

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.”*

(Values and Ethical Code – Sustainable Growth)

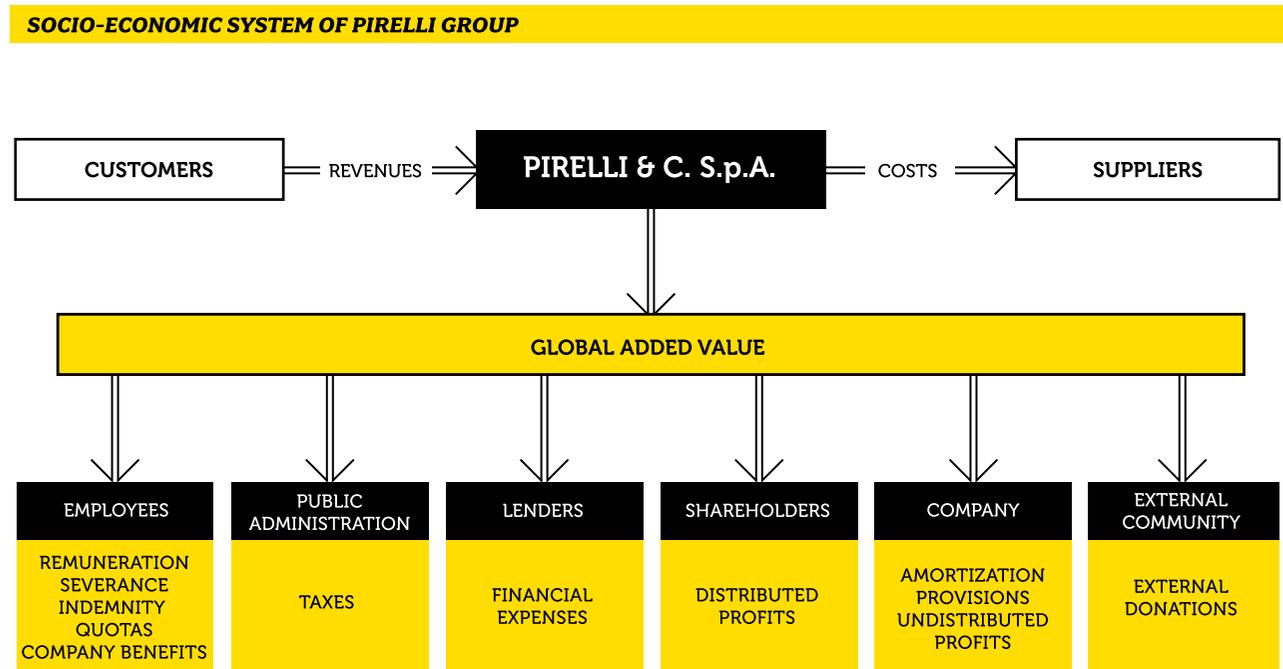
*“The Pirelli Group endorses and, where appropriate gives support to educational, cultural and social initiatives for promoting personal development and improving living standards.”*

(Values and Ethical Code – Community)

## ADDED VALUE

Added value means the wealth created over a given reporting period, calculated as the difference between the revenues generated and the external costs sustained in the period.

The distribution of added value between stakeholders enables the expression in monetary terms of the existing relations between Pirelli and the major stakeholders, thus shifting attention to the socio-economic system in which the Group operates, as shown in the diagram below.



The added value created by the Pirelli & C. S.p.A. Group in 2013, 2012 and 2011 is broken down as follows.

**BREAKDOWN OF ADDED VALUE** (in thousands of euro)

	<b>2013</b>		<b>2012</b>		<b>2011</b>	
<b>Global added value, gross</b>	<b>2,217,739</b>		<b>2,210,618</b>		<b>1,918,054</b>	
Remuneration of employees	(1,210,928)	54.6%	(1,205,608)	54.5%	(1,123,507)	58.6%
Remuneration of Public Administration	(210,392)	9.5%	(200,837)	9.1%	(34,457)	1.8%
Remuneration of borrowed capital	(195,832)	8.8%	(192,471)	5.9%	(89,440)	4.7%
Remuneration of risk capital	(156,743)	7.1%	(132,382)	6.0%	(81,151)	4.2%
Remuneration of the Company	(438,682)	19.8%	(537,259)	24.3%	(584,435)	30.5%
External donations	(5,162)	0.2%	(5,061)	0.2%	(5,064)	0.3%

The growth in added value created in 2013 is 0.3%, compared with 2012, and 15.6% vs 2011.

The trends of the items that determine total gross added value, as shown above, are explained fully in *Volume 01: Annual Financial Report at December 31, 2013*, to which the reader is referred for details.

Account must also be taken of the value generated by the price increase of Pirelli shares on the stock market. Their market performance in 2013 confirmed Pirelli as one of the best stocks in the European Auto & Parts sector, with a 45.3% increase, thus significantly outperforming the Italian Blue Chip index (+28.7 percentage points compared to the MIB FTSE) and the European sector index (+8 percentage points compared to Stoxx auto).

With reference to outside donations, the following table shows the amount of contributions and donations disbursed by Pirelli in the years 2013, 2012 and 2011, broken down by category.

**BREAKDOWN OF OUTSIDE DONATIONS 2011-2013** (in thousands of euro)

<b>Sector of action</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Education	655	714	674
Culture and Research	4,003	3,859	3,319
Charity, Sports	504	488	1,071
<b>Total</b>	<b>5,162</b>	<b>5,061</b>	<b>5,064</b>

For the correct sizing and proportion of the expense in the various sectors of intervention it must be considered that the data are consolidated in euro even though the sums were mainly disbursed in the local currencies in the various different countries in which Pirelli works, many of which are emerging markets/developing economies. This is particularly true for the Education and Solidarity categories. Paradoxically, the reported amounts, which are less in absolute terms than the amount allocated to Culture and Research, were instead used to finance a large array of development projects in the grant recipient countries.

We invite you to refer to Chapter 4 – Social Dimension for descriptive details of the main initiatives correlated with the disbursements indicated above.

Finally, the Group “does not provide contributions, advantages, or other benefits to political parties or trade union organisations, nor to their representatives or candidates, this without prejudice to its compliance with any relevant legislation” (Values and Ethical Code – The wider Community).

## LOANS AND CONTRIBUTIONS RECEIVED FROM THE PUBLIC ADMINISTRATION

### ROMANIA

In March 2012 the European Investment Bank (EIB) disbursed euro 10 million to Pirelli Tyres Romania S.r.l., pursuant to an agreement for a total of euro 50 million in financing as support for an investment of euro 263 million to be used to expand the Pirelli plant in Slatina, Romania, for the production of car tyres and light commercial vehicles. This loan complements a similar loan that was granted in 2007 to support establishment of that same manufacturing site. In 2012 and 2013:

- S.C. Pirelli Tyres Romania S.R.L. received euro 7.0 million and euro 4.8 million, respectively, from the Romanian government as incentives for local investment;
- S.C. Cord Romania S.R.L. received euro 2.0 million and euro 4.3 million, respectively, again from the Romanian government as incentives for local investment.

