

03. SUSTAINABILITY
REPORT 2013

PIRELLI

SUSTAINABILITY REPORT 2013

VOLUME 3

of ANNUAL FINANCIAL REPORT

AT DECEMBER 31, 2013

Pirelli & C. S.p.A. – Milan

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A NOTE ON METHODOLOGY

The Pirelli Group Sustainability Report, in 2013 at the ninth edition, is the 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 an integral part of the Pirelli Annual Financial Report at December 31, 2013, of which it is the third volume:

- *Volume 1: Annual Financial Report at December 31, 2013;*
- *Volume 2: Annual Report on Corporate Governance and the Structure of Share Ownership 2013;*
- *Volume 3: Sustainability Report 2013.*

In light of this integration, note that:

- the Chairman's Letter at the beginning of Volume 1 of the Pirelli Annual Financial Report addresses Group sustainability issues;
- the scope and reporting period of this annual report is the same as the Group's Annual Financial Report at December 31, 2013 – Volume 1;
- this report gives a summary of the corporate identity, Group structure and operating performance in 2013, insofar as these topics are discussed in detail in Volume 1, to which reference is made for further information;
- the Summary Tables, found at the end of the report, link the specific GRI-G4 indicators with the principles of the Global Compact and the topics discussed both in this Volume and in Volumes 1 and 2.

The Sustainability Report has been drawn up according to the Sustainability Reporting Guidelines issued by the Global Reporting Initiative – according to the Comprehensive option of the GRI-G4 version. It has also been prepared in accordance with 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-G4 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).

The contents of the report were determined according to their materiality, including the most important themes for the Company and of greatest interest to Group stakeholders. They highlight and explain the progress made in 2013 in relation to the contents of the 2012 report, with an overview of trends during the past three years as well as the new 2014 and/or multi-year targets.

The management systems used to consolidate the data are CSR-DM (Corporate Social Responsibility Data Management), HSE-DM (Health, Safety and Environment Data Management), SAP-HR (SAP Human Resources) and HFM (Hyperion Financial Management).

The Sustainability Report was approved by the Board of Directors of the parent company Pirelli & C. on March 27, 2014 and was submitted for an Assurance Statement issued by an independent third party, SGS Italia S.p.A.

Finally, it is published – in Italian and English – in the Sustainability section of the Pirelli website.

To submit comments and ask for clarifications or further details, please refer to the Contacts published in the Sustainability section of the website. The Section also hosts the Sustainability Channel, , an interactive communication channel between Pirelli and the web community interested in sustainability news and events regarding the Group.

1. CREATION OF SUSTAINABLE VALUE

Founded in 1872 and listed on the Milan Stock Exchange in 1922, Pirelli makes tyres, which has been the core business of this Milan-based group for over a century.

Pirelli designs, develops, produces and sells tyres for automobiles, industrial vehicles and motorcycles. It manufactures tyres in 13 countries around the world – Argentina, Brazil, China, Egypt, Germany, England, Italy, Mexico, Romania, Russia, Turkey, United States and Venezuela – and operates a far-flung sales network serving over 160 countries.

Pirelli business operations are represented by two main segments. The Consumer business (accounting for about 70% of total net sales), which makes tyres for automobiles, Sport Utility Vehicles (SUV), light commercial vehicles and motorcycles. The Industrial business (accounting for about 30% of net sales) makes tyres for buses, trucks and agricultural equipment.

These businesses are focused in turn on two different sales segments: the original equipment segment, which directly targets automotive makers, and the replacement segment, represented by the replacement of tyres for vehicles already on the road.

Its technological know-how and innovative prowess have allowed Pirelli to strike agreements with the most prestigious car and motorcycle makers in the world.

Participating in sports competitions since 1907, Pirelli is the exclusive supplier to the Formula 1™ Championship for the three-year period 2014-2016 and the world Superbike Championship.

The excellence of its products, the fame of the Pirelli Calendar, the prestige of its participation in Formula 1™ and presence in the fashion industry contribute to the global success of the Pirelli brand that, according to the latest estimates by Interbrand, is worth euro 2.27 billion.

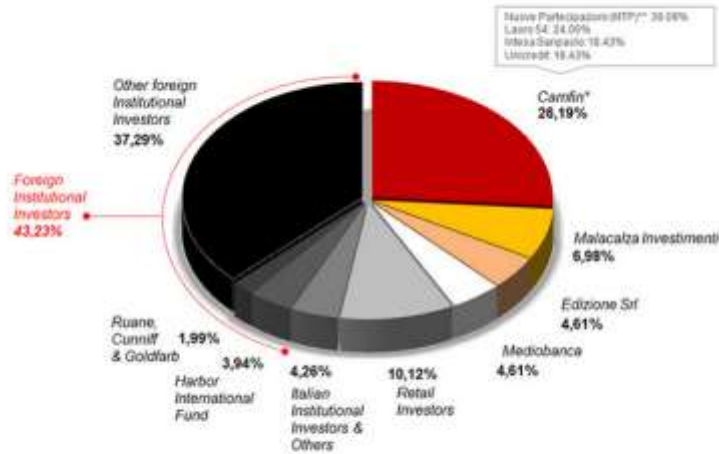
In line with its Premium and Green Performance strategy, Pirelli focuses constantly on quality, technology and low environmental impact products. In pursuing its objectives, Pirelli aims to combine economic profitability and social responsibility. In keeping with its century-plus industrial tradition, it continues to invest in international projects while maintaining strong roots in the local communities where it operates.

1.1 OWNERSHIP STRUCTURE OF PIRELLI & C.

On October 31, 2013, at the conclusion of consultations promoted by the Management of the Pirelli & C. S.p.A. Shareholders Agreement (Assicurazioni Generali S.p.A., Camfin S.p.A., Edizione S.r.l., Fondiaria-SAI S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Massimo Moratti and Sinpar S.p.A.) agreed to dissolve the agreement “effective from today”, and thus prematurely in relation to its scheduled expiry on April 15, 2014. Therefore, since October 31, 2013 the participants have been definitively and irrevocably released from all the commitments and obligations resulting from the agreement.

The following graphic illustrates the Pirelli ownership structure at December 31, 2013 and a focus on the significant number of shares owned by foreign shareholders.

Shareholders Structure

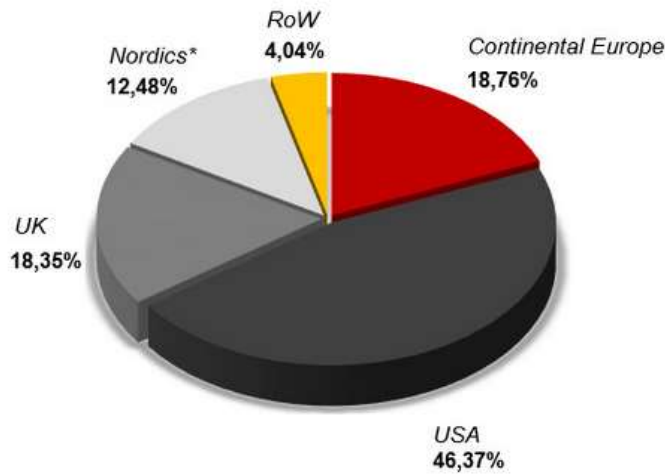


Source: Shareholder Register, Thomson Reuters December 2013, Consob Website April, 8 2014

* Shareholders listed in the box are the shareholding structure of Laura Sessantuno S.p.A., the sole shareholder of Camfin S.p.A.

** Company controlled by Marco Tronchetti Provera

Foreign Inst. Investors



(*) Denmark, Finland, Norway, Sweden.

There were no significant changes in the scope of the Group during 2013. More details are provided in the “Consolidated Financial Statements” section of the Annual Financial Report 2013.

1.2 SALES BY GEOGRAPHICAL AREA

In 2013 net sales totalled euro 6,146.160 million, up 1.2% from the previous year (euro 6,071.535 million), with 99.5% of net sales being generated by the Tyre Business, which is the core business of the Group. Excluding the exchange rate negative impact (-7.2%), the like-for-like figure was up 8.4%. A table illustrating the breakdown of Group sales by geographic area follows below:

(in migliaia di euro)

	2013		2012		2011	
Europa:						
- Italia	379.451	6,17%	425.260	7,00%	479.838	8,49%
- Resto Europa	1.679.367	27,32%	1.688.549	27,81%	1.803.475	31,89%
- Russia	254.122	4,13%	255.160	4,20%	40.605	0,72%
Nafta	682.053	11,10%	692.618	11,41%	561.320	9,93%
Centro e Sud America	2.174.235	35,38%	2.067.525	34,05%	1.915.467	33,87%
Asia/Pacifico	481.493	7,83%	420.400	6,92%	352.815	6,24%
Middle Est/Africa	495.439	8,06%	522.023	8,60%	501.273	8,86%
	6.146.160	100,00%	6.071.535	100,00%	5.654.793	100,00%

Green Performance revenues

Pirelli Green Performance tyres are simultaneously able to maximise respect for the environment and safety performance. To calculate Green Performance net sales, the Company refers to the currently most restrictive tyre labelling regulation, issued by the European Union, with the classification including those products whose environmental impact (rolling resistance) and safety performance (wet grip) falls in classes A, B and C of the European scale, considering the Group worldwide products.

The impact of Green Performance net sales as a percentage of total net sales of tyres at December 31, 2013 was about 42.4%, up from 39.6% in 2012. This figure is on the way to achieving the impact target, which is equal to about half of net sales by 2017.

1.3 BREAKDOWN OF EMPLOYEES BY GEOGRAPHICAL AREA AND GENDER

The Pirelli headcount at December 31, 2013 was 37,979 employees (37,338 in 2012 and 34,259 in 2011), for a net increase of 641 employees yoy, including 60 executives and staff employees and 581 blue collar employees.

	2013								
	ATTIVITA' TYRE			ALTRE ATTIVITA'			TOTALE PIRELLI		
	Uomo	Donna	Totale	Uomo	Donna	Totale	Uomo	Donna	Totale
EUROPA	12.770	2.692	15.462	104	108	212	12.874	2.800	15.674
NAFTA	994	158	1.152	0	0	0	994	158	1.152
CENTRO AMERICA E SUD AMERICA	13.466	779	14.244	0	0	0	13.466	779	14.244
MEA	3.231	80	3.311	0	0	0	3.231	80	3.311
ASIA PACIFIC	2.817	780	3.597	1	0	1	2.818	780	3.598
TOTALE	33.278	4.488	37.766	105	108	213	33.383	4.596	37.979

For a complete snapshot of employees during the three-year period 2013-2012-2011, with a breakdown by gender, category, average age, incoming and outgoing flows, reference is made to the sections "Pirelli employees around the World" and "Diversity Management" in the "Social Dimension" chapter of this report.

