI employees in various parts of the world have donated their blood to health-care institutions.

In 2011 PIRELLI has also supported Emergency, a neutral Italian non-governmental organisation created to offer free, high-quality medical and surgical care to war, landmine and poverty victims. PIRELLI has given its support to the Salam Heart Surgery Centre in



Khartoum, Sudan, which was opened by Emergency in 2007 to provide free, highly qualified care to patients suffering from congenital and acquired cardiovascular diseases treatable by surgery, particularly rheumatic-origin heart valve pathologies whose development is often linked to poverty and the lack of basic care. PIRELLI has covered the travel and care costs of 145 paediatric patients and adolescents suffering from heart disease who visited the Khartoum Centre from 18 African countries.

### 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. In Turkey the company supports the Türk PIRELLI Primary School and Türk PIRELLI High School with ad hoc initiatives such as renovation of the kindergarten and library, career day, and others. PIRELLI offers school and university scholarships in various countries, from Italy to Venezuela, and from Romania to Spain. The Company offers internships, finances student projects like "Formula Student" in Spain for the construction of a racing car, and promotes international exchanges between students (like the programme for Romanian students in Qatar). In Germany PIRELLI supports the association of women engineers. In Turkey it made a donation to the European College. 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. At the same time, it will support research on Confucianism by subsidizing the China Confucius website and "Confucius Culture Month" activities. PIRELLI also continues cooperating with the University of Shandong in China and the University of Craiova in Romania, among others.

### SOCIAL DIMENSION

In Venezuela, the programme "Time for Reflection" has received an extremely positive response, by offering lessons on various topics open to the community.

PIRELLI also is accustomed to promoting training projects on traffic and tyre safety issues for law enforcement officers in Italy and around the world. In Turkey, the Company is also involved in preparing bus drivers on traffic related topics.

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, certain NGO's (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 kids and offers them useful vocational technical training. In Egypt, PIRELLI is launching a major project to promote an industrial technique training school in the community of El-Nahda, in collaboration with CDS (Centre for Development Services).

### 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. Two Inter Milan football players Esteban Cambiasso and Javier Zanetti, set up the project "Leoni di Potrero – Calcio per tutti" (Potrero Lions – Soccer for Everyone) several years ago. It is a free training centre in Milan that is supported by PIRELLI and targeted at children between 5 and 12 years of age. The objective is to participate in the development of young students, by fostering positive values such as friendship, loyalty, fidelity, respect and tolerance. This represents a way to teach the concept of integration to children from different social classes, working to prevent negative situations like isolation and loneliness.

But PIRELLI also sponsors baseball in Venezuela with the PIRELLI Baseball School, with over 300 children and teenagers enrolled, basketball, volleyball, soccer and cycling in Brazil, dance, golf and horseback riding in Germany, and basketball in Turkey just to mention a few.

One hundred youths in the black community of Cape Town will develop their sailing talent with a contribution from PIRELLI South Africa. The Company has sponsored the Izivungu Sailing School in Simon's Town, the first sailing school in South Africa created to offer disadvantaged kids an opportunity for personal and professional growth through education in the values and techniques of sailing. Founded in 2001, the school is supported by the South African Navy. The youths "sponsored" by PIRELLI will train at two "sailing bases" according to different programmes. Most of them will train at the head school in Simon's Town, at the naval base, while ten of them will be admitted to the school in Cape Town, which is reserved to those who have already reached a certain level of skill.

PIRELLI, as is now customary in its strategy of setting down deep local roots, has focused on soccer in New York as well, where it has contributed to the soccer project of the Citizens Committee for New York City.

Since 2008 FC Internazionale Milano, PIRELLI and Comunità Nuova have operated the "Inter Campus" social project in Slatina, Romania. Sports and recreational activities are organised for the whole year, with the participation of over 80 children from different social backgrounds. Through soccer, they have been learning the values of teamwork, social integration and the importance of friendship. An annual football tournament is organised in July, at the end of the sports year, for children at the Campus and for children from Slatina. In August, the children at Inter Campus Slatina were able to play soccer with Prime Minister Emil Boc, who made a special visit to the PIRELLI factory.