### ITALY

In September 2012 Pirelli Tyre S.p.A. received euro 1.4 million from the Region of Piedmont as contributions to the Next Mirs project.

### MEXICO

In 2012 and 2013 Pirelli Neumaticos S.A. de C.V. (Mexico) received grants from the Government of the state of Guanajuato, Mexico for investments and job creation in the amounts of euro 4.5 million and euro 3.1 million, respectively. In 2013 the company also received grants from the federal government through ProMexico for the equivalent of euro 1.5 million for investment and jobs creation.

## 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."

(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 Function, Pirelli maintains an open and transparent dialogue with analysts and institutional and individual investors to assure that its assets are fairly valued.

Beyond the constant promotion of the Pirelli equity story throughout the year, financial communication activity focused on the presentation of the new Industrial Plan 2013-2017 to the financial community, which includes sustainability targets to 2020.

The new plan represents the strategic evolution of the transformation process that since 2010 has led to Pirelli to focus on value segments and double its profitability. The evolution of this process is a renewed approach to business management, focused on the generation of cash and guaranteeing a high return on investments.

The plan content presented to the financial community in London on November 6, 2013, is reported in a dedicated section in Chapter 1 of this report, to which reference is made.

## FINANCIAL COMMUNICATION

Financial communication in 2013 was characterised by reinforcing dialogue with the Group's principal stakeholders: from institutional investors – who now represent 47.5% of the share capital (36.3% in 2012) – including SRI (Socially Responsible Investing) investors, individual shareholders (10% of the share capital), bond holders and financial analysts through roadshows and dedicated meetings.

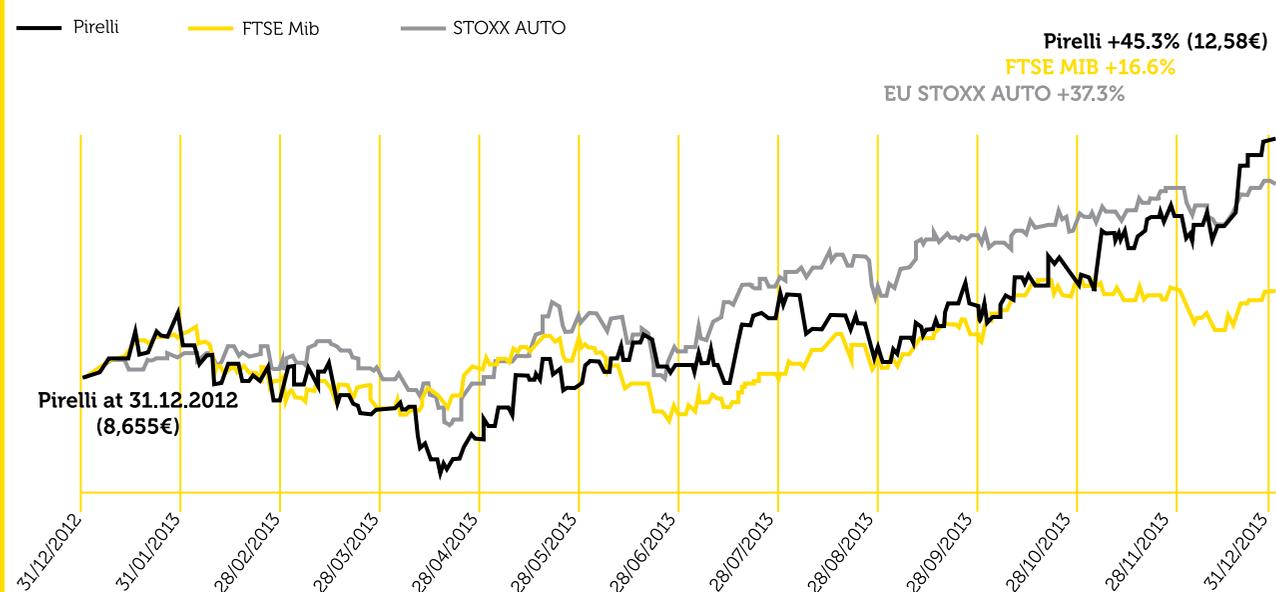
The roadshow and meeting activities, together with growing investor interest in the specific details of the Pirelli equity story in the Tyre Business, has led to the growing internationalisation of the shareholder base. At December 31, 2013 foreign institutional investors represented 43% of ordinary share capital (36% in November 2013, 27% at December 31, 2011).

The presentation of the Industrial Plan 2013-2017 in London on November 6, 2013 represented an important opportunity to meet with the international financial community. The visibility of business drivers and geographic areas where Pirelli works, and its openness to dialogue with management were particularly appreciated. The participation of Pirelli in

Formula 1 competition as the sole supplier of tyres also represented a major opportunity for acquainting the financial community with the company business. In 2013, at the time of the main Grand Prix (MonteCarlo, Monza, Austin Texas, etc.) Pirelli organised meetings with financial analysts and leading local investors, with detailed sections dedicated to technology, the product, the brand and distribution.

In 2013 the Company proceeded with its dialogue with ethical investors, the incidence of which is gradually increasing, making Pirelli one of the key protagonists in the sector. This result is also the fruit of communication activity, which management has organised on an ad hoc basis for analysts and SRI investors. In March 2013, as part of the joint UNPRI-UN Global Compact project (an initiative sponsored by the United Nations and aimed at improving the communication between companies and investors on ESG related issues), the top management of Pirelli held an investor briefing (webcast conference), presenting the ESG Guidelines and responding to questions by SRI investors and analysts. For the second year in a row, Pirelli also took part – as sponsor – in the Annual Conference and General Meeting of ICGN (International Corporate Governance Network) held in New York from June

### PIRELLI & C. STOCK PRICE PERFORMANCE VS FTSE MIB, EUROPE STOXX AUTO



26 to 28, an important occasion for dialogue with international investors and leading companies on the issue of Corporate Governance. Confirming the importance that corporate governance issues have for the company, at the beginning of 2013 Pirelli was announced as having the “Best Corporate Governance in Italy” for the third year in a row by the World Finance Corporate Governance Award 2013.

During 2013, Pirelli also continued its dialogue with bondholders, an important category of stakeholders in the Company, at targeted roadshows in the leading financial centres of London, Frankfurt, Paris and Milan. The attention of the financial community on the Company is confirmed by the fact that 24 brokers at leading Italian and especially international investment banks cover its financial instruments, and represent more than half of the coverage (52% of global institutions).

The stock market trend in 2013, shown in the following chart, confirms that Pirelli is among the best stocks in the European Auto & Parts sector with growth of +45.3%, significantly outperforming the Italian Blue Chip index (+ +28.7 percentage points vs the MIB FTSE index) and the European sector index (+8 percentage points vs Stoxx auto).

For more information reference is made to the Investors section of the Pirelli website, which offers a comprehensive and constantly updated source of information on matters of interest to shareholders and the financial community.