1.4 SUSTAINABILITY GOVERNANCE

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

The Underlying Principles of Pirelli, the Corporate Policies which implement them and the business development plans combine a precautionary approach with the creation of value.

THE PRINCIPLES UNDERLYING THE PIRELLI SUSTAINABILITY MODEL

The Pirelli sustainability model is inspired by the United Nations Global Compact, the Stakeholder Engagement principles set out in AA1000 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 of the Pirelli website.

Compliance of the Pirelli Sustainability Model with the AA1000 Principles and ISO26000 Guidelines was audited by a third party once again in 2013, as certified by the Assurance Statement at the end of this report.

UN Global Compact Lead

Pirelli belongs to the Global Compact Lead Companies, and since 2013 it has been a member of the Steering Committee of the Global Compact Lead. This initiative was officially launched in 2011 at the World Economic Forum in Davos by United Nations Secretary General Ban Ki-moon and the Director of Global Compact, Georg Kell.

The initiative is reserved to the global companies deemed capable by Global Compact to play an international leadership role on account of their own commitment to sustainable development, not only by complying with the ten principles of the Global Compact, but also by actively promoting the United Nations Millennium Development Goals.

Pirelli adheres to the "Blueprint for Corporate Sustainability Leadership", which offers leadership guidelines envisaged in the Global Compact that has been designed to inspire advanced sustainable and, above all, innovative performance in terms of management capacity for the creation of sustainable value. The Blueprint identifies three principal areas of interrelated and interdependent leadership criteria: (i) integration of the ten principles of the Global Compact in business activities and strategies; (ii) active participation in supporting the goals of the United Nations; (iii) establishing relationships, partnerships and activities with the other firms of the Lead, as well as with relevant bodies of the United Nations, in view of benefiting everyone.

As part of the Lead activities, Pirelli actively participated in the following activities in 2013:

- Post-2015 Development Agenda, in which the participating Lead Companies contribute to identification of the United Nations goals with a post-2015 vision, given that the Millennium Development Goals will be revised in 2015.
- Shaping the Future of Reporting, in which the participating Lead Companies work on identifying the best practices for complete and transparent reporting.
- Creating Long-term Value for Companies and Investors, a joint effort by the UN Global Compact and the United Nations Principles for Responsible Investment (UNPRI) – in which Pirelli acts as co-chair – aimed at improving communication between companies and investors on environmental, social and governance issues.

On March 13, 2013, the Chairman and CEO, the CFO and the Sustainability Manager of Pirelli gave a briefing for investors. To do so, they used the dedicated Global Compact platform, explaining the ESG strategy of Pirelli based on the Value Driver Model, which guides the activities of the initiative Creating Long-term Value for Companies and Investors.

The Sustainability Plan 2014-2017 with Vision to 2020 of Pirelli has been constructed according to the Value Driver Model, as will be described in more detail in the section of this report specifically dedicated to that topic.

The Values and the Ethical Code

The document outlines Pirelli's sustainable approach to business, by imposing strict, uniform guidelines for professional practices that everyone working in, for and with the Company must obey. Approved by the Board of Directors of Pirelli & C. S.p.A. in 2003, the Ethical Code was amended in 2009 to bring it in line with the evolution of the Group's sustainability strategy and to satisfy new market and corporate governance requirements. The updated version was approved by the Board of Directors of Pirelli & C.

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;
- imposes appropriate penalties for violation of the Code.

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

The Values and Ethical Code and the Whistleblowing Procedure have been distributed to all Pirelli employees in local language versions. Suppliers are also formally required to comply with the values and business approach set out in the Code. For this reason, the document is published in the Sustainability section of the Pirelli website, and not only in the languages spoken by employees but also in those that are most representative of the panel of suppliers.

Code of Conduct

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

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

The Code of Conduct outlines – extensively but not exhaustively - a list of permitted and prohibited conduct. The permitted conduct enjoins compliance with applicable laws and regulations in all countries where Pirelli operates, as well as the rules of conduct to be followed, while the prohibited conduct identifies forbidden activities. The principles and commitments described in the Code of Conduct also apply to relations with suppliers. Therefore, the Code of Conduct is available in the languages spoken by Pirelli Group employees and in those that are most representative of the panel of suppliers. The document is published in the Sustainability section of the Pirelli website.

Anti-corruption programme

On August 5, 2013 the Board of Directors of Pirelli & C. S.p.A. approved the anti-corruption programme, called the Premium Integrity Programme. This is the set of benchmark guidelines concerning prohibited practices of corruption. These

represent a systematic set of principles and rules that have already been adopted at Pirelli, complemented by “new” and specific measures, to prevent or reduce the risk of corruption, while further reinforcing the anti-corruption policy of the Group. In Italy, this programme also complements the Legislative Decree 231 Compliance Programme.

The Premium Integrity Programme defines the values, principles and responsibilities that Pirelli, all of its employees and everyone who has business or other collaborative relationships with the Company apply in the battle against corruption. It was developed after a specific audit of Group exposure to corruption risks in the countries where it operates.

This audit will be repeatedly periodically to guarantee constant monitoring of this risk. Adequate training and awareness programmes will also be defined as appropriate.

The Document was communicated to Group Employees in local language and is published in a number of different languages in the Sustainability section of the Pirelli website.

For more information, reference is made to the “Compliance” section elsewhere in this chapter.

Social Responsibility Policy for Occupational Health, Safety, Rights, and Environment

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

The commitments set out in the Policy are based on the cited regulations, declarations and convention, and thus the United Nations Global Compact and the contents of the International Standard SA8000[®]. The latter officially adopted by the Company in 2004 as the principal benchmark for management of its own 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, issued in 2004 and updated and signed by the Chairman in 2009, has been distributed to all employees in their local language and published in the Sustainability section of the Pirelli website, not only in the languages spoken by employees but also in those that are most representative of the panel of suppliers.

Equal Opportunities Statement

The Equal Opportunities Statement sets out the proactive approach taken by Pirelli to equal opportunities in the workplace and career development, while also clearly illustrating the Group’s approach to the development 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 Social Responsibility Policy for Occupational Health, Safety, Rights, Environment and – a priori – the United Nations Global Compact and the SA8000[®] Standard.

Suppliers are also formally required to comply with the principles and commitments stated in the Declaration, just as they must comply with the Code of Conduct, the Ethical Code and the Group policy on Social Responsibility for Occupational Health, Safety, Rights, Environment. The Statement, which was issued by the Chairman in 2006, has been distributed to all employees in their local language and published in the Sustainability section of the Pirelli institutional website, available to the External Community.

For more details on the management of diversity and equal opportunities at the Company, please see the section dedicated to these topics in Chapter 4 – Social Dimension of this report.

Quality Policy

The Quality Policy sets out the full integration of sustainability in the Group management strategy. Quality is at the centre of Pirelli activities, comprehensively extends to all functions and processes, from continuous innovation of products, services, processes and systems to protection of the safety, health and wellness of its employees, from environmental protection throughout the entire product life cycle to strategic collaboration with suppliers. The focus on the demands and

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

The Policy, updated and signed by the Chairman in 2009, has been distributed to all employees in their local language and published in the Sustainability section of the Pirelli website, not only in the languages spoken by employees but also in those that are most representative of the panel of suppliers.

Green Sourcing Policy

Pirelli issued its Green Sourcing Policy in December 2012. This document, which was signed by the Chairman, aims to stimulate and promote environmental awareness throughout the supply chain, and promote choices that can reduce the environmental impact of the sourcing of goods and services by Pirelli. The targets of this document are not only Group buyers but also the entire corporate population that can participate in the sourcing chain of a good or service.

The document strongly urges everyone to broaden their perspective as much as possible on the basis of a method that is summed up by "Reduction, Reuse and Recover", and analysis of all the possibilities for reducing their associated environmental impact throughout the entire supply chain. This is why the term "sourcing" is preferred to "purchasing."

This Policy highlights the active role taken by Pirelli in the supply chain, and thus by including what is conceived and conceived in-house but outsourced for manufacturing.

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

- “life cycle” – which is the only approach taken by the Group so that it may decide on the basis of complete and inclusive analyses;
- “Reduction, Reuse and Recovery” – these are the macro-categories that determine how the impact of a good or service is reduced.

The Policy explicitly requires that guidelines for implementation of the imposed principles be drafted.

Therefore, interdepartmental working groups were created in 2013, headed by the Quality, Sustainability and Purchasing Departments, which produced:

- 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;
- the “Pirelli Green Purchasing Guidelines”, a document targeting Pirelli suppliers, to be part of the Supply Agreement, based on the Green Sourcing Manual, which contains the KPI (Key Performance Indicators) to assess Suppliers’ Green Performance.

For more information about the sustainable management of the supply chain, reference is made to the section “Our suppliers” in this report.

1.5 SUSTAINABILITY IN THE ORGANISATIONAL STRUCTURE

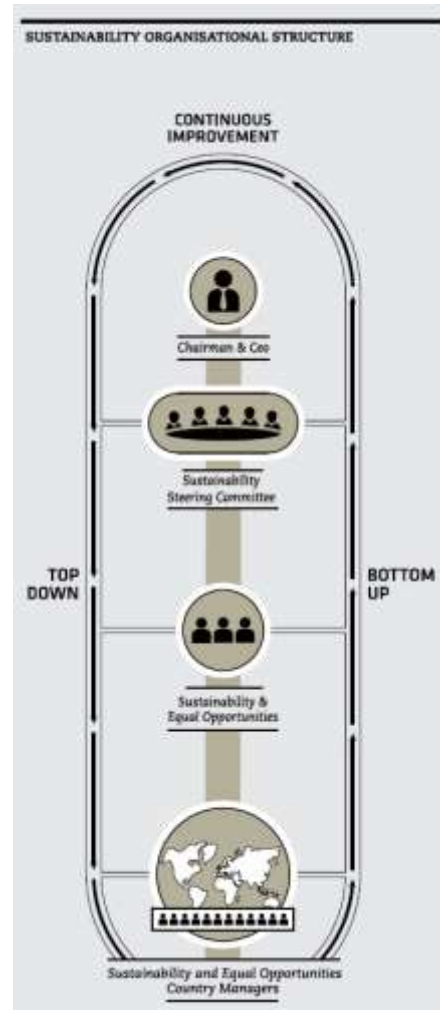
The organisational basis of sustainability governance is represented by the Sustainability Steering Committee, which is also responsible for equal opportunity issues and policy. This body, which was formed by the Chairman at the beginning of 2004 and is chaired personally by him, is responsible for setting policy and guiding the advancement of sustainability throughout the Group.