In 2012 PIRELLI and F.C. Internazionale Milano intend to repeat this experience with Inter Campus in Silao, Mexico, close to the new PIRELLI factory.

The Fondazione Pirelli,  
driver of business culture

The Fondazione PIRELLI (PIRELLI Foundation) was established in 2009 to provide continuing, holistic and authoritative support for the business culture espoused by the Group. Its guiding principle is to promote the creativity of new generations of artists and researchers, offer a platform for the thought that links tangible industrial experience with the historic memory of the Company, while promoting the value of current experience as it gradually becomes history.

In 2011 visits to the Foundation increased significantly to attend the usual round of conferences, seminars and training courses: over 5000 persons (40% more than in 2010) representing schools, institutions, associations, entities, corporate museums, foundations and customers. The number of users at the historic archive (researchers and students) also increased significantly from 2010, by about 10%.

An emblematic example of the steady consolidation of the PIRELLI Foundation in the socio-cultural fabric of the Bicocca site has been the success (about 500 participants) at the event "Special Opening" held on November 26, 2011, when the Foundation promoted an open day for public visits to the site, to the Bicocca degli Arcimboldi and the Hangar Bicocca. These sites comprised a three-stage visit to the heart of PIRELLI culture, between traditional sites and contemporary life.

The same strong signal of consolidation can be found in the continuous increase since 2011 of access to the site www.fondazionepirelli.org, which has undergone incessant restyling and fine-tuning of its functions, culminating with its complete overhaul in November.

Of all the activities that report to the PIRELLI Foundation, management and improvement of the Historic Archive have always been a top priority.

Among current activities, restoration work continued in 2011 on the total of 240 original advertising sketches that represent one of the most valuable assets of the Archive. Work also continued on organising and digitalising the photographic archive, involving over 3,500 images of fashion and car racing

subjects. Two hundred fifty feature length films were restored in the audio-visual section in collaboration with the Fondazione Cineteca Italiana in Milan.

This last activity enabled the PIRELLI Foundation to make the DVD "PIRELLI in 35mm": a selection of films that tell the history of corporate communication from 1912 to the end of the 1970's, from historic documentaries to advertising films and advertising hour clips ("Caroselli"). "PIRELLI in 35mm" was presented on November 27, 2011 at the Spazio Oberdan in Milan, as part of the Business Culture Week.

Another event in the field of industrial cinema and initiatives organised during the Business Culture Week was participation by the PIRELLI Foundation in the 11th Industrial Cinema Day. On that occasion, a conference was held in collaboration with the Industrial Cinema Archive, entitled "I volti della PIRELLI: comunicazione e identità nella storia di una grande impresa" ("The Faces of PIRELLI: Communication and Identity in the History of a Great Company"). About 100 students participated.

Among the other activities organised by the Historic Archive in 2011 was the completed digitalisation of the entire collection of the magazine Rivista PIRELLI, which is now entirely available online at the Foundation site. This accomplishment was accompanied by continued computer cataloguing of the archive Storia delle Industrie PIRELLI ("History of PIRELLI Industries") on the standardised GEA system together with the restored sketches and about 400 technical drawings produced by the Tyre Sector between the 1950's and 1970's.

In April, a partnership agreement was signed between the Fondazione ISEC in Sesto San Giovanni and PIRELLI for promotion of a series of initiatives aimed at distributing the business culture of the national socioeconomic system. On this basis, the PIRELLI Foundation transferred of the technical and scientific library to its own Historic Archive. In view of exploiting this heritage, the Fondazione ISEC will participate on cataloguing the over 20,000 volumes (published between the end of the 19th century and now) held by the library.

Tyres have a soul

Fashion and car races were the stars in 2011. These two themes were the ideal guideposts for the initiatives organised by the PIRELLI Foundation over the entire year.