## OUR CUSTOMERS

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

(Values and Ethical Code – Customers)

Pirelli Tyre’s business is represented by two main segments: Consumer (tyres for cars, SUV, light commercial vehicles and motorcycles) and Industrial (tyres for buses, trucks, agricultural equipment and steel cord). These businesses are in turn pursued through two sales channels:

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

In the context of the replacement segment we can make a macro distinction between “Specialised Resellers” and “Distributors”. The former are tyre specialists operating on the market in the role of independent businesses; specialised dealers constitute a fundamental point of contact between the Group and the end consumer. Particular attention is devoted to specialised dealers in terms of shared development to enhance the product offering integrated with a high quality level of service, in compliance with Pirelli values and consumer expectations. “Distributors” are partners who are fundamental to guaranteeing continuity in the supply of tyres to specialised resellers. They do so by offering local delivery and distribution services throughout the entire territory. In addition to the core Tyre Business customers there is a mixed panel of customers associated with the other Pirelli businesses, namely a quality niche composed of Pirelli & C. Ambiente, active in the waste-to-fuel and photovoltaic renewable energy sectors and in environmental clean-up; Pirelli Eco Technology, which operates in the diesel vehicle and heating plant emissions control technology

sector; PZero, a fashion design project supporting the tyre business focusing on the premium and prestige segment in which fashion exerts special appeal and shares the principles of constant commitment to research, innovation and technology with the core Tyre Business.

## CUSTOMER FOCUS

Customer focus is the pivotal element of Pirelli Group Values and Ethical Code, and it is based on Pirelli's continuous commitment in terms of:

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

The above commitments are also set out in the General Conditions of Supply applied by Group companies.

In accordance with the mentioned focus on customer care, Pirelli also adopted a clear procedure to grant a feedback to any customer claim. Drafted in the form of internal, interdepartmental rules, it requires giving immediate responses to complainants.

## TRANSPARENCY

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

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

The Pirelli Group is a member of UPA (Utenti Pubblicità Associati - "associated advertising users") in which it also holds the office of Deputy Chairman thanks to the unflinching commitment and primary role it has assumed in supporting the UPA Code of Conduct. Moreover, Pirelli is a member of IAB (Interactive Advertising Bureau).

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

Through the UPA, Pirelli is also a member of the WFA (World Federation of Advertisers), which commits participating firms to pursue honest, truthful and fair competition and communication in compliance with the code of conduct and self-regulation they adhere to. Consumer protection is also guaranteed by the Company's choice of suppliers in the communication sector (creative agencies, media centres, production companies) that in turn belong to business and professional associations governed by communication ethical codes.

In terms of compliance, during 2013:

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

both privacy violation and the loss of consumers' data;

- there was no prohibition to sell any Pirelli product, and the sale of no products was challenged.

## INFORMATION AND TRAINING

Pirelli provides information to customer-distributors and end customers on a continual basis. This information concerns both the product and related initiatives, and is disseminated in a variety of ways. Online communication plays a strategic role in distributing information, and this is complemented by information distributed in hard copy format, as well as the range of off-line and online training activities that have contributed to the success of Pirelli over the years. Pirelli continued to invest in online communication in 2013, especially on its own websites as constant points of reference for its own clients and end customers. The development of new sites has improved mobile use of information, which provides immediate access to useful information for customers/consumers through the ever-increasing use of smartphones and mobile devices. All 37 of Pirelli online sites were accessed more than 8 million times in 2013. The most visited sites were its Dealer locator and products catalogue.

The iPhone #OnTheRoad application was launched in the second half of the year, and has a community of over 60,000 users. This application allows consumers to obtain information about their own vehicle simply by entering their license plate number. The #OnTheRoad application also offers numbers services and information, beginning with finding points of interest like parking lots, auto repair shops and Pirelli dealers. Furthermore, it offers simple functions on the iPhone that give notices and deadlines related to the operation of one's own car.

In 2013 Pirelli also continued informing customers with a digital newsletter, Paddock News. The main aim is to provide an additional tool of communication and contact with the trade, composed of an international edition, coordinated from Company headquarters, and is published in a local language edition for each market in

which Pirelli is present. Paddock News features a gallery of new products and news from the Company and its Business Units: Car, Motorcycle, Motorsport and Truck.

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

A series of supports have been developed for training dealers about products, in order to explain the peculiar details of the Pirelli line and assist the trade in making sales pitches to end customers. Hard copy materials were complemented by the development of videos for dealer waiting rooms to explain the concept of the most appropriate tyre for each season, the principal recommendations of Pirelli experts and the tyres that are most suitable for each need.

In 2013 the Group strengthened the Tyre Campus project at the local level. With this project, Pirelli aims to achieve excellence in terms of product training both in terms of contents and methods: from factory visits – about 600 dealers (+40% from the previous year) from 15 countries visited the two plants in Settimo Torinese (Italy) and Izmit (Turkey) and also the Vizzola (Italy) test circuit – to tyre performance simulations. Information and training are therefore conducted with a global approach. Product training was a very big activity on all markets, to illustrate the new products of the Company and the peculiar details of Pirelli branded tyres. In addition, deployment of the online Tyre Campus "The Road to Success" training platform continued, covering a total of 15 markets. This platform aims to grow the international coverage of training activities exponentially, by means of a homogeneous approach. Product training is delivered in a captivating style and with the metaphor of a path towards the

final goal of certification. Pirelli therefore certifies all its dealers who complete the proposed product training successfully. The status of certified dealer is shown in the dealer locator and by means of a plaque displayed in the point of sale so that the consumer has all the necessary elements to identify dealers who are the most informed with regard to the technical characteristics and benefits of all products in the Pirelli range. The project to expand the geographical reach of the platform is extremely challenging. During the year, it was launched in five new countries – the United States, Germany, United Kingdom, Canada and Austria. It is expected that the roll-out will be concluded on all markets by the end of 2014.

The Tyre Campus Case tool was developed to support employees involved in providing training to the trade. It is aimed at concretely illustrating the characteristics of our tyres, the differences between different tyre treads and the raw materials used to make our products. With this tool, Pirelli trainers around the world have a concrete and innovative support so that customers can personally verify the key characteristics of our products.

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

With this regulation, which came into effect on November 1, 2012, the European Commission aims to improve road safety through the adoption of an integrated approach benefiting users, the environment and industry. The regulation makes it obligatory to equip vehicles with several safety devices, such as the “electronic stability control system”. With regard to tyre safety measures, it requires the obligatory adoption of the “inflation pressure monitoring system” on cars and also imposes new limits in terms of rolling resistance of tyres for cars and light, medium and heavy commercial vehicles. Also for vehicles of these types and with respect to the limits already in force since 2001 the regulation establishes new limits concerning exterior rolling noise and the wet grip performance of car tyres.

## **TYRE LABELLING REGULATION (EC 1222/2009)**

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

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

Voluntary prescriptions for tyre labelling also exist (on a voluntary basis) in Japan and came into effect at the end of 2012 also in Korea.

ETRMA (European Tyre and Rubber Manufacturers Association) is the main partner of EU institutions for the development of new regulations for the sector and the rules for their implementation. With the institutional support of the Pirelli Group, the association worked ceaselessly throughout 2013 on the development of rules for implementation of the European Commission regulations on general safety of vehicles and tyres and energy efficiency.