Then, the organisational structure is made up of a Group Sustainability and Risk Governance Department, and comprises the Group Sustainability and Equal Opportunities Office, and the Sustainability & Equal Opportunities Country Managers, covering all Group affiliates.

The Board of Directors of the parent company Pirelli & C. approves the Sustainability Report, as well as the sustainability strategies and plans that are presented to the market together with the Group Industrial Plan.

The Sustainability Report is approved by the Italian listed Parent Company on a voluntary basis, since it is presently not mandated by any statutory or regulatory obligations.

In regard to risks and opportunities, including environmental, social and governance (ESG) strategic and governance risks, the Board of Directors of the parent company Pirelli & C. examines and approves the Annual Risk Assessment and periodically monitors its implementation.

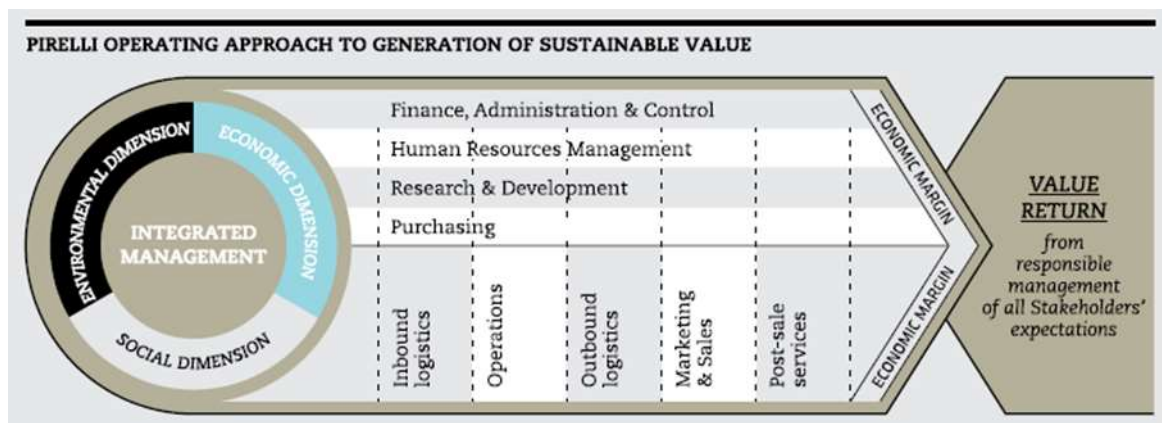


1.6 OPERATING APPROACH TO THE GENERATION OF SUSTAINABLE VALUE

As shown in the following infographic, responsible management at Pirelli flows through the entire value chain.

Every operating unit integrates economic, social and environmental responsibility for its own activity, while cooperating constantly with the other units, implementing the Group strategic guidelines.

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



1.7 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:

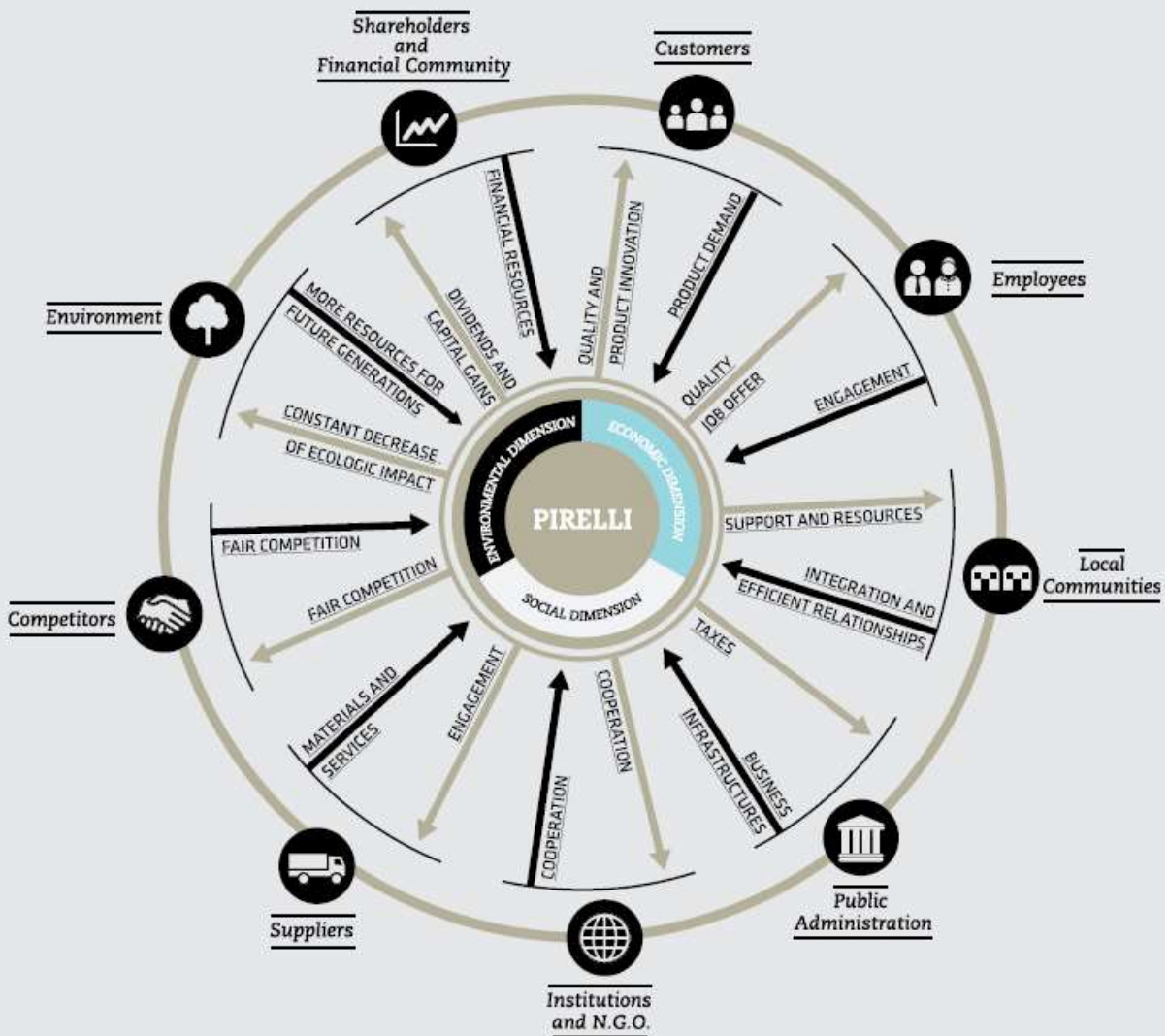
- shareholders, investors and the financial community;
- customers, since the Pirelli way of doing business is based on customer satisfaction;
- employees, who are the repository of Group know-how and drive its development;
- suppliers, with which it shares a responsible approach to business;
- competitors, 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 existing interrelationships between stakeholders are based on the AA1000 Model adopted by the Company, and are analysed in detail for effective management of relations with them and creation of sustainable and shared value.

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

PIRELLI MODEL OF STAKEHOLDER ENGAGEMENT

MAXIMIZATION OF VALUE FLOW FROM COMPANY TO STAKEHOLDERS AND VICE VERSA



STAKEHOLDER ENGAGEMENT ELEMENTS

<p>Shareholders and Financial Community Dialogue / Economic and Financial Performance / Transparency / Corporate Governance</p>	<p>Employees Dialogue/Fair remuneration / Talent attraction, development and retention / Care for diversity and equal opportunity / Health and Safety on the workplace</p>	<p>Public Administration Dialogue / Compliance / Global citizenship / Business ethics / collaboration</p>	<p>Suppliers Dialogue / Shared development partnership / Supply chain sustainability</p>
<p>Customers Dialogue/Product Excellence (safety, performance, eco-efficiency) / Reliability / Full Customer Satisfaction</p>	<p>Local Communities Dialogue / Job creation / Social and Financial contribution / Respect for Human Rights / Plants with low environmental impact</p>	<p>Institutions and N.G.O. Dialogue / Partnership / Support</p>	<p>Competitors Loyal competition</p>
			<p>Environment Product and process eco-efficiency / LCA management approach</p>

Dialogue, interaction and engagement are calibrated according to the consultation needs of different groups of stakeholders, and include meetings, interviews, surveys, joint analyses, roadshows and focus groups. The received feedback substantiates the corporate assessment of the action priorities, influencing the development strategy outlined in the Sustainability Plan, which in turn is fully integrated in the Industrial Plan. The frequency of consultation is very high, several times a year on average for each group of stakeholders.

The results of dialogue with the stakeholders and their forms are illustrated in detail in the sections of this report that are dedicated to documenting activities related to each of one of the different groups of stakeholders.