Between June 20 and July 24, the Milan Triennale hosted the exhibition L'anima di gomma. Estetica e tecnica al passo con la moda ("The Tyre's Soul: Aesthetics and Technique in Step with Fashion"). Organized by the PIRELLI Foundation and visited by over 15,000 persons in one month, "Tyre's soul" aimed to recount – through the display of original sketches and multimedia installations – the history and advertising communication PIRELLI brand fashion, from the Company's foundation at the end of the 19th century to the present day, arranged around the theme of research applied to materials and processes. The lead player here is rubber, so versatile as to be a tyre or elastic thread, fabric or a commonly used object.

The success realised by the Milan exhibition meant that "Tyre's soul" was approached as a "case history" at the meeting held in Venice in November on design and fashion company archives.

In 2011, the return of PIRELLI to Formula 1 necessarily focused the spotlight on the world of tyres and car racing.

The About a tyre photography exhibition opened at the Foundation PIRELLI in April. An installation comprised of 22 visual works was realised by 15 students enrolled in the photography course of NABA-Nuova Accademia delle Belle Arti in Milan, where PIRELLI asked to interpret the corporate values of its core business, from safety to speed and eco-sustainability. This installation attracted about 2,000 visitors.

Concurrently with the initiatives organised for the Monza Formula 1 Grand Prix, the exhibition "Si va che è un incanto...PIRELLI, storie di gare, piloti, sfide e successi" ("It Drives Like a Dream...PIRELLI, Stories of Races, Drivers and Successes") was opened in September. Seven sections – arranged along the virtual route of the Monza race track traced out in the Open Space of the Foundation – covered the history of PIRELLI participation in car races. The exhibition featured the most beautiful and significant images and documents to recount over a hundred years of races held under the "P lunga" PIRELLI logo.



The exhibition was opened together with the event *The invisible heart of a tyre* that accompanied presentation of the new PZero Silver tyre, which was created specifically on the basis of PIRELLI experience with Formula 1. On the special stage set up in the Bicocca Hangar, the invisible heart of the tyre was recounted by economists, actors, race car drivers and technicians, revealing to the public an industrial reality that is as fascinating as it is complex.

Tyres took centre stage yet again at the end of the year, as part of the *Business Culture Week*. In Milan on November 24, a meeting was held at Assolombarda with the title *Gli oggetti che hanno fatto la storia* ("The Objects that Have Made History"). The PIRELLI Foundation participated with two tyres – the one that won the Peking-Paris Rally in 1907 and a modern PZero slick used in Formula 1 racing – to lead the young people attending the event through a course to comprehend the past and interpret contemporary economy and society.

#### Promotion of a work culture

Apparel and tyres are the final, tangible result of a long, complex process that can be easily summed up in just one word: work. It can also be summed up by its place: the factory.

In September 2011 nearly seven hundred persons attended the orchestral concert *I pomeriggi musicali* ("Musical Afternoons") promoted and sponsored by the foundation as part of the event *MiTo Settembremusica*. This performance was staged against the backdrop of the profound transformations in relations and languages that have roots in the 20th century and prefigure our contemporary world.

The central role of the factor as the place where business culture is made was once again confirmed by completion of a vast project – begun back in 2010 – to collect testimonial documentation from employees at the Settimo Torinese factories. The PIRELLI Foundation and the director Serena Sinigaglia drew inspiration from the several thousand pages comprising the final document to create the stage piece *Settimo. La fabbrica e il lavoro* ("The Factory and Work") was staged at the *Piccolo Teatro* of Milan in February 2012. It will be followed by publication of a volume by Laterza of the research results.