In the role of Premium Tyre Company, Pirelli fully supported and continues to support the EU labelling regulation, especially because of the transparency it introduces to the benefit of the consumer, who can thus make an informed purchase in consideration of essential parameters. It is no accident that Pirelli was the world’s first manufacturer on the European market with a tyre, the P7 Blue, which in certain sizes carries the prestigious double “A” rating. The three indicators covered by labelling (rolling resistance, noise levels and wet surface braking), although essential, however, do not complete all the parameters that must be assessed by consumers when assessing a tyre to gain an understanding of its effective “value” in terms of

performance and safety. A long list of parameters – including dry braking, aquaplaning and road holding – are essential and distinctive features of Pirelli tyres that the Company obviously tests with the utmost attention, without detracting from its continual drive towards innovation. Not least is the importance of informing consumers about concepts whereby fuel efficiency and road safety also depend greatly on the driving style of each driver, and proper tyre maintenance, from checking of the level of wear and tear to correct inflation pressure.

## LISTENING AND EXCHANGING IDEAS AS SOURCES FOR CONTINUAL IMPROVEMENT

Customer relationships are managed principally through two channels:

- the local sales organization, which has direct contact with the customer network and which, thanks to advanced information management systems, is able to process and respond to all information requirements of the interlocutor on site;
- the Pirelli Tyre Contact Centers, numbering 31 worldwide and are staffed by more than 200 employees developing activities of both IT support and order management (inbound), telemarketing and teleselling (outbound) with a score of 97% in 2013.

These two traditional contact channels are complemented by the presence of Pirelli in the new media. During 2013 Pirelli consolidated its presence on the social networks, first and foremost Facebook and Twitter. The Global Page of Facebook that is dedicated to the brand has over 465,000 fans, while the Motorsport page has about 375,000 fans (February 2014 figures). There are also two Twitter accounts, Pirelli Media (63,000 followers) and Pirelli Motorsport (30,000 followers). Then, the Company has a presence on Instagram (@pirelli\_f1), Youtube and Google Plus. With the principal aims of disseminating Company know-how, bolstering the credibility of Pirelli and supporting its premium product and price position, the growing

involvement of users through social channels also allows it to collect insight for the product and service and constantly monitor Pirelli brand sentiment online.

In the Motorcycle Business Unit, the German Metzeler brand is particularly active through a local web page in nine countries (Italy, Germany, Spain, Brazil, United Kingdom, United States, Switzerland, Austria and France) and its international site, all under the auspices of Metzeler.com. A new Facebook page dedicated to motorcyclists was created in 2012, with 175,000 likes at year end and content posted in 14 different countries in the various local languages. Other initiatives include the implementation of “Metzeler maps”, active participation in the Ridexperience blog and activation of a new ‘answers’ function. In addition, an e-commerce function was integrated in the Italian language version of the Metzeler.com site. The multilingual blog RIDEXPERIENCE, on which contributors offer details of extreme travel, technical advice and news features from the biker world, has continued to be extremely popular, as is the fan page dedicated to the Italy, Germany, United Kingdom, Spain, France and United States markets and the YouTube channel dedicated to Metzeler.

The principal marketing research studies that Pirelli has been performing for years to monitor its customer satisfaction and perceived positioning of the Pirelli brand have assumed strategic importance, with a growing level of innovation in the methods and contents of their analyses. Pirelli conducted a trade customer satisfaction survey (in the car sector) again in 2013. As in prior years, the aim of the Dealer Satisfaction Survey was to identify the level of satisfaction of the customer base during the various stages of company-customer interaction in order to map the effectiveness of the action plans implemented throughout the previous years. The 2013 survey involved 14 countries worldwide (with the addition of Russia, Sweden, Italy, Germany, France, Spain, United Kingdom, Poland, Belgium, Switzerland, Brazil, China, United States and Turkey), for a total of about 2,400 interviews. The interviews conducted at the individual retail outlet in “anonymous” form (i.e. in the name of the research institute and not Pirelli), more in-depth interviews were

added this year in the name of Pirelli on the principal key customers in the various countries involved. This has made it possible to obtain punctual and absolutely transparent feedback, which is useful for defining targeted action plans for our principal partners. The position of Pirelli in comparison with its competitors was positive overall. In general, Pirelli scored in the top three in terms of satisfaction, and the percentage of customers who are completely or very satisfied is very high in various countries (>75% in Germany, Spain, Switzerland, and between 60% and 75% in the other countries on a scale of 0-100 [Completely satisfied = 100; Very satisfied = 75; Somewhat satisfied = 50; Not very satisfied = 25; Not at all satisfied = 0]). In Germany, Spain, Switzerland and Turkey, Pirelli has a score >75 and only in four cases was it lower than 70. In particular, in Italy Pirelli had a score of 72, up 3 percentage points from 2012 and consistent with the score of best performers. In terms of satisfaction in different areas of company-customer interaction, Pirelli performed particularly well in the "premium product range" and "logistics" (in most cases, above the market average). The importance of the "product quality" and "marketing" areas was confirmed. Pirelli is particularly strong in marketing, and not only in most European countries, but also in Russia and Brazil, through its multibrand customer dealer networks.

The innovation in 2013 in the dealer area is represented by the realisation of a customer communication project, by using a web-based search platform that is currently focused on principal European countries, with the possibility of extending it to new non-European markets in 2015. This is comprised by a "voice of the customers" project, which is absolutely innovative for the tyre industry, and has the aim of transforming our customers into a selected panel of partners who are able to assist us both in comprehending market dynamics and developing new market and business opportunity advantages.

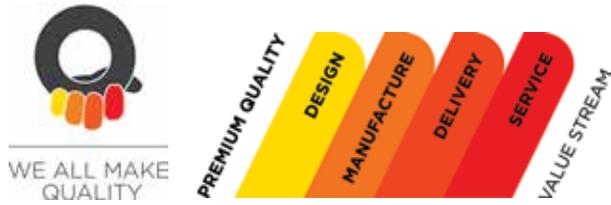
Through constant research, contact and collection of feedback in an open, transparent and innovative way, studies are conducted on different marketing issues through surveys, quick polls and online forums. The principal results are then shared with the panel

members through publication on the dedicated portal and transmission of monthly eDirect Mails with updates on the principal activities under way. This activates a listening and discussing process as the source for continuous improvement.

At the consumer level, the significant end customer listening activity continued through evolution and reinforcement of the brand tracking survey in the top ten markets of Pirelli (Italy, Germany, Spain, France, United Kingdom, Brazil, China, United States, Turkey and Russia). The principal changes made to the continuous study have made it possible to refine and improve the precision of business insights into the brand role, image profile and characteristics of the different touchpoints that influence the end customer purchase decision. The aim of Pirelli is to monitor this behaviour, measure the position of the brand over its various phases and support the planning activities in support of marketing strategies. The survey that has just been concluded has confirmed the position of Pirelli as one of the top two best recognised tyre brands in Italy, Germany, Spain and the United Kingdom. Specifically in Germany, Pirelli has grown both in terms of "top of mind" (14.6%, up 3 percentage points from 2012) and, more in general, "brand awareness" (44.8%, up 6.8 percentage points from 2012). It has confirmed its leadership in Italy even in terms of "brand consideration" (intention to buy). Outside Europe, Pirelli has also performed very well in Brazil (in first place for each brand KPI) and in China, where Pirelli has a highly characterised and distinctive image profile for the premium consumers target. Generally speaking, the performance of Pirelli in all countries is even more positive precisely amongst its principal monitored core targets: owners of premium cars or Formula 1 fans.