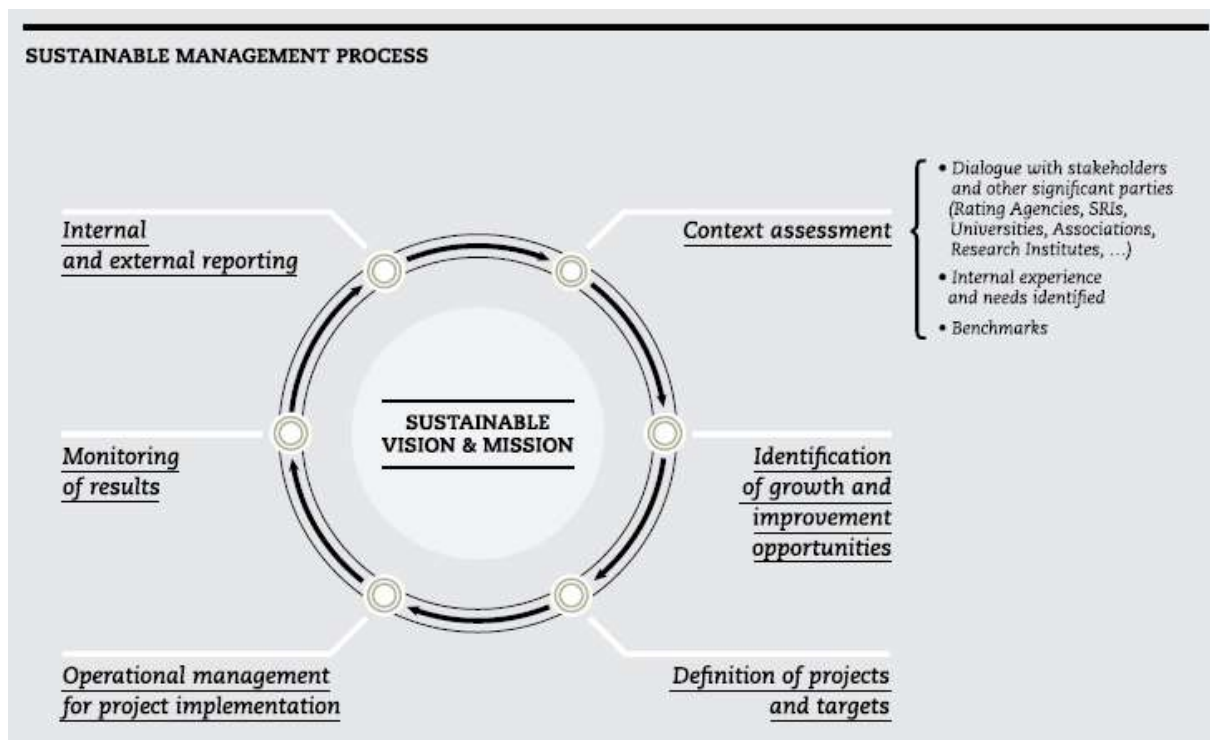
Pirelli provides all of its stakeholders with a whistleblowing channel – published in a number of different languages both internally and on the Pirelli website – through which they can communicate with the company openly or anonymously.

The purpose of this specific channel is to report any act or omission committed by parties inside Pirelli, related to Pirelli or on behalf of Pirelli, where that act or omission might constitute a violation or inducement to violate laws and/or regulations, the principles set out in “The Values and Ethical Code” of Pirelli, the principles of internal control, corporate policies, rules and procedures, and/or that might directly or indirectly cause economic or financial damage or harm the reputation of Pirelli companies.

For more information about the Procedure and the complaints received in 2013, reference is made to the specific section located elsewhere in this chapter.

1.8 SUSTAINABLE PLANNING AND MANAGEMENT

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



1.9 MATERIALITY ANALYSIS OF SUSTAINABLE GROWTH ELEMENTS

To optimise calibration of the commitment that Pirelli dedicates to sustainable growth issues, the Company has conducted a sophisticated stakeholder engagement activity. This involved comparing the expectations of the principal stakeholders of Pirelli on these issues with the relevant importance to business success..

Considering the complexity of Company stakeholders, their dispersal around the world and thus the variety of their expectations, this report has been prepared according to the “comprehensive” approach set out in the GRI-G4 Reporting Guidelines. This is to guarantee all stakeholders complete information about the sustainability elements that each of the categories has found in different ways to be more or less significant.

The materiality analysis of the strategic issues of sustainable growth have resulted in Pirelli asking for the opinion of its own stakeholders at the international level, considering their level of interest in the Company and vice-versa, and identifying

them with the support of the Group departments with which the Pirelli Sustainability and Governance Department interfaces every day. The panel of Company stakeholders who have been asked to give feedback have included:

- the biggest original equipment customers;
- hundreds of end customers for each representative market;
- the most important dealers worldwide;
- numerous employees who work in the various nations where the Group has a presence;
- the biggest suppliers (in terms of sales to Pirelli) in each procurement category;
- the principal shareholders, investors and financial analysts of Pirelli;
- national and supranational institutions and public administrations;
- Journalists from domestic and international newspapers;
- NGO present in each of the countries where Pirelli has productive activities;
- Universities located in each of the countries where Pirelli has productive activities.

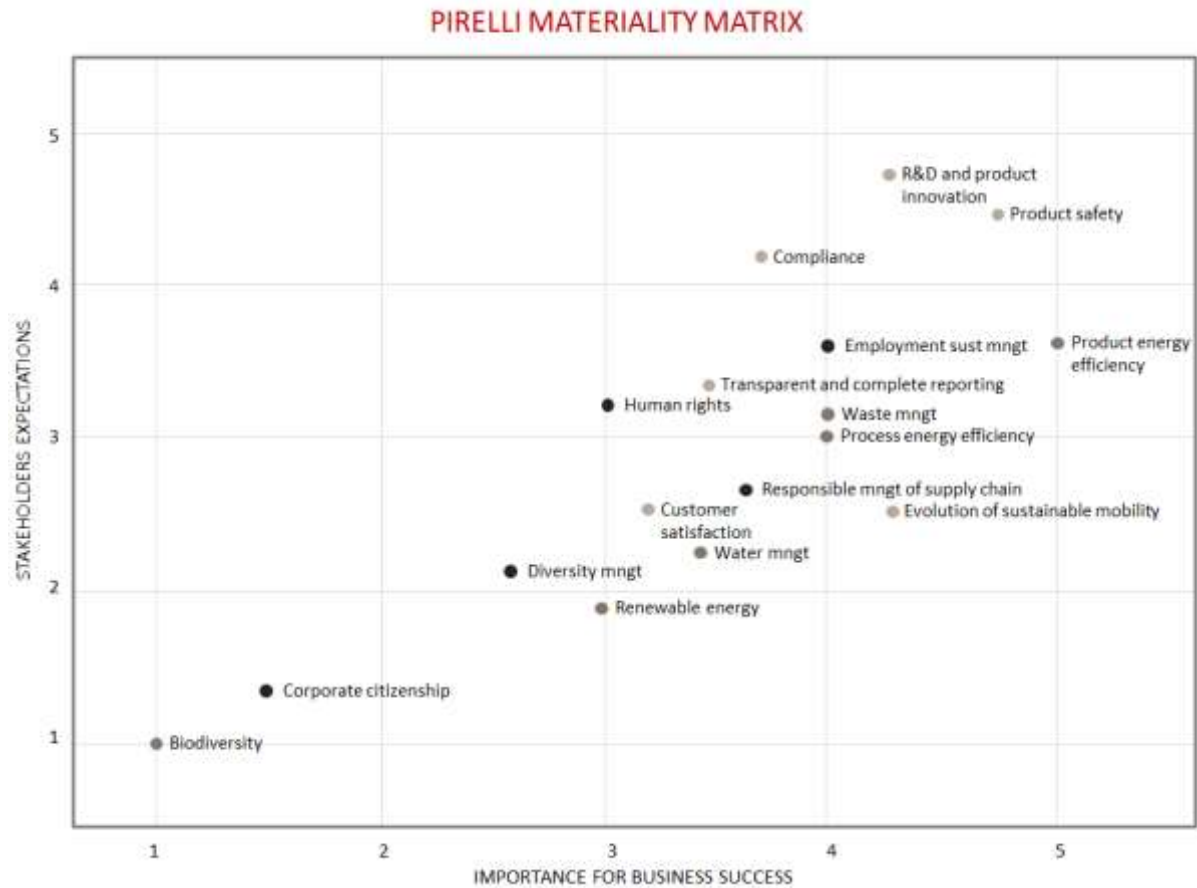
The stakeholders were engaged through a request – made in their local language – to assign an action priority to the following ESG themes, according to their expectations on Pirelli :

- product energy efficiency: commitment to reduce the tyre rolling resistance during use; this allows fuel savings and reduction of CO₂ emissions in the environment;
- process energy efficiency: commitment to reduce the energy consumption of the tyre manufacturing process; this makes it possible to reduce CO₂ emissions into the environment;
- renewable energy: commitment to introduce the use of renewable energy in the tyre manufacturing process; this makes it possible to reduce CO₂ emissions into the environment;
- water management: commitment to reduce water consumption in the tyre production process, so as to minimise the impact on water resources;
- waste management: commitment to reduce the production of waste in the tyre production process, while simultaneously reusing and recycling waste products;
- product safety: commitment to improve tyre safety performance, particularly in the most critical use situations, such as cold, wet, snow and other conditions;
- responsible management of the supply chain: application of procedures that require suppliers to comply with social responsibility, environmental and business ethics rules and policies; monitoring of supplier performance in this regard;
- compliance: company commitment to full compliance with local and international laws, regulations, procedures and guidelines;
- evolution of sustainable mobility: capacity of the Company to have a long-term vision (2030-2050), to anticipate market expectations and swiftly adapt its own business to the evolution of sustainable mobility;
- biodiversity: collaboration with the local communities in what are considered "protected" areas to preserve and improve local biodiversity;
- sustainable human resources management: the Company's commitment to constantly improving job conditions, such as health and safety, training and development, and remuneration;
- human rights governance: commitment by the Company to respect and support human rights, to prevent and manage the risk of negatively impacting human rights that might result from its own activities;
- business citizenship: commitment by the Company to support local communities through social support projects and the commitment to build and maintain positive relationships with institutions and non-governmental organisations;
- management of diversity and equal opportunities: commitment by the Company to guarantee equal opportunity at the workplace and to develop diversity as a business tool;
- customer satisfaction: commitment by the Company to assure maximum customer satisfaction, through the excellence of its products, customer relations and offered services;
- research, development and product innovation: commitment by the Company to invest in research, development and innovation as key to long-term success;
- complete and transparent reporting: transparency of the Company in giving clear and complete reports on its own financial, social and environmental performance and the related targets.

The priorities expressed by Pirelli and its stakeholders were then consolidated and visualized in a map, on a matrix whose vertical axis indicates the expectations of external stakeholders, while the horizontal axis indicates the importance assigned by the Company to the analysed elements for the success of this business.

Finally, the draft map was submitted for assessment by an independent third party that is a leading ESG (Environmental, Social and Governance) analysis firm. The ESG Independent Analysts have compared the Pirelli draft map results with the contents of the ten international studies they considered as the most significant and trustworthy ones among those focused on Auto Components sector materiality, evaluating the prioritization level attributed to the different ESG themes. The results of this analysis, together with their own International ESG experience, allowed Analysts to suggest little changes to the position of some issues in the Pirelli draft map.

The result of the whole process above described is the following Pirelli Materiality map:



The map shows an high concentration of sustainability elements in the upper right quadrant that indicate those issues deemed fundamental by the parties involved. A low degree of materiality then concerns the themes in the lower left quadrant.