The industrial modernity of Settimo Torinese is the immediate icon of the company's capacity to create industrial culture. However, it is in turn part of a broader narrative of work: a narrative that from the new industrial centre in Turin dates back to the Milano Bicocca complex, where PIRELLI has its industrial roots. *Cultura dove sei? ("Culture, Where Are You?")* is the title of the conference that the PIRELLI Foundation held in May 2011 in collaboration with the *Museum of Contemporary Photography* in Cinisello Balsamo, with the aim of analysing the types of places where culture is disseminated and enjoyed, particularly in view of development of the Bicocca area as a cultural district. Over one hundred professional photographers and others in the photography business participated.

Development of the Bicocca cultural district explains the participation by the PIRELLI Foundation as lead manager of the *Cariplo Call for Entries, Valorizzare le attività culturali come fattore di sviluppo delle aree urbane* ("Promoting Cultural Activities as a Factor for Development in Urban Areas") by jointly presenting with the *University of Milan Bicocca* a project for territorial development entitled *Doppia c/Cultura e crescita. Progetti e strategie di sviluppo culturale e artistico per il miglioramento della qualità della vita di abitanti e city users dell'area metropolitana Milano /NNE* ("Double c/Culture and Growth. Projects and cultural and artistic development strategies for improving the quality of life of inhabitants and city users in the metropolitan area of Milan /NNE").

The commitment to education at all levels must also be construed as part of the "work culture" pursued by the PIRELLI Foundation.

Since 2010 the Foundation has had a seat on the Board of Trustees of the *Scuola dell'Infanzia G.B. PIRELLI* nursery school in Varenna, Province of Lecco. It is also active in supporting the activities of the *Istituto di Istruzione Superiore "Leopoldo Pirelli"* high school in Rome. Collaboration with this latter school led in 2011 to establishment of the first Premio Leopoldo Pirelli prize. This consists of a euro 5,000 scholarship earmarked for students have particularly distinguished themselves for merit over the year.

Since 2009 the PIRELLI Foundation has been a partner, together with the *Fondazione Agnelli* and the *Fondazione Edoardo Garrone*, of the *Associazione per la Formazi-*

one d'Eccellenza (Association for Training in Excellence). This is a non-profit association whose purpose is to promote and encourage excellence in education and training to meet the demands and prospects of the working world, research and business. The experience of this association has led to foundation of the Scuola di alta formazione al Management (Management Specialisation School) in collaboration with the Collège des Ingénieurs.

#### Support for art

The PIRELLI Foundation operates in the tradition carried forward by the PIRELLI Group for one hundred forty years, by sponsoring initiatives in favour of the external community, aware that it plays a key role in the promotion of business culture and civil progress in all communities where it operates. For this reason, the Group realises and supports initiatives for the diffusion of education and culture, promotion of the arts, solidarity, protection of human rights and improvement of the living conditions of local populations. A series of activities are carried out in collaboration with public institutions and local private partners that are chosen according to criteria designed to guarantee a high standard of quality, and which are promoted amongst PIRELLI employees over the intranet.

So, support for art and culture are part of the Group's own tradition. So, it was in this sense that the institutional partnership between the PIRELLI Group and the Triennale di Milano continued in 2011. This involves co-operation between two historic institutions in Milan: the Triennale on the one hand – Milanese by birth and one of the world's greatest institutions in the field of visual arts and architecture – and the PIRELLI Group on the other, one of the business enterprises that have contributed the most to development of graphics not only in Italy but in the world.

The support that PIRELLI gives to a cultural project must always satisfy the base requirements of being authoritative and prestigious, as well as being consistent with the core business of the Group. In other words, it must satisfy the vocation for innovation, research, development of new technologies and investment in young people. This is the case of the historic partnership with the Pi-

nacoteca di Brera art museum, where PIRELLI has not limited itself to financing a series of restorations but has also supported the development of an innovative restoration technology – designed by Ettore Sottsass – capable of making it possible to execute publicly the long process of restoring a work.