## QUALITY PROCEDURES AND POLICY

In 2011 the effects of the new Group premium strategy led to definition of a new quality strategy, named Premium Quality, which is focused on each of the four identified areas of the value chain.



The analytical process then began in 2012, so that the organisation would have an adequate organisational structure for the quality standard to be pursued and to identify and undertake projects for improvement to be undertaken in each of the four areas.

In 2013, various activities were undertaken that focused on the quality perceived by the customer, extending the scope of investigation worldwide and expanding the range of the various product lines under observation. This activity began in 2012 with 586 in-depth market visits and nine reports on the products in all product lines. Following the satisfying results realised with the winter product line, for example, this activity expanded in 2013 to 1,433 in-depth market visits on all continents, resulting in 15 detailed reports providing top management with important information of significance for the entire value chain.

The global *Quality Week*, held November 11-15 at all Pirelli sites, offered the occasion for promoting quality culture in the Group, the Premium Quality strategy to all employees and invited outside guests, and letting the “customer’s” voice be heard inside the Group.

The organised visits to Group customers Ducati and Maserati were great successes. The most significant comment made by one of the participants emphasised that “the guided tour let me feel the passion of Ducati for motorcycles, which perfectly matches our history and passion for motorcycles and racing”.

The interviews of important automotive customers

also aroused special interest. Their testimonials highlighted their expectations of Pirelli products, the service it offers and its spirit of collaboration.

Quality Week was celebrated with 257 events in the Pirelli world and 19,112 participants.

An important event was Quality Celebration Day (Thursday, November 14). Reciting the slogan “We All Make Quality”, the Quality Manager introduced the premium quality value stream to the Board of Directors and other participants.

Two events involving a blind test were also held on the theme of improving customer knowledge and awareness: “SOMETIMES THEY COME BACK – Let’s find out what defects customers complain about” and “LET’S TAKE A LOOK! – A simulation of factory quality control”. They were a big success and greatly appreciated by employees. These events proved to be very useful in highlighting the product quality characteristics that customers expect.

## QUALITY CERTIFICATIONS

### **ISO 9001**

Since 1970 the Group has had its own quality management system, which has been gradually extended to include all production centres. Since 1993 Pirelli has pursued a policy of certification of its quality system in compliance with ISO 9001. Today, 100% of existing Pirelli plants are certified in compliance with the most recent edition of the standard, including the new plant in Mexico and the acquired Russian plants, as well as the activities of the Manresa logistics hub in Spain.

### **ISO/TS 16949**

In 1999 the Group obtained certification for its Quality Management System in compliance with ISO/TS 16949 and it has since maintained compliance with the standard as currently applicable. All plants, whether new or acquired, that supply the automotive sector have obtained or maintain this quality certification.

## **ISO/IEC 17025**

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

## **PRODUCT CERTIFICATIONS**

Product certifications that allow the sale of products on various markets in compliance with the regulations in force in each country are kept regularly up to date. The main product certifications secured by the Pirelli Group concern the EMEA (Europe, Middle East and Africa) NAFTA (North America Free Trade Agreement), and Brazilian Argentine, Uruguayan, Chinese, Indian, and Indonesian markets and involve all Pirelli plants. These certifications call for annual audits by ministerial institutions of the country in question or by organisations delegated by state institutions, which verify compliance of the product at the certified plant.

## **FOCUS ON HUMAN HEALTH AND THE ENVIRONMENT**

All raw materials and auxiliary products are carefully tested before they can be used in Group operating units. These tests seek to identify potentially unacceptable risks to human health and/or the environment. This assessment is performed on a centralised basis and carried out in all countries where Pirelli operates, taking account not only of the requirements imposed

by European regulations concerning the management of hazardous substances, but also know-how currently available worldwide (specifications, databases, etc.). Monitoring of producers and suppliers of raw materials used by the Group continues, especially in regard to the registration processes of these substances by producers/distributors/importers and in compliance with Regulation CE REACH 1907/2006.

## **PRODUCT SAFETY, PERFORMANCE AND ECO-SUSTAINABILITY**

The commitment of Pirelli to development of products that are increasingly focused on combining eco-sustainability and safety has led to renewal of its product lines. Compared with the previous generation, this guarantees significant reductions in parameters like rolling resistance.

The Scorpion Winter is a concrete example: a new winter product created to equip SUVs, it was developed by exploiting the experience gained from introduction of the Scorpion Verde and Scorpion Verde All Season, pioneering products of the Green Performance philosophy for the SUV segment. It guarantees more than 30% lower rolling resistance than the previous product.

In 2013 Pirelli doubled the Cinturato P7 Blue product line. This was the first AA rated tyre for braking in wet conditions and rolling resistance in certain sizes, by expanding the commercial range of car products that offer top performance and safety.

The development of innovative solutions for performance and eco-sustainability is also guided by the close collaboration of Pirelli with the world's top car makers, which are demanding ever-more stringent safety and reduced rolling resistance and fuel consumption performance. At the same time, technologies that Pirelli has been using in its products for years are growing more and more common, with a growing number of products like the Self Supporting or Run Flat Tyres, which guarantee mobility and vehicle control even upon sudden loss of pressure, the Seal Inside tyres, which use a special polymer

sealer to prevent the loss of air when the tyre tread is punctured, and the Cyber Tyre, which represents a further evolution in terms of safety in that it is able to “read” the road surface by means of an integrated chip that transmits important information for safe driving to the driver.

In the Truck Business, Pirelli designs and sells high-performing products in terms of safety and fuel savings. The Serie01 tyres are on par with its best-in-class competitors as measured by energy efficiency (rolling resistance) and at the top of class in terms of wet grip. One example of this is the ST:01 Neverending product launched in 2013. This was the first product in its segment to have AA label ratings. In terms of safety, special mention should be made of the tyres in the W:01 line. Having passed the test imposed by European regulations, it already has the 3PMSF mark on its sidewall.

The range of Pirelli products offered for efficient and sustainable mobility in the freight and passenger transport sector is rounded out by a series of solutions, which includes the Cyber Fleet in terms of technology and innovation. This system automatically measures tyre pressure and temperature under operating conditions, thereby reducing fleet operating costs and making it possible to reduce fuel consumption costs by simultaneously maximising efficiency in tyre maintenance and pressure control operations. All of these features offer significant advantages in terms of CO<sub>2</sub> emissions reduction. This has consequently beneficial effects in terms of environmental impact and improved road safety standards. Greater or lower tyre pressure than what is recommended by the manufacturer corresponds to higher rolling resistance, irregular wear and tear, difficulty in controlling the vehicle and lengthening braking distance. These factors negatively impact fuel consumption, tyre life and driving safety. Cyber Fleet is thus becoming the tool that fleets use to maximise the benefits expressed by energy efficiency classes and wet grip indicated on the European label, which refer to tyres kept at the proper pressure.