The “diagonal line” that results from the mapping of the sustainability factors is extremely important, insofar as it indicates the level of consistency between the vision of Pirelli and its stakeholders. Finally, the the substantial alignment with stakeholder expectations results in the targets of the Sustainability Plan 2014-2017 with Vision 2020 that the Company has adopted.

1.10 SUSTAINABLE GROWTH STRATEGY: INDUSTRIAL PLAN 2013-2017 WITH SUSTAINABILITY TARGETS 2020

The top management of the Group presented the Industrial Plan 2013-2017 to the financial community in London on November 6 2013. This plan includes the Sustainability Plan with Vision to 2020.

ECONOMIC AND FINANCIAL TARGETS

The Industrial Plan forecasts revenues to grow by an average growth rate of approximately 7.5% between 2013 and 2016, enabling Pirelli to reach 7.5 billion euro by the end of the period.

Growth in value-added segments and an incisive efficiency plan underpin the expected improvement in profitability: ~15% Ebit margin before restructuring costs expected in 2016, +2pp growth with respect to 2013.

The expected strong cash flow generation will be used to fund investments, distribute dividends and reduce indebtedness to reach a target ratio between net debt and Ebitda of 0.3x in 2017 as compared with 1.2x in 2013.

RESEARCH AND DEVELOPMENT

To Pirelli, “Premium” means cutting edge technology coupled with product excellence.

Pirelli R&D can count on:

- More than 40 years of experience in the Premium segment;
- HQ in Milan and 10 Regional centres, 1400 engineers and numerous ‘open innovation’ projects with University research centres and car makers;
- R&D budget totally dedicated to Premium equals 7% of Premium sales;
- Global partnerships with the most prestigious car makers to meet the more demanding requirements in terms of performance, safety and product customization, which are key for the Replacement market development.

Meeting the 2013-2017 targets calls for an additional push in innovation, as follows:

- **CAR:** Development of 14 new product lines, of which 6 for the Winter season, designed for the global market and taking into consideration the specific Regional peculiarities. Focus on niche products, like Runflat, Seal Inside and Noise Reduction.
- **MOTO:** Launch of 10 new Pirelli and 11 Metzeler products, including a new Radial line for the South American market and Metzeler Custom Touring line for North America
- **TRUCK:** 11 new Tyres, including the new Regional with a greater mileage and tread reconstruction technology, Highway and City with top rolling resistance and completion of the Winter range. A further development of Cyber Fleet service range is also envisaged.
- **AGRO:** Renewal of the product range and co-operation with major brands - John Deer, CNH and AGCO – in OE, with the further aim of developing products meeting local requirements.

EFFICIENCY PROGRAMMEA continuous search for efficiencies is one of the elements making Pirelli an increasingly profitable company.

Between 2010 and 2013, Pirelli profitability almost doubled, also due to a cost reduction amounting to 322 €/mln.

According to the Plan, further efficiencies of approximately 350 €/mln are to be achieved by 2017, equal to approximately one percentage point of revenues every year.

Of these:

- approximately 320 €/mln will come from efficiencies in industrial and product activities (materials, labour cost, cost control and production picking up in countries with low industrial costs);
- 30 €/mln will come from SG&A, including projects for the optimisation of the sales structure and for central and regional overhead cost reduction

INVESTMENTS AND PRODUCTION CAPACITY

The investments made until 2013 allowed Pirelli to achieve the adequate plant size. Plants are:

- Characterised by a progressive technological upgrade, consistent with our focus on Premium, and
- Mainly located in countries with low industrial costs (100% of Industrial and 78% of Consumer production capacity)

Having reached the investment peak in 2011, Pirelli is embracing a whole new phase of value generation and benefits from past investments and from the reorganization of the production setup, including the opening of high-mix plants in Mexico, China and Romania.

The new Plan provides for investments up to 1.6 €/bln over the next four years, accounting for 5% of revenues in 2017 as against 7% in 2013.

Through these investments, the overall capacity of the Consumer Business will grow from the current 69 mln pcs per year to 81 mln in 2017, with the Premium segment forecast to increase to 63% of the total production compared with the current 48%. In the Industrial Business, capacity will grow from the current 6.2 mln to 6.8 mln in 2017.

GENERATION OF CASH FLOW Strong cash generation to be used for investments, dividend distribution and to reduce indebtedness

Between 2014 and 2017, Pirelli envisages a gross cash generation, before investments and dividend distribution, equal to 3 billion euro, in addition to the sale of financial assets for 150 million euro.

These resources will be used to:

- Fund 1.6 billion euro to be invested over the four years of the Plan;
- Distribute more than 700 million euro in dividends, with a payout confirmed at 40% of consolidated net profits;
- Reduce our net financial position, with what is left, i.e. 850 million euro of net cash flow

The strong cash generation will improve our net financial position from the estimated <-1.4 billion euro at the end of 2013 to approximately -500 million euro in 2017, with the resulting improvement of the net debt/EBITDA ratio going from 1.2x to 0.3x.

SUSTAINABILITY TARGETS

The Sustainability Plan 2013-2017 includes selected targets for 2020.

It integrates, supports, accompanies and protects the Group Industrial Plan and was developed according to the “Value Driver” model developed by UN PRI (United Nations Principles for Responsible Investment) and the UN Global Compact to promote dialogue between investors and companies on Sustainability issues. G growth, productivity, governance and risk management are the development guidelines used in defining the targets for 2020.

Inter alia, the Plan forecasts:

- Green Performance product net sales to be 48% of Tyre net sales in 2017;
- a rolling resistance reduction that in the Car segment will reach -40% in 2020 as compared with 2007;
- further expansion of Pirelli technology to produce silica from risk husks, which will also be applied to premium tyres by 2017;
- the results of research on alternative sources of natural rubber from Hevea are expected by 2016, with possible use of rubber from guayule (project conducted with Versalis – ENI Group);
- the use of innovative, function-enhancing polymers is expected by 2015, guaranteeing reduced environmental impact, improved driving safety and process efficiency;
- a reduction by 90% in the workplace accident frequency rate by 2020 compared to 2009 figure. This target will be achieved by investing in increasingly safe machinery and programmes to reinforce the safety culture among Group employees;
- reduction of 15% in CO₂ specific emissions and of 18% in energy specific consumption by 2020 compared to 2009 level, with an expected saving of about euro 25 million and 400,000 tons of CO₂ during the 2014-2017 period;
- reduction of 58% in the specific water withdrawal by 2020, with an expected saving of 2,700,000 water cubic metre during 2014-2017;
- Towards zero waste to landfill: 95% waste recovery rate by 2020, with an expected savings of about euro 60 million by 2017 due to the reuse of industrial wastes;
- keeping research and development spending for premium products at 7% of net premium products sales, with the aim to further develop and increase premium products safety while lowering the environmental impact;
- growing investment in risk mitigation and prevention of business interruption: CAGR -8.3% by 2017 as compared with 2013; new proxy to monitor gender equal remuneration, including performance, rank and labour market seniority parameters;
- investment in employee training equivalent to average of seven man days by 2015 and ≥ 7 in the following years;

- adoption of increasingly advanced models for management of economic, social and environmental responsibility in the supply chain, in view of shared development.

1.11 LONG-TERM GOVERNANCE TOOLS

CORPORATE GOVERNANCE

The Pirelli Corporate Governance system is based on:

- the central role played by the Board of Directors, in its capacity as the supreme body in charge of strategic policy and overall company management, with authority to set general management policy and to take direct action on a series of significant decisions that are necessary or useful to pursuing the corporate purpose;
- the central role of independent directors who account for the large number of the members of the Board of Directors;
- an effective internal control system;
- an innovative and proactive risk management system;
- a remuneration system, in general, and an incentive system, in particular, of managers tied to medium and long-term economic goals, by creating a strong link between remuneration, on the one hand, and individual and Pirelli performance, on the other;
- a rigorous set of rules governing potential conflicts of interest and a robust code of conduct for executing related party transactions.

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

Pirelli & C. has adhered to the Corporate Governance Code of listed companies ever since it was first published by Borsa Italiana (in October 1999; Pirelli subsequently adopted the new July 2002 version, and then the March 2006 version). At the Board of Directors meeting held on March 12, 2012, Pirelli declared its acceptance of the new Corporate Governance Code (December 2011) published on the Borsa Italiana website. In accordance with the provisions of the traditional management and control model, management of the Company is delegated to the Board of Directors, which plays a key role in its strategic guidance, and in supervision of the overall business activity, with authority to set policy for overall management and to act directly in a series of significant decisions that are necessary or useful to pursue 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.

After its renewal on April 21, 2011, the current Board of Directors established four committees: the Internal Control, Risks and Corporate Governance Committee, the Remuneration Committee, the Nominations and Succession Committee and the Strategies Committee, designating their members and the Chairman of each one.

At the first meeting that can be held after the committee meetings, the Chairmen of these committees report to the Board of Directors on the activities that they perform, possibly submitting proposals for resolutions. Moreover, at least once every six months, the Internal Control, Risks and Corporate Governance Committee and the Remuneration Committee send a report to the Board of Directors on the activities performed during the six-month period (see the functions of the committees as illustrated in the Corporate Governance Report).

Since 2004 the “slate voting” system assures non-controlling interests the right to designate one fifth of all Directors, if at least two slates of nominees are submitted.

At December 31, 2013 the Pirelli Board of Directors had 20 Directors, who were elected by the Shareholders’ Meeting on April 21, 2011. 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. Since 2006, a large number of seats on the Board of Directors has been held by independent directors.

Since November 2005, in view of further reinforcing the role of independent directors, the Board of Directors decided to introduce the position of Lead Independent Director as the contact person for coordination of motions and contributions made by the independent directors.

During 2013 members of senior management attended the Board of Directors and Board committee meetings. Their participation aims at providing the Directors with detailed information about financial, social and environmental issues, among others.

In particular, aside from the detailed analysis of the period results, when the Board of Directors approved the Sustainability Report 2012 (which is an integral part of the Annual Financial Report), it also verified the integration of the financial choices made by Pirelli with those adopted in the social and environmental areas.

Moreover, consistently with the the recommendations made by the Corporate Governance Code of Borsa Italiana and consolidated Company practice, in view of improving the knowledge of Company affairs and dynamics by all Directors and Statutory Auditors, several working lunches were also held in 2013 to examine specific business and corporate governance issues in closer detail.

Since 2004 the Pirelli by-laws have required that the Board of Directors be elected by using the slate voting system.