On March 15, 2011 PIRELLI purchased from Prelios the Bicocca Hangar and art works installed there, "The Seven Celestial Palaces" by Anselm Kiefer and "La sequenza" by Fausto Melotti, thereby becoming sponsoring founding member of the Fondazione HangarBicocca, of which Marco Tronchetti Provera was named Chairman. Together with the other members of the Foundation, the Region of Lombardy and the Milan Chamber of Commerce, PIRELLI aims to relaunch HangarBicocca as a focal point for international contemporary art and position it as a cultural centre rooted in the territory of Greater Milan, in keeping with the PIRELLI tradition of operating as a multinational company with deep roots in Milan. HangarBicocca consequently stands as an example of public-private collaboration, for stimulation of artistic creativity and enriching national cultural heritage with innovative choices.

The fifteen thousand square metres at HangarBicocca, open to visitors beginning April 2012, feature renovated spaces, a new image, more functional area for exhibition and cultural activities: from the new space dedicated to children to the interactive multimedia wall, and the multipurpose area for workshops and conferences. But that is not all: the changes also involve extended evening opening hours, free admission, continuing education activities, personnel prepared to explain the themes presented at the exhibition, visual, informative and popularising material created with a new graphic format.

Support for art and support for the environment. For years PIRELLI has been associated with the FAI-Fondo Ambiente Italiano, with which it collaborates on various initiatives aimed at education and protecting the environment and Italian artistic heritage. In this ambit, between April and May 2011 PIRELLI sponsored the exhibition La mano del grafico for FAI, an exhibition of over 360 autograph drawings and sketches by 107 of the most authoritative Italian and international graphic artists donated to the Fondo Ambi-

ente Italiano. At the end of the exhibition, the FAI organised a charity benefit auction of the displayed sketches, and then donated the proceeds to restoration of Villa Necchi Campiglio and the Biblioteca del Castello di Masino library.

The PIRELLI approach to culture is also realised in its collaboration in the world of stage theatre. In 2011 PIRELLI renewed its historic ties with the *Teatro Franco Parenti*, a theatre founded in 1996, when the Group decided to participate in the creation of the Fondazione Pier Lombardo. This foundation was established to support the growth of one of the most active, firmly rooted theatres in Italy.

The previously mentioned production in February 2012 of the theatre piece "*Settimo. La fabbrica e il lavoro*" has reaffirmed the participation of PIRELLI, as supporting partner, at the *Piccolo Teatro di Milano*, in view of focusing the Group on cultural topics with local roots. The partnership between PIRELLI and the Piccolo Teatro dates back to 1947, when PIRELLI became a supporting member of the first permanent public theatre in Milan. Now the Piccolo Teatro operates worldwide.

In celebration of the 150th anniversary of the Unification of Italy, an event was held between March and April 2011 entitled "*Lezioni di storia. L'Italia prima dell'Italia*" ("*History Lessons. Italy before Italy*"), a series of nine free lessons dedicated to the most important events that led over time to the birth of Italy. After "Milano 900" in 2010, PIRELLI decided to be one of the sponsors of this event in 2011, created by the publisher Laterza, and intends to renew its commitment again in 2012.

Art and culture is also supported in Brazil, and particularly the *Museu de Arte Moderna (MAM)* in São Paulo. A very important photographic exhibition is scheduled for 2012: exhibition of the PIRELLI MASP Collection, one of the most important photography collections in Brazil, at the Museu de Arte de São Paulo (MASP). PIRELLI also supported the Italian cinema week in Brazil, the *Mozarteum* orchestra, and the staging of a play by Pirandello.

In Turkey, PIRELLI sponsors the *Istanbul Culture & Art Foundation* for cultural and artistic activities. In Germany PIRELLI supports a music festival for young people. And in Romania PIRELLI sponsors the Slatina theatre and the Romania-Italia Cultural Institute.