Safe, high-performance tyres may also incorporate raw materials obtained from plants. The plans for use of

these materials at Pirelli plants in Brazil were accelerated to meet in 2014 the percentage target originally set for 2015. Rice husks are the specific plant origin raw materials, a non-edible renewable substance that does not impact available food supplies and is used to make silica, a key component in making tyres. This type of silica is used in both high performance products and also low rolling resistance tyres – the product lines that reduce fuel consumption through lower heating of the tyre during operation. In general, the use of silica in tyres impacts road safety because it provides better wet grip and guarantees high performance levels. Rice husk silica makes it possible to produce tyres that are more environmentally friendly: the silica is extracted from the waste vegetable matter by using less fossil fuel energy, resulting in significant environmental and cost benefits in a global ecological approach from the production chain through to the finished product.

More information on Pirelli product eco-sustainability is reported in Chapter 3 of this report, to which reference is made.

## ROAD SAFETY CULTURE AND INTERNATIONAL INITIATIVES

International initiatives and commitments are discussed in Chapter 4 of this Report, in the section “Initiatives on behalf of the External Community”.

## 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”.*

(Values and Ethical Code – “Suppliers and Outside Workers”)



*"The Pirelli Group pursues and supports compliance with internationally proclaimed human rights. Pirelli considers protection of the integrity, health and welfare of its employees and the environment as one of the primary needs to be satisfied in organizing and developing its activities. Pirelli Group activities are governed by the Code of Ethics approved by the Board of Directors and comply with the Sustainability Model envisaged by the United Nations Global Compact that was signed in 2004. The Group's sustainable development strategies pursue various objectives, including continuous improvement in the environmental and occupational health and safety conditions affected by its own activities, in firm compliance with and support of the "Universal Declaration of Human Rights," the "International Labour Organization's Declaration on Fundamental Principles and Rights at Work," the "Rio Declaration on Environment and Development" and the "United Nations Convention against Corruption." To these ends, the Pirelli Group is committed to: [...] establishing and maintaining appropriate procedures to evaluate and select suppliers and sub-contractors based on their commitments to social and environmental accountability". [...]*

(Pirelli "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment")

*"The Pirelli Group considers: [...] strategic co-operation with suppliers [...] to be basic and general elements in defining its own strategies and objectives, in view of obtaining ever more competitiveness on the global market on a long-lasting and sustainable basis. The following tools are key to supporting implementation of this Policy: [...] the adoption of measures to assess and monitor Supplier performance from the selection phase on, in terms of competitive advantage, qualitative performance, possibility of shared strategic development, their economic, social and environmental sustainability and in their relationship with the Group". [...]*

(Pirelli Quality Policy)

*"The Pirelli approach to environmental management is set forth in accordance with the United Nations Global*

*Compact, of which Pirelli has been an active member since 2004, and pursuant to the "Rio Declaration on Environment and Development". These principles have become an integral part of the Group Sustainability Policies according to which Pirelli undertakes, inter alia, to assess and reduce the environmental impact of its own activities and products throughout their life cycle, as well as to use materials and natural resources responsibly, with a view to contributing to sustainable growth for the environment and future generations. [...] With this Green Sourcing Policy, Pirelli seeks further to reduce the company's environmental footprint related to the sourcing of materials, products and services. [...] Pirelli aims to maximise the benefits of this Green Sourcing policy by encouraging its Suppliers to apply it to their own sourcing process and throughout their own supply chain". [...]*

(Pirelli Green Sourcing Policy)

## SUPPLY CHAIN SUSTAINABLE MANAGEMENT SYSTEM

The procurement processes and partnership relationships with suppliers are managed by the Pirelli Purchasing Department, which is headquartered at Milano Bicocca and has specialists located at the various Group affiliates worldwide.

Responsible management that is integrated in economic, social, environmental and governance terms characterises the relations between Pirelli and its suppliers. The "quality" of firms that provide goods and services is also a fundamental element in realising the Pirelli premium strategy.

The Pirelli supply chain Sustainable Management System was audited by an independent third party in accordance with the AA1000 Standard, in 2009, 2011 and 2013, as documented in the Assurance Statements accompanying the three Sustainability Reports.

The social and environmental responsibility and business ethics of a Pirelli outsourcer are evaluated together with the economic quality and the quality of the product or service to be provided from time that a potential supplier is assessed. Analysis of its ESG

performance then continues with qualification of the future supplier that was pre-analysed during assessment, and is then incorporated in the supply agreement with the Sustainability and Business Ethics Clauses included in all contracts. After the supply agreement has been made, the sustainability performance of the supplier is audited by an independent third party.

## THE ESG ELEMENTS ANALYSED DURING SUPPLIERS ASSESSMENT, SELECTION, QUALIFICATION AND AUDIT PHASES

Pirelli uses the same ESG performance approach through the entire process of interacting with the supplier, although in different ways according to the intensity of interaction that characterises each specific procedural step.

Beginning with the assessment phase, Pirelli suppliers are assessed according to their awareness, management and performance system in regard to:

- human rights compliance with a focus on:
  - ● ban of child labour;
  - ● non discrimination;
  - ● ban of forced or compulsory labour;
  - ● protection of freedom of association and free bargaining;
- respect for the rights of indigenous populations and the local community;
- rejection of corporal punishment, mental and physical coercion, and verbal abuse;
- compliance with the laws and industry standards concerning working hours and assurance that wages are sufficient to cover the basic needs of personnel;
- monitoring occupational health and safety performance and improvement targets;
- zero tolerance for any type of corruption in any form or way, in any jurisdiction;
- assessing and reducing the environmental impact of their own products and services throughout their entire life cycle;

- responsible use of environmental resources in view of continuous improvement;
- capability to impose the foregoing principles, values and policies on any subcontractors and sub-suppliers, regularly monitoring their actual compliance with this obligation.

During initial assessment of the possible suppliers of the good or service sought on the market, the adequately informed buyer is able to get an initial impression of whether the potential supplier complies or not with the product and ESG requirements. This makes it possible to eliminate potential future suppliers that are clearly in possible violation of Pirelli expectations.

For those suppliers proceed to the qualification phase, Pirelli requires that they use the dedicated web portal available in their local language.

By accessing it, the supplier views and simultaneously accepts the Pirelli economic, social, environment and business ethics policies.

The first step entails compilation of a questionnaire on ESG issues, where certain questions are “disqualifying”. This means that an inadequate response to them will prevent a positive conclusion to the qualification process, since they involve minimum requirements that are necessary to become a Pirelli supplier.