To comply with the modifications introduced by Law 120 of July 12, 2011 in regard to gender quotas for the composition of listed companies and, therefore, to assure gender balance, the by-laws require that the slates submitted for election of the Board of Directors which contain three or more candidates must include a number of candidates of the least represented gender that is at least equal to the minimum number required by current law and/or regulations, as specified in the notice of call for the Shareholders' Meeting.

For more information about the mechanisms established to guarantee gender balance on the Board of Directors, reference is made to the Company By-laws available on the Pirelli website, Governance section.

When the shareholders prepared the slates for election of the Board of Directors, they considered the individual candidates' experience in handling economic, social and environmental issues. This was stemmed partly from the fact that the Corporate Governance Code of Borsa Italiana requires that at least one member of the Internal Control, Risks and Corporate Governance Committee and the Remuneration Committee have adequate experience have adequate experience in accounting, finance or risk management and in finance or remuneration policies. In the Directors' Report to the Shareholders' Meeting for renewal of the Board of Directors, the Board of Directors recommended that shareholders consider the slate preparation recommendations of the Corporate Governance Code when they submit their slates.

Similar attention was also dedicated by the Board of Directors when they co-opted directors when Board seats were vacated.

In regard to "conflicts of interest", the Director must notify the Board of each interest (even if not in conflict) that he has on his own behalf or on behalf of third parties in a specific transaction of the Company, by specifying its nature, terms, origin and scope. If this involves the Chief Executive Officer, he must abstain from executing the transaction, deferring the decision to the Board of Directors. In these cases, the Board of Directors must adequately justify the reasons and advantages of the transaction for the Company.

It is also noted that:

- in the Annual Report on Corporate Governance and the Structure of Share Ownership 2013 prepared by the Board of Directors pursuant to Art. 123-bis of the Consolidated Law on Finance ("TUF", available on the Pirelli website, Governance section), information is provided about the principal positions held by the Directors in other companies not belonging to the Pirelli Group.. Moreover, the Board of Directors has also adopted a specific policy consistent with the recommendations of the Corporate Governance Code that limit the number of positions that each Director may hold in other companies;
- in the Annual Report on Corporate Governance and the Structure of Share Ownership 2013 prepared by the Board of Directors pursuant to Art. 123-bis of the Consolidated Law on Finance information is provided about the principal positions held by the Directors in other companies not belonging to the Pirelli Group, with those positions being construed as holdings that exceed 2% of the Pirelli share capital. Moreover, the Investors section on the Pirelli website provides a detailed view of the ownership structure;
- no shareholder presently exercises control or dominant influence over the Company pursuant to Art. 2359 Italian Civil Code;

- in the Annual Financial Report, the Half-yearly Financial Report, the quarterly reports and the Annual Report on Corporate Governance and the Structure of Share Ownership the relationships between Pirelli and its related parties is documented.

For more information on the experience of the individual Directors in regard to economic, social and environmental matters, reference is made to their curricula vitae, which are available on the Pirelli website, Governance section.

The Board of Directors approves the Sustainability Report, as well as the sustainability strategies and plans that are presented to the market together with the Group Industrial Plan.

The Sustainability Report is approved on a voluntary basis, since for the Company this is presently not mandated by any statutory or regulatory obligations.

In regard to risks and opportunities, including environmental, social and governance (ESG) strategic and governance risks, the Board of Directors of the parent company Pirelli & C. examines and approves the Annual Risk Assessment by periodically monitoring its implementation.

For more details on the Corporate Governance System, please refer to the “Annual Report on Governance and Share Ownership” – Volume 2 of the Annual Financial Report at December 31, 2013.

HUMAN RIGHTS GOVERNANCE

The Pirelli Group pursues and supports the respect of human rights affirmed in international venues. These values have always been firmly anchored in corporate management.

Human Rights Governance is fully integrated in the Sustainable Management System adopted by Pirelli, which is based on the United Nations Global Compact of the, of which the Company has been an active member since 2004 – as well as a member of the Steering Committee of Global Compact Lead – the ISO26000 guidelines and the provisions of SA8000 Standard.

The commitment of Pirelli to Human Rights is specifically addressed in “The Pirelli Group Values and Ethical Code”, approved by the Board of Directors, and in detail, in the Social Responsibility Policy for Occupational Health, Safety, Rights, and Environment”, signed by the Chairman and which provides that “The sustainable development strategies of the Group presume, inter alia, a commitment to continuous improvement of the environmental, occupational health and safety aspects related to its own activities, in firm compliance and support of the contents of the “Universal Declaration of the Rights of Man”, 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”, before listing all the commitments made by Pirelli in this regard, including reference to each of the ILO Core Labour Standards and its extension to the supply chain.

The “Equal Opportunities Statement”, also signed by the Chairman, is dedicated to the Group commitment to equal opportunities and non-discrimination.

Any human rights violation may be reported to the Company by using the Whistleblowing Procedure. A section is dedicated to the Procedure elsewhere in this chapter, to which reference is made for more detailed information on the received reports. However, none of the Reports received in 2013 concerned alleged violations of human rights or ILO Core Labour Standards, with specific reference to forced labour, child labour, freedom of association and bargaining, and non-discrimination, as also stated in the Independent Assurance Statement published at the end of this report, and to which reference is made.

All of the aforementioned documents have been distributed to employees in their local language. They are also an integral part of the sustainability clauses of contract applied to Group suppliers, as well as being published on the Pirelli website in the languages spoken by Pirelli employees and its principal suppliers.

In regard to human rights governance, Pirelli acts on the basis of the recommendations set out in the “Guiding Principles for Business and Human Rights: implementing the United Nations Protect, Respect and Remedy Framework” of 2011, which translate into actual company practise the three pillars “Protect, Respect and Remedy” identified in 2008 in the “Framework for business and Human Rights” by Professor John Ruggie, Special Representative for companies and human rights at the United Nations.

Moreover, human rights are included in the mapping of materiality of sustainability factors for Group strategies. The mapping, which consolidates the opinion of all categories of Company stakeholders, including employees, suppliers, institutions and dozens of NGOs present in the countries where the Company operates, is published in this chapter.

The human rights management processes are handled by the Pirelli Sustainability & Risk Governance Department, which acts in concert with the affected and responsible functions, and in reference to the internal and external community.

Before investing in a specific market, ad hoc assessments are conducted of any political, financial, environmental and social risks, including those related to the respect of human and labour rights. The context inside and outside the company is monitored in those countries where Pirelli does operate, in view of preventing negative impacts on human rights in the ambit of the sphere of corporate influence, and if so, remedying them.

In terms of materiality in the corporate value chain, the respect of human rights assumes particular importance in the human resources and the supply chain areas..

The management of human rights in the supply chain is reported in the section dedicated to Pirelli suppliers, Chapter 2 of this report, to which reference is made for more details.

The management of human and labour rights in the Pirelli internal community is reported in the section dedicated to “Compliance with statutory and contractual obligations governing overtime, time off, freedom of association, equal opportunities and non-discrimination”, in Chapter 4 of this Report and to which reference is made for more details.

Both management areas – Employees and Suppliers – are managed by using training and monitoring tools that have been consolidated over the years.

The Pirelli Training Model also draws newly hired employees’ attention to the Group’s sustainability policies and the commitments they involve, as detailed in the Ethical Code, the Code of Conduct, the Equal Opportunities Policy, and the Social Responsibility Policy for Occupational Health, Safety, Rights, and Environment, thus including Pirelli upholding the contents of the “Universal Declaration of Human Rights”, the International Labour Organisation’s “Declaration on Fundamental Principles and Rights at Work”, the “Rio Declaration on Environment and Development” and the United Nations “Convention against Corruption”, as well as the indications of Standard SA8000®, beginning with the ban on forced labour and child labour, and then free bargaining, equal opportunities and non-discrimination. All of these issues are also the subject of training courses for all Sustainability and Purchasing Group managers..

Specifically in regard to Suppliers training, following the training project targeting strategic suppliers provided by e-learning format in 2012, Pirelli extended the same sessions to all Group security service providers worldwide during 2013. This training course addressed aspects of labour rights, human rights, respect for the environment and business ethics..

Together with constant co-ordination and monitoring at the corporate level, compliance with Pirelli human rights and labour rights requirements and environmental sustainability and business ethics rules is assessed in periodic audits commissioned by Pirelli to specialised independent firms, as well as through Audits performed by the Pirelli Internal Audit Department. The audit activities carried out in 2013, both at Pirelli sites and supplier sites, are extensively discussed in the Risk Governance section of this chapter, as well as in the section “Industrial Relations” of the third chapter, to which reference is made for more details. It should be noted that none of the audits revealed any breach of the ILO Core Labour Standards, with specific reference to forced labour or child labour, free association and bargaining, and non-discrimination, as also stated in the Independent Assurance Statement published at the end of this report, and to which reference is made.

In regard to the context outside the Company, beginning with the local communities where the Company operates, Pirelli pursues dialogue, especially with representatives of local and national institutions and non-governmental organisations. This allows the Company to define its own activities in support of local development. The Company dedicates special attention to initiatives in support of children, training, sport and health. The initiatives in favour of the external community are described in Chapter 4 of this report, to which reference is made for more details.

The Human Rights Management System was audited once again this year by independent party, in the terms and with the results described in the Assurance Statement at the end of this report.

Conflict Minerals

The concept of “conflict minerals” was introduced in Section 1502 of the Dodd-Frank Act, the 2010 United States federal statute. “Conflict minerals” means gold, columbite-tantalite (coltan), cassiterite, wolframite and their derivatives, such as tantalum, tin and tungsten that originate (or are extracted) in the Democratic Republic of Congo (DRC) and/or bordering countries.

The objective of the Conflict Minerals Rules is to discourage the use of minerals whose trade might finance violent conflicts in Central Africa, where serious human rights violations have been reported for years.

In accordance with the Conflict Minerals Rules, listed United States companies are asked to conduct reasonable due diligence to trace the origin of these materials, reporting the results to the SEC and publicly on its own website. The first report must be published by May 31, 2014 (for 2013), and subsequently updated every year.

The European Commission on March 5th 2014 proposed a draft Regulation setting up an EU system of self-certification for importers of tin, tantalum, tungsten and gold who choose to import responsibly into the Union. The proposed Regulation is accompanied by a "Communication" (a proposal), a paper that presents the overall comprehensive foreign policy approach on how to tackle the link between conflict and the trade of minerals extracted in affected areas.