As part of the celebrations for the 150th anniversary of the Unification of Italy, PIRELLI decided to support recovery of the statue donated by Italy to Mexico City in 1968. That was the year the Olympic Games were held in Mexico, on occasion of which Italy donated the Consantino Nivola work "*Hombre de Paz*," as part of the "*La Ruta de la Amistad*," i.e. "The Path of Friendship," a complex artistic and cultural project that marked the constant link between two countries that was bound to last and grow through the contribution made by the many Italian companies that operate in Mexico. This initiative, which falls in the scope of a broader plan for urban renewal of the city, supported by Italy, received support from PIRELLI for the placement of a statue in a big garden traversed by a 25-metre long gangway that allows visitors to view Costantino Nivola's work and at the same time enjoy the protected species that blossom in spring, and the complex of volcanic rocks from 2,000 years ago, without sully the environment.

Art triumphed on Friday, September 16 in Bucharest, courtesy of PIRELLI Romania, which restored *Susanna e i vecchioni*, a masterpiece of Seicento Italian painting by Alessandro Varotari, "Il Padovanino."

PIRELLI supported the restoration of this important art work, which was meticulously and patiently carried out by specialists at the *Bucharest Art Museum*, who completed this complex project in the record time of almost three months.

The President of the Republic of Italy, Giorgio Napolitano, on a two-day state visit to Romania, attended this event at the Bucharest National Art Museum.



# 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 A, B, C
Strategy and Analysis		1.1 - 1.2	Volume A page 9+13; Volume C pages 18-19; 23-24; 31+41
Organisational Profile		2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10	Volume A - Data highlights page 2; Volume B page 31; Volume C page 23
Report Parameters	Report Profile	3.1, 3.2, 3.3, 3.4	Volume A page 3; Volume C page 15
	Report Scope and Boundary	3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11	Volume A page 3; Volume C page 15
	GRI Content Index	3.12	Volume C pages 148+150
	Assurance	3.13	Volume A pages 219+221; Volume C pages 152-153
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 B All; Volume C pages 26+31; 36+42
	Commitments to External Community	4.11, 4.12, 4.13	Volume C pages 52-53; 137+146
	Stakeholder Engagement	4.14, 4.15, 4.16, 4.17	Volume C pages 29+31; 42; 53+55; 55+65; 65+69; 74; 98; 118-119; 121+124; 124-125; 130-131; 135+139; 153

Volume A: Annual Financial Report at December 31, 2011; Volume B: Annual Report on Governance and the structure of Share Ownership; Volume C: Sustainability Report.

GRI - G3.1 PERFORMANCE INDICATORS

Area	Aspect	Indicators	Volumes A, B, C
Economic	Economic Performance	EC1, EC2, EC3	Volume A pages 199-200; Volume C pages 17-18; 24; 31+33; 43-44; 51+55; 67-68; 104; 134
	Financing from Public Administration	EC4	Volume C page 53
	Local Suppliers expenditure policies	EC6	Volume C pages 66+68
	Hiring procedures and percentage of local senior management	EC7	Volume C pages 113; 118
	Indirect economic impact	EC8	Volume C pages 51; 52
Environmental	Raw materials	EN1, EN2	Volume C pages 32; 67-68; 78-79
	Energy-water	EN3, EN4, EN5, EN6, EN7, EN8	Volume C pages 17-18; 33; 95-96; 99+101
	Biodiversity	EN11, EN12, EN13, EN14	Volume C pages 96+99; 104
	Emissions, Effluents and Waste	EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24*	Volume C pages 96+104
	Products and Services	EN26	Volume C pages 78+89
	Packaging	EN27	Volume C page 103
	Compliance	EN28	Volume C page 91
	Transport	EN29	Volume C pages 98-99
	General	EN30*	Volume C page 104