These questions require that the potential supplier attest that its firm:

- checks workers’ ages before hiring them, and it ascertains that all of its employees satisfy the minimum legal working age;
- all workers have written employment agreements and work on a voluntary basis;
- respect the workers’ right to free association and participation in trade union activities;
- wages and salaries comply with minimum legal standards, if defined;
- disciplinary practices, if there are any, comply with the provisions of law;
- statutory and contractual provisions applying to working hours, overtime and rest periods are complied with and enforced.

According to the merchandise category for which the supplier has initiated the qualification procedure,



a particularly detailed questionnaire must be filled out, to which the supplier must attach quality, health and safety certifications, document its own approach to responsible management by attaching policies and codes. The rate of incidence of occupational accidents is investigated, while compliance with the aforementioned labour laws and the existence of labour lawsuits must be certified.

Filling out the questionnaire is one of the essential conditions required for qualification. The rating relative to ESG elements has an incidence of 33% in the final rating of candidate suppliers.

The portal has also been designed to support the realisation of communication, awareness raising and training campaigns for suppliers, for which sustainability is an essential element.

The Sustainability and Business Ethics Clause is included in all supply contracts during the contractual phase.

With regard to the contractual stage, from 2008 the sustainability clauses have been introduced systematically in contracts and orders for the purchase of goods and/or services and/or works, both with private suppliers and with the Public Administration (or institutes/enterprises under public control) or NGOs, worldwide. In 2012 the clauses were improved in the drive to achieve greater syntactical simplicity, although while maintaining the pivotal elements of social and environmental responsibility and business ethics currently present, and also the facility for verification by Pirelli by means of audits.

In particular, the clauses:

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

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

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

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



To provide maximum protection, the Group's suppliers are provided with the Whistleblowing Procedure (ethics@pirelli.com), expressly indicated in the clauses and available for reporting, absolutely confidentially, any violation or suspected violation they become aware of in relations with Pirelli and with reference to the contents of the "Values and Ethical Code", "Code of Conduct" and the "Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment" of the Group. With reference to the number of concerns raised by Group suppliers at the time of writing none have been received. It is not objectively possible to confirm with absolute certainty that no Whistleblowing reports were received from suppliers because several concerns were raised anonymously, as specified in the heading "Group Whistleblowing Procedure" in the first chapter of this report. Moreover, there is no evidence of Whistleblowing reports in regard to violations by suppliers used by the Group. In addition, each purchase contract gives the name of the contact buyer so that the counterparty always has access to a company channel to use to transmit any feedback. According to the issue raised, the contact buyer will then forward the report to the right interlocutor or function.

The supplier is monitored by using the Vendor Rating procedure, aimed at defining the quality level of supplies, the quality of the commercial relationship, the technical-scientific collaboration and performance in relation to occupational safety, the environment, and social responsibility by means of on-site audits and periodic monitoring the progress of the actions set down in any improvement plans signed with the supplier. The results of the Vendor Rating are reviewed periodically and commented on by the Purchasing Department at the time of meetings organized with the suppliers, in order to identify any corrective or performance improvement actions required.

The Vendor Rating covers all the goods and geographical purchasing areas and utilized as an integral part of commercial negotiations.

The suppliers' sustainability audit activity is discussed in the following section.

## ESG MATERIALITY AND THIRD

## PARTY AUDITS OF SUPPLIER SUSTAINABILITY

Pirelli manages its sustainability by using materiality analyses.

In environmental terms, the impacts are absolutely prevalent in the raw materials category, and specifically in regard to the use of water in natural rubber transformation processes. The social impact (human rights and labour rights in particular) is found in all procurement categories, although it demands special attention by the Company towards suppliers operating in countries that the international community deems to be more risky than others in terms of compliance with national and international labour laws.

Every year since 2009 and with joint activities by the Group Risk Governance, Sustainability and Purchasing Departments, local buyers and Sustainability Managers are asked to prepare a list of suppliers that, on the basis of the results of adequate Risk Assessment, may be usefully subjected to independent audits. Therefore, the "criticality" of the supplier guides the choice. It may be so insofar as:

- the supplier is bound to Pirelli by multi-year contracts;
- the replacement of the supplier may be complex;
- news of ESG risk events is received;
- the economic magnitude of the purchase is material, and thus it is decided to audit the supplier's on-site compliance with the Pirelli ESG standards, as agreed by the supplier during the contractual phase, with independent audits commissioned by Pirelli;
- the supplier operates in ESG risky countries.

At the central level a team composed of the Group Sustainability and Purchasing Departments defines the Guidelines for the selection of suppliers to be audited, supporting the corresponding local functions that manage the process on an operational level. The Purchasing and Sustainability managers who coordinate the supplier auditing activity locally are adequately trained and made aware of the subject and

method of auditing by the central functions in charge, namely Sustainability and the Purchasing Department. The external auditors conduct their audits on the basis of a checklist of sustainability parameters derived from the SA8000® standard (the reference tool officially adopted by the Group for the management of social responsibility since 2004), from the Pirelli Social Responsibility Policy for Occupational Health, Safety, Rights, Environment, consistently with the Social Sustainability, Environmental and Governance areas dictated by the United Nations Global, and from the Group Ethical Code.

Independent audits, each lasting an average of two-three days on site, include extensive interviews with workers, management and trade union representatives. Seventy-two audits were carried out between the end of 2009 and the beginning of 2010, a further 56 were conducted between the end of 2010 and the beginning of 2011 and in the second half of 2012 some 62 new audits on suppliers of raw materials, machinery, logistics and services began, and were completed in 2013. In the majority of cases the audits involved suppliers of Pirelli Tyre operating in Brazil, Argentina, Egypt, China, Romania, Turkey, and Venezuela, or countries from which Pirelli purchases raw materials, such as Indonesia, India, Malaysia, Thailand, Japan, Russia and Korea. Among the Western countries in which Pirelli conducts its business, audits were carried out on Pirelli Tyre suppliers in Italy, UK, Germany, the Netherlands and the United States.

On the basis of the audit results, as necessary and appropriate, Pirelli prepares a compliance plan that may be designed to prevent, mitigate or remedy any found compliance violations.

The Plan envisages specific actions to be implemented by precise deadlines agreed by the parties, in addition to clear identification of the person in charge of the action at the supplier company.

Critically observing the results of the audits performed between 2009 and 2013, the observed non compliances continued to be related to the health and safety management processes, use of overtime and proper implementation of the Environmental Management Systems. However, from one audit cycle to another, their

number is steadily decreasing, just as their seriousness has steadily decreased. No violations of human rights or fundamental work rights have been found. There have been no cases where the supply relationship was terminated due to the results of the audits.

The compliance plans resulting from the 2013 audits have been completed.

The achieved results are attributable to the Sustainable Management System adopted by Pirelli, which is extensive and covers all phases of the relationship with the supplier. Over the years, it has allowed constant improvements in the panel of suppliers.

Then, it must be considered that Pirelli suppliers perceive the importance of compliance with sustainable management factors, also in consequence of the engagement of a number of their customers. This certainly contributes to a virtuous circle of continuous improvement.