The focus devoted by Pirelli to human rights issues and, at the same time, its own position as a supplier in the supply chain of customers that actively perform due diligence, have led the Company to conduct a thorough investigation of its own supply chain during 2013, to identify the existence of any conflict minerals.

It is worth indicating, however, the substantially very limited impact of the issue within Pirelli: the volume of minerals (3T+G) used by Pirelli Tyre on a yearly basis is less than 1 ton. This quantity corresponds approximately to one millionth of the raw material volume used annually by the Company and is equally distributed among the large majority of the tyres produced; as an example, a 10 kg passenger tire contains 10 mg (milligram) of tin equivalent, in the very low concentration of 1 ppm (one part per million).

With the ambition to source only conflict-free minerals, Pirelli has asked its own suppliers to fill out form EICC GeSI (EICC/GeSI Conflict Minerals Reporting Template), developed by EICC (Electronic Industry Citizenship Coalition) and GeSI (Global e-Sustainability Initiative), in an attempt to obtain full visibility of the supply chain, all the way to the mines. This process of reasonable due diligence will be completed in 2014 and then will continue with continuous monitoring. The results as of December 31, 2013 were positive, with a significant portion of due diligence already completed and no suspicion of conflict minerals in the supply chain.

RISK GOVERNANCE

The current macroeconomic situation, financial market instability, management processes complexity and continuous legislative and regulatory evolution entail a renewed capacity to protect and maximise tangible and intangible sources of value and the strategic objectives that characterise the corporate business model. Pirelli adopts a pro-active risk management system. It uses a systematic process of identifying, analysing and assessing risk-prone areas to provide the Board of Directors and management with decision-making tools so that they can anticipate and manage the effects of these risks, 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 model 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;
- pro-actively seizing opportunities;
- disseminating inside the Company the “culture” of the value at risk, particularly in strategic and operating forecast and planning processes and in the most important corporate choices ;
- assuring transparent disclosure of the assumed risk profile and implemented management strategies, through periodic and structured reporting to the Board of Directors and top management, and adequate disclosure to shareholders, as well as to all stakeholders in general.

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

- enterprise-wide, i.e. extended to all potentially significant types of risk/opportunities;
- value-driven, i.e. focused on the most significant risks or opportunities according to their capacity to prejudice attainment of the strategic objectives of Pirelli or to 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.

The Pirelli Risk Model systematically assesses three categories of risks: external risks, strategic risks and operating risks. These risk families guide the objectives of risk management, the control system and governance bodies (see the next section).

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

The Internal Control, Risks and Corporate Governance Committee analysed the results of risk assessment during four meetings held in 2013.

Risks and Uncertainties

The principal areas of risk to which the Company may be exposed are also illustrated in detail in the section “Principal Risks and Uncertainties” included in the Directors' Report on Operations – *Volume 1: Annual Financial Report at December 31, 2013*, to which reference is made for an extended discussion of these risks. The three risk macro-families, the risk management objectives, and the dedicated Control Model are described as follows.

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

This category includes the risks related to macroeconomic trends, changes in demand, the strategy of competitors, technological innovation, new regulations, and country risk (and specifically economic, security, political and environmental risks).

The aim of risk management is to monitor risks and mitigate their impact if they materialise. The Control Model is based on the adoption of internal and external tools to identify and monitor risks, stress tests to assess the robustness of plans, identification of alternative scenarios, business case studies to assess the impact of material changes in context, etc.

After a year, 2013, dominated by a high degree of uncertainty, Pirelli expects – consistently with forecasts by leading analysts – that the global economy will gradually accelerate in 2014.

In mature economies, a partial relaxation of austerity measures in the public sector and a lower level of indebtedness in the private sector (especially in the United States) should sustain growth on both sides of the Atlantic. Improvement in the economic fundamentals of the United States and, to a lesser extent, in Europe, should also permeate emerging economies in terms of greater exports and further improvement in financial market confidence.

Elements of uncertainty will remain and might derive, inter alia, from the tapering of quantitative easing in the United States, possible political tensions in the more economically fragile emerging countries and, last but not least, geopolitical tensions in the Middle East.

Although subject to impact by the exogenous factors indicated above, the automotive market is forecast to expand at an average annual rate of 3.7% until 2017, with a steady increase in the impact of the premium segment. Even during economic crisis, the performance of the tyre market confirms the wisdom of the choice made by Pirelli to focus its activities on the premium segment. Even in the face of a situation caused by the difficult international business cycle, the premium segment will continue to grow at a rate three times faster than the non-premium segment, with a forecast annual average global increase of 7.3% between 2013 and 2017, as compared with a 2.4% rate in the non-premium segment (+3.6% overall growth).

In regard to the evolution of demand over the long-term, some social and technological trends might have a material impact on the automotive sector and indirectly on the tyre market. On the one hand, these are represented by growing urbanisation (according to United Nations estimates, about 70% of the global population will live in urban areas in 2050) and, on the other hand, by changes in the values and behaviour of younger generations (increase in the average age when a driver's license is obtained, loss of importance of owning a car, increased recourse to various types of car sharing).

These factors will be complemented by the spread of information technologies, with a concurrent expansion of e-commerce and/or telecommuting, and frequent regulatory changes in both mature and emerging economies to limit the presence of polluting vehicles within and near metropolitan areas. These dynamics might be followed by an evolution in automotive sector demand (from changes to vehicle dimensions or type of propulsion system to possible resizing of cars to satisfy the transportation preferences of citizens), with contingent impact on tyre sector dynamics.

Pirelli constantly monitors the evolutionary changes in automotive sector demand by actively participating in international working groups, such as the one engaged in the Sustainable Mobility 2.0 (SMP 2.0) project sponsored by the World Business Council for Sustainable Development (WBCSD). The principal aim of SMP 2.0 is to study the possible long-term evolution in urban mobility and promote solutions that might improve the social, environmental and economic well-being of the urban population.

Strategic risks, that are typical for a specific business sector. Proper management of these risks is a source of competitive advantage or, on the contrary, a cause for failure to achieve plan targets (annual and multi-year targets).

This category includes market risk, product innovation and process risk, raw material price risk, production process risk, financial risk, organisational risk, and M&A risk.

Risk management aims to manage risk by means of specific tools and protections designed to reduce its likelihood or limit its impact should it materialise in a risk – yield perspective.

The Control Model is based on identifying and measuring PBIT/Cash Flow@Risk when strategic management plans are prepared, defining risk appetite and risk tolerance for principle risk events, introducing Key Risk Indicators in Group reporting, monitoring of mitigation plans associated with material risks in the absence of specific, previously implemented and operational business protection measures. Specific analysis, as reported in *Volume 1: Annual Financial Report at December 31, 2013*, to which reference is made for an extended discussion of these risks, has been performed on:

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

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

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

In regard to strategic risks, commodities (natural rubber, synthetic rubber and petroleum based raw materials – especially chemicals and carbon black) and exchange rates (especially South American currencies) will continue to represent a factor of uncertainty in the structure of Group costs.

Operational Risks, that are the risks generated by the organisational structure, processes and systems of the Group and do not attribute any competitive advantage if they are assumed.

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

The aim of risk management is to manage these risks through prevention measures and internal control systems integrated in corporate processes. The Control Model is based on the development of ad hoc methods for measuring risk, defining mitigation and prevention plans, and continuous monitoring of their implementation. Specific analysis, as reported in *Volume 1: Annual Financial Report at December 31, 2013*, to which reference is made for an extended discussion of these risks, has been performed on:

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

The analysis of operational risks is an integral part of the Group internal control system. Ad hoc methods are developed for each area of risk to measure the vulnerability of control systems and their possible impact on the Group. The vulnerable areas revealed by this analysis are the object of continuous follow-up activity by the Operational Risk Committee.

In 2013 the Group undertook a series of mitigation actions to reduce the vulnerability of the supply chain. In particular, this involved extending the portfolio of approved plants by individual supplier, approval of alternative materials/suppliers, increase in the levels of safety stocks of critical materials, supplier audits, etc.

A joint effort was launched in 2013 with certain of the Group's principal suppliers to agree on areas for improvement of the principal business interruption risks at their production sites, including the sharing of Pirelli best practices applicable to loss prevention.

In regard to the impacts from climate change, no significant risks have been found in relation to production processes. Instead, in terms of opportunities, Pirelli Green Performance tyres exhibit growth potential, given the relevant lower environmental impact and the possible regulatory evolution in many countries as it was in Europe with European labelling standards.

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

In 2014 a new control panel will be used for constant monitoring of the evolution in the environmental, social and governance Key Performance Indicators linked to the targets defined during strategic planning and for prompt identification of possible risk factors that might slow down achieving them.

Moreover, since 2013 Pirelli has decided to develop an ad hoc method to identify and measure reputational risks, construed as the present or prospective risk of lost profits or lower share price resulting from negative perception of the Company by one or more stakeholders. While on the one hand reputational risk has to be construed as the contingent occurrence of a negative event tied to one of the three macro-families of risks mentioned above, on the other hand it must be managed as an independent event precisely because its scope depends on the expectations of stakeholders and the impact of the negative event.

The method that will lead to identification of reputation risks in 2014 will consider a series of internal and external drivers, such as: negative events with an impact on reputation that occurred in the industry worldwide over the last ten years; interviews with external Key Opinion Leaders on sector trends, particularly mobility and sustainability; interviews with internal Key Opinion Leaders. The identified risk events will be measured by the stakeholders general public in the key countries for the Group and will lead to definition of the governance and management structures, as well as the preparation of any mitigation and/or crisis management plans.

For more details on risk governance, reference is made to *Volume 2: Annual Report on Corporate Governance and the Structure of Share Ownership 2013*.

Independent audits of social and environmental responsibility and business ethics

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

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

Together with constant co-ordination and monitoring at the corporate level, compliance with Pirelli economic, social (especially human rights and labour rights) and environmental sustainability rules is assessed in periodic audits commissioned by Pirelli to specialised independent firms, and by the Pirelli Internal Department

Particular attention is devoted to the sustainability of Pirelli's sites and the company's suppliers' sites operating in emerging countries.

The Internal Audit function has been directly involved in the sustainability audit process at Pirelli affiliates and monitoring of 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.

The three-year internal auditing plan covers all Pirelli sites. Normally every audit is carried out by two auditors and takes three weeks on site. The Internal Audit Team received training on the environmental, social and ethical elements of an audit to enable them to carry out an effective, clear and structured audit, granting Pirelli an effective control over all aspects of sustainability.