Labour Practices	Employment	LA1, LA2, LA3	Volume C pages 25; 109+116; 124-125
	Industrial Relations	LA4, LA5	Volume C pages 124+127
	Occupational Health and Safety	LA6, LA7*, LA8, LA9	Volume C pages 17; 19; 33; 120-121; 127+135
	Education and training	LA10, LA11	Volume C pages 17; 19; 33; 120-121; 131
	Diversity and equal opportunities, Equal Remuneration for Women and Men, Return to Work after Parental Leave and Retention Rate	LA12, LA13, LA14, LA15	Volume C pages 17; 19; 33; 42; 110+112; 113+117
Human Rights	Investment and Procurement Practices	HR1, HR2, HR3	Volume C pages 18-19; 27-28; 33; 40-41; 65+69
	Non-discrimination	HR4	Volume C pages 17; 19; 28; 33; 40-42; 113+117
	Freedom of Association and Collective Bargaining	HR5	Volume C pages 28; 40+42; 66; 69; 124+127
	Child Labour	HR6	Volume C pages 28; 40+43; 66; 69; 113; 126
	Forced and Compulsory Labour	HR7	Volume C pages 28; 40+43; 66; 69; 113; 126
	Assessment: Operations subject to human rights reviews or impact assessments	HR 10	Volume C pages 40-41; 69; 126; 139+142; 153
	Remediation: Reports received regarding human rights, handled and resolved by means of a formal reporting mechanism	HR 11	Volume C page 42
Company	Local Communities	SO1, SO9, SO10	Volume C pages 19; 30; 33; 52; 135+146
	Corruption	SO2, SO3, SO4	Volume C pages 27-28; 41-42; 53; 135-136
	Public policy, Anti-competitive behaviour	SO5, SO6, SO7	Volume A page 198; Volume C pages 30; 53; 135+137
	Compliance	SO8	Volume C page 53
Product Liability	Customer Health and Safety & product life cycle	PR1	Volume C pages 57-58; 62+65
	Product Information	PR3	Volume C pages 56+58
	Compliance with regulations and voluntary codes concerning Product information and labelling	PR4	Volume C pages 56-57
	Customer Satisfaction	PR5	Volume C page 59

	Programs for adherence to law, standards and voluntary codes related to marketing, advertising, promotion and sponsorship	PR6	Volume C page 56
	Compliance with regulations and voluntary codes concerning marketing activity, including advertising, promotion and sponsorship	PR7	Volume C page 56
	Compliance with laws and regulations concerning the provision and use of products	PR9	Volume C page 53

**Volume A:** Annual Financial Report at December 31, 2011; **Volume B:** Annual Report on Governance and the structure of Share Ownership; **Volume C:** Sustainability Report.  
 \* 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, 2, 3, 5, 6, 7	SO1
	Principle 2 – Business should ensure that they are not, albeit indirectly, complicit in human rights abuses.	HR1-2, HR10,11	
Labour Standards	Principle 3 – Businesses should uphold the freedom of association of workers and recognise the right to collective bargaining.	HR5, LA4-5, LA9	
	Principle 4 – Business should uphold the elimination of all forms of forced and compulsory labour.	HR7	HR1-3
	Principle 5 – Business should uphold the elimination of the effective elimination of child labour.	HR6	HR1-3
	Principle 6 – Business should uphold the elimination of discrimination in respect of employment and occupation.	HR4, LA2, LA7, LA12, LA13, LA14, LA15	HR1-2, EC5, EC7, LA3, LA4
Environment	Principle 7 – Businesses should support a precautionary approach to environmental challenges.	Profile disclosure 4.11	EN1, EN3, EN4, EN7, EN8, EN11, EN12, EN16, EN17, EN19, EN20, EN21, EN22, EN23, EN24, EN27, EN28, EN 29, EN30, EN2, EN5, EN6, EN10, EN18, EN26
	Principle 8 – Business should undertake initiatives to promote greater environmental responsibility.	EN1, EN3, EN4, EN8, EN11, EN12, EN13 EN16, EN17, EN19, EN20, EN21, EN22, EN23, EN24, EN27, EN28, EN 29, EN30	EC2, SO1
	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	SO5-6





# ASSURANCE STATEMENT



## ASSURANCE STATEMENT

### ASSURANCE STATEMENT OF PIRELLI & C. S.p.A. 2011 SUSTAINABILITY REPORT

SGS Italia S.p.A. was commissioned to conduct an independent assurance of Pirelli & C. S.p.A. 2011 Sustainability Report.