The Internal Audit function has been directly involved in the process of monitoring of progress on supplier compliance recovery plans since 2012. This function stands out for its independence at Pirelli insofar as, aside from the Board of Statutory Auditors, it reports to the Internal Control, Risks and Corporate Governance Committee of Pirelli & C. S.p.A., which is composed only of Independent Directors.

## GREEN SOURCING POLICY

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

The Green Sourcing Policy implementation system was defined in 2013, both inside Pirelli and in supplier relationships. It is organised as follows:

- drafting of the "Pirelli *Green Sourcing Manual*", an internal document containing operating Guidelines, intended to guide the activities of the Pirelli functions involved in the Green Sourcing process;
- drafting of the "Pirelli Green Purchasing Guidelines",

a document targeting Pirelli suppliers, and part of the Supply Agreement, based on the *Green Sourcing Manual*, which contains the KPI (Key Performance Indicators) for assessing the Green Performance of suppliers,

- integration of Green Performance in the traditional process of measuring supplier performance (vendor rating).

The Pirelli *Green Sourcing Manual* defines four areas of Green Sourcing: Materials, Capex, Opex and Logistics. Interdepartmental working groups, comprised of Purchasing, R&D, Quality, HSE and Sustainability analysed the Green Sourcing process associated with the merchandise categories falling within the four areas mentioned above. Green Engineering Guidelines were defined for the Materials and Capex areas, where the design component (what is conceived in-house) is material to the Pirelli core business. Instead, in the Opex and Logistics areas, which are characterised by merchandise categories where the design component is not as material, Green Operating Guidelines were nonetheless drafted in reference to internationally recognised best practices.

So, the *Green Sourcing Manual* is a unique document that contains:

- the general part on Green Sourcing issues;
- the Green Engineering Guidelines (Materials, Capex);
- the Green Operating Guidelines (Opex, Logistics).

The *Green Sourcing Manual* will also be adopted by the Pirelli Training Academies for training of the departments involved in the Green Sourcing process.

On the basis of the *Green Sourcing Manual Guidelines*, the Pirelli Green Purchasing Guidelines to be provided to Pirelli suppliers will be published in 2014. This document will not only explain the organisation of the Pirelli Green Sourcing system, but will also contain the KPIs used to assess the suppliers' own green performance.

So, in 2015 the measurement of Pirelli supplier green performance will be integrated in the Vendor Rating to promote continuous improvement in this area, aside from those that have been traditionally present.

## TRAINING OF SUPPLIERS ON SUSTAINABILITY ISSUES

Following the training project targeting strategic suppliers provided in the e-learning format during 2012, Pirelli extended the same sessions to all Group security service providers worldwide during 2013.

Expansion of the scope of this project to security service providers involved the participation of suppliers located in the United Kingdom and in Russia, Egypt, Brazil, Mexico, Italy, China, Romania and Turkey.

The activity involved elements of labour law, human rights, respect for the environment and business ethics. The tool used for training was a platform specifically developed for this purpose by the Pirelli Group.

After receiving a personal ID and password, the supplier could connect with the online platform and participate in training activities at any time. The course included very practical examples to allow participants to easily check their company level of compliance with the various ESG issues. To determine the effectiveness of e-learning, a mandatory test was also included, which the participants had to pass at the end of the session.

## SUPPLIER AWARD

The 2013 Supplier Award ceremony was held at the Pirelli Bicocca headquarters, with the participation of the Chairman and Chief Executive Officer. Pirelli awarded nine suppliers operating in Japan, Germany, China, Korea, Poland, Thailand and Italy that had distinguished themselves in 2012 for their quality, innovation, speed, sustainable performance, global presence, price, and level of support and service.

In particular, the sustainable performance award aims at recognising long-term responsibility that truly makes a difference by bringing benefits throughout the entire value chain.

The award established by Pirelli is given every year to suppliers of excellence and is aimed at achieving constant improvement of relations with partners in view of shared development.



## TREND OF PURCHASES

The Pirelli Tyre core business in 2013 accounts for 97% of Group purchases (vs 96% in 2012).

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

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

### PERCENTAGE VALUE OF PIRELLI TYRE PURCHASING BY GEOGRAPHICAL AREA

		2013	2012	2011
OECD Countries	Europe	40.2%	42.7%	43.2%
	North America	3.0%	2.7%	2.6%
	Others	2.8%	2.6%	1.3%
Non-OECD Countries	Latin America	20.2%	26.8%	27.0%
	Asia	19.5%	15.5%	18.9%
	Africa	1.2%	1.0%	1.0%
	Others	13.0%	8.7%	6.1%

### PERCENTAGE OF PIRELLI TYRE SUPPLIERS BY GEOGRAPHICAL AREA

		2013	2012	2011
OECD Countries	Europe	47.5%	51.6%	59.2%
	North America	3.0%	3.6%	3.3%
	Others	2.2%	1.9%	0.3%
Non-OECD Countries	Latin America	28.0%	30.1%	25.5%
	Asia	8.8%	4.5%	5.2%
	Africa	2.2%	2.1%	1.2%
	Others	8.3%	6.2%	5.3%

The following table shows a breakdown of the percentage value of Pirelli Tyre purchases by type. It reveals that the largest and most significant purchasing category concerns raw materials, with an incidence on total purchases in 2013 of 60.5%, substantially in line with the figure for 2012 and on which impacted the increase in prices that characterised the year.

### PERCENTAGE VALUE OF PIRELLI TYRE PURCHASING BY TYPE

	2013	2012	2011
Raw materials	60.5%	58.4%	58.5%
Supplies	5.1%	4.4%	4.6%
Services	25.0%	26.5%	23.8%
Capital goods	9.4%	10.8%	13.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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

**PERCENTAGE OF DI PIRELLI TYRE SUPPLIERS BY TYPE OF PURCHASE**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Raw materials	2.6%	3.0%	2.8%
Supplies	34.6%	38.9%	40.5%
Services	51.4%	46.1%	46.2%
Capital goods	11.4%	12.0%	10.5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Finally, the following table shows the percentage breakdown by value of the mix of raw materials purchased by Pirelli Tyre in 2013, 2012 and 2011. With respect to 2012, in 2013 we see an increase in the incidence of synthetic rubber, chemicals and textiles versus a reduction of natural rubber due to the general price of rubber and the production mix. The volume of raw materials utilised for the production of tyres in 2013 amounted to approximately one million tonnes, of which approximately 6% derives from recycled materials, in line with the previous year.

**PURCHASED RAW MATERIALS PURCHASED BY PIRELLI TYRE MIX (BY VALUE)**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Natural rubber	24%	26%	35%
Synthetic rubber	29%	31%	27%
Carbon Black	13%	12%	11%
Chemicals	16%	14%	12%
Textile	11%	10%	8%
Steel cord	7%	7%	7%

**TARGETS FOR 2014**

- Green Sourcing Policy: definition and implementation of the operational guidelines.
- Continued training of suppliers.
- New audits on suppliers identified on the basis of the 2013 Risk Assessment, follow-up of the previously completed audits.
- Supplier Awards 2014: once again this year Pirelli will reward suppliers that have excelled during 2013 in terms of quality level, innovation, rapidity, sustainability, global presence, price, level of assistance and service.