The information in the Sustainability Report is the exclusive responsibility of Pirelli & C. S.p.A. SGS Italia S.p.A. was not involved in the preparation of any of the material included in this document.

The responsibility of SGS Italia S.p.A. is to express an opinion concerning the information, the graphs, the tables and the statements included in the Report, within below mentioned assurance scope, with the purpose to inform all the interested parties.

SGS Italia S.p.A. affirms its independence from Pirelli & C. S.p.A., being free from bias and conflict of interests with the organisation, its subsidiaries and stakeholders.

#### Scope of Assurance

The scope of assurance agreed with Pirelli & C. S.p.A. includes the verification of following aspects:

- evaluation of the report against the Global Reporting Initiative Guidelines (GRI-G3.1), with reference to level A+;
- **accuracy of the data;**
- 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:

- "Our Suppliers",
- "Our Clients",
- and the section "Compliance with statutory and contractual obligations governing overtime, time off and bans against child and forced labour", within the chapter "Industrial Relations".

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 audit was carried out by conducting pre-assurance research, 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 audited by selecting, on a sample basis, qualitative and/or quantitative information, in view of confirming the accuracy and reliability of the process of collection and consolidation of data.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment.

Audit activities were carried out during February 2012 at the head office of Pirelli & C. S.p.A. in Italy and at several Group sites in Germany, Egypt and Venezuela.

The financial data correspond with the figures contained in the Annual Financial Report at December 31, 2011, which has already been certified by the Independent Auditor.

## Assurance Opinion

On the basis of our audit, we confirm that the information and data contained within Pirelli & C. S.p.A. 2011 Sustainability Report are reliable and accurate, reliable and provides a fair and balanced representation of Pirelli & C. S.p.A., and represents a key communication tool with Stakeholders.

In regard to compliance with AA1000 principles, the Audit Team issues the following opinion:

- **Inclusivity:** this is the foundation principle of AA1000, identifying how and to what extent an organisation listens and responds to the aspirations and needs of its stakeholders. We believe that Pirelli & C. S.p.A. engages in a constant dialogue with its stakeholders and through different communication channels. The engagement process of listening and responding varies according to the categories of Stakeholder. Pirelli has shown that it takes a proactive approach in the implementation of processes and procedures that can monitor and manage this relationship. We hope that the organisation will continue to adopt this approach.
- **Materiality and Responsiveness:** as has been noted in previous assessments, we believe that Pirelli & C. S.p.A. has adequately and extensively identified the material issues of interest to its Stakeholders and is capable of responding to them promptly. The voluntary agreements with institutions, signed by Pirelli, concerning environment and road safety, are positive examples of this approach.

With reference to the assurance of specified performance sustainability information, the audit team believe that the stated information is reliable and in compliance with AA1000 principles. Evaluation practices and supplier involvement in sustainability issues, as well as internal monitoring to assess the actual level of compliance of the production sites, especially those located in the "countries of concern," reflect the commitment of Pirelli to pursue enforcement of human rights, internally and along the supply chain.

Furthermore, we confirm that the framework of the sustainability model adopted by Pirelli & C. is in line with the requirements of the Social Responsibility Guidelines UNI ISO 26000. In this regard, it should be pointed out that the Sustainability Steering Committee is also responsible for the important issue of equal opportunities.

We confirm that the report satisfies the requirements of the GRI-G3.1 A+ application level with the following recommendations and suggestions for improvement:

The reporting principles used to define content and for ensure the quality of reported 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 organisation is invited to persevere in its constant process of revision and qualitative extension of the indicators.

Milan, March 29, 2012

SGS Italia S.p.A.

Paola Santarelli  
Systems & Services Certification  
Business Manager




**AA1000**  
Licensed Assurance Provider  
000-8

Marina Piloni  
Systems & Services Certification  
Project Leader











The illustration contained in the three volumes of the Annual Report  
are all the work of Stefan Glerum

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