Both the external and internal auditors conduct their audits on the basis of a check-list 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, and Environment and from the Group Ethical Code.

Third party audits, each lasting an average of two-three days on site, include extensive interviews with workers, management and trade union representatives. The Purchasing Managers and the Sustainability Managers that coordinated local audits of suppliers performed by third party were adequately trained and informed about the audit aims and procedures by the delegated headquarters functions: in this case, Sustainability and the Procurement Department. All managers of the audited affiliates were also adequately trained and informed about the audit aims and procedures by the central Sustainability and Industrial Relations functions.

In regard to Pirelli sites, audits were conducted in 2008 at Company facilities in Turkey, Brazil, Venezuela, Argentina, Egypt, China, Romania, Colombia, Mexico and Chile. In 2011 Pirelli commissioned third party audits that covered the production sites in Argentina, Venezuela, Brazil, China, Egypt, Turkey and Romania. In 2012 the Internal Audit function conducted sustainability audits at Company facilities in Italy, Brazil, Argentina, Venezuela and Turkey and, in 2013, in Argentina, the United States, Romania and Brazil. The audits will continue in Italy, United Kingdom, Egypt and China in 2014.

Although the compliance violations uncovered by the audits were not serious, they were addressed in action plans agreed by the local managers and central management. The Internal Audit Department is monitoring the status of implementation of agreed action plans, through specific follow-up measures.

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

With reference to Suppliers' sites, 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 were started, concluding in 2013. In the majority of cases the audits involved suppliers of Pirelli Tyre operating in ESG risk countries, namely Brazil, Argentina, Egypt, China, Romania, Turkey, and Venezuela, or countries from which Pirelli purchases raw materials, such as Indonesia, India, Malaysia, Thailand, Japan, Russia and Korea. Among the Western countries in which Pirelli conducts its business, audits were carried out on Pirelli Tyre suppliers in Italy, UK, Germany, the Netherlands and the United States.

On the basis of the audit results, Pirelli required a recovery plan to Supplier, designed to prevent, mitigate or remedy any non-compliance found. The Plan typically 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. Since 2012, the Internal Audit function has also been directly involved in the process of monitoring the implementation status of the suppliers' compliance plans.

Critically observing the results of the supply-chain 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 has been no contract termination due to the results of the audits. The recovery plans following 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 the Pirelli suppliers perceive the importance of compliance with the sustainable management factors, partly in consequence of the engagement of their other customers. This certainly contributes to a virtuous circle of continuous improvement.

REPUTATION GOVERNANCE

In an ever-more competitive macroeconomic environment, the new behaviour of stakeholders dictates the evolution of the dynamics of how businesses must relate to them.

We have transformed from a consumer economy to a reputation-based economy, where stakeholders' expectations go beyond the quality of the product and financial performance. The performance of the Company is measured in terms of produced and shared value, ethics and transparency, and care for sustainable environmental and social management.

It suffices to note that 5 points of improvement in the perceived environmental, social and governance performance of a firm corresponds to a 9% increase in consumer support – according to the result of the Reputation Institute's 2013 Global CSR RepTrak® 100 Study, a survey of more than 55,000 consumers in 15 countries.

This is why environmental, social and governance issues, in the Italian example according to the Reputation Institute, the wish to trust determines the desire of 42% of people to admire and support a business.

In this sort of context, traditional communication no longer has the expected effectiveness. What the stakeholders say about the Company is more important than what the Company says about itself. This new way of critically evaluating the performance of a Company influences the purchasing process, its stock performance, its appeal to new talent and the acceptance of industrial sites in local communities, just to mention a few.

High reputation and good performance are (and will increasingly be) inextricably interrelated.

Pirelli, aware that its own success as a company will also depend not only on its own work, but also on the support that the Company will receive from stakeholders, has been able to intercept these dynamics and equip itself for this new phase, among the first multinational companies to set up its own organisation dedicated specifically to reputation governance.

Pirelli has established and is introducing specific procedures to improve its own reputation, using a precise measurement system and working on alignment of the intangible activities with the strategic drivers set out in the Industrial Plan, with the drivers that have the greatest impact on its reputation and considering the diversity between geographical areas and markets. The Company is also working on the construction of a system for protection and mitigation of reputational risks, as mentioned in the previous section.

COMPLIANCE

Compliance management activities are performed by the Group Compliance Function, a unit of the Corporate Affairs and Compliance Department, through cross-disciplinary interaction with all corporate functions to guarantee that internal regulations, process and corporate activities are always consistent with the applicable statutory and regulatory framework. The Compliance Function discharges its duties by actively participating in the identification of risks of compliance violation with the internal and external regulations that might result in legal and administrative penalties and consequent harm to the Company's reputation. During 2013, revision of the Legislative Decree 231 Compliance Programmes adopted by Group companies continued, resulting in the updates and modifications deemed necessary in the light of the new “presumed offences” added to the list of offences given in Legislative Decree 231/2001. This includes the offence of “bribery between private parties”.

Methodological support activities on Law 262/05 also continued for the “Corporate Financial Reporting Manager” and Group companies to guarantee that corporate activities are performed in compliance with Law 262/05.

The activity begun at the end of 2011 in connection with the anti-corruption programme was completed in 2013. The aim of this programme is to evaluate several areas deemed potentially at risk of bribery (intermediaries; relations with the Public Administration; business transactions for purchase or sale; gifts, trips and entertainment expenses; sponsorships and promotional activities; charitable activities; financing of parties or politicians; human resources; facilitation payments), in the 15 countries of material interest to the Group, the issue of business liability for corruption offences to determine specific safeguards, if appropriate.

On August 5, 2013 the Board of Directors of Pirelli & C. S.p.A. approved the anti-corruption programme, called the Premium Integrity Programme. This is the set of benchmark guidelines concerning prohibited practices of corruption. These represent a systematic set of principles and rules that have already been adopted at Pirelli, complemented by “new” and specific measures, to prevent or reduce the risk of corruption, while further reinforcing the anti-corruption policy of the Group. In Italy, this programme also complements the Legislative Decree 231 Compliance Programme.

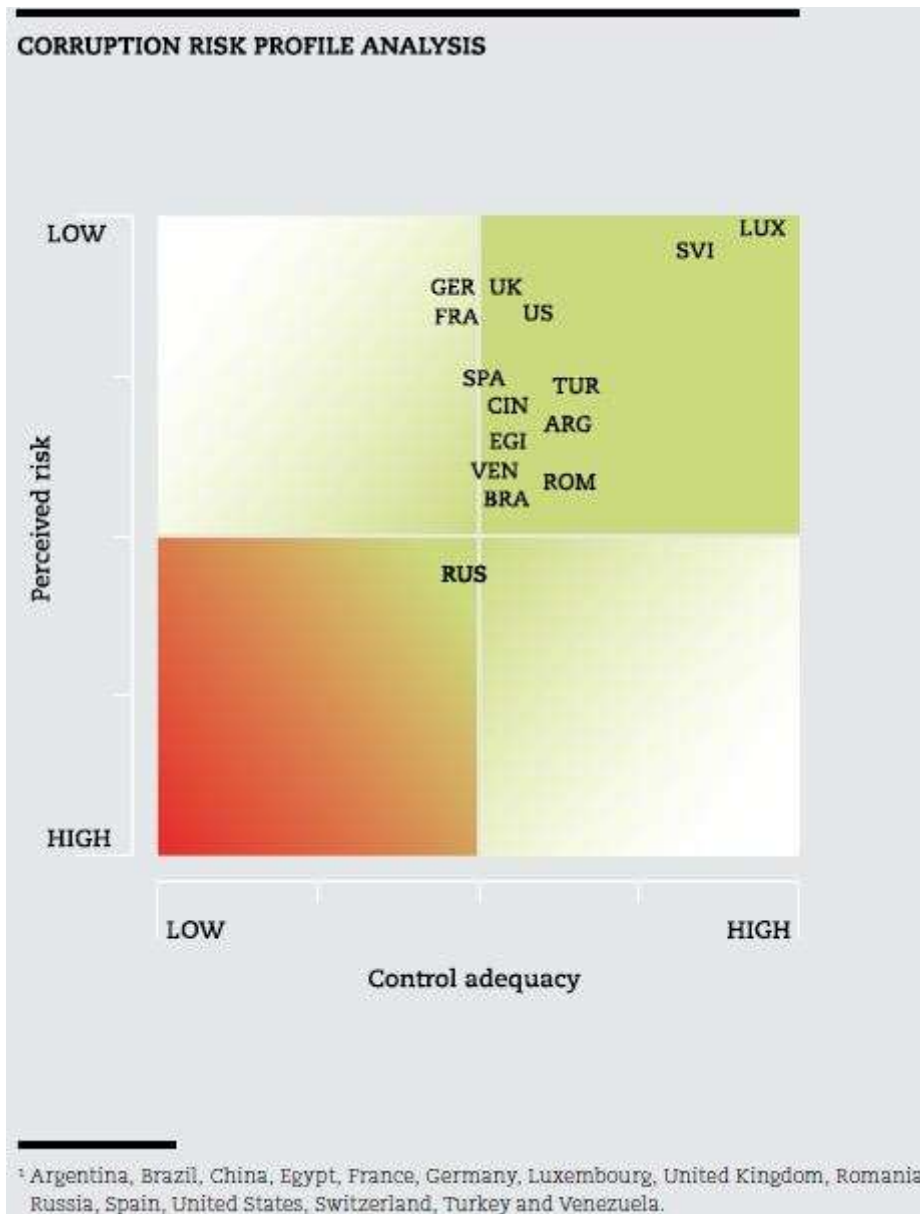
The anti-corruption programme was agreed with the Internal Control and Corporate Governance Committee and then approved directly by the Company Board of Directors. Formal notice thereof was given to all Group employees in their local language. The document has also been published on the Company website in 22 different languages for the benefit of all stakeholders.

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 complimentary 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.”

Premium Integrity has been developed out in the following steps:

- Mapping of National and International Regulatory Framework applicable to corporate liability for acts of corruption;
- Risk Profile Analysis on the basis of two scenarios:
 - perceived risk stemming from combination of the level of perceived corruption (associated with the Corruption Perception Index 2011 benchmark calculated by Transparency International) with management’s perception of the level of risk in each country;
 - adequacy of safeguards against vulnerability derived from combination of the guaranteed protection in areas deemed to be exposed to contingent corruption risks associated with the benchmark provided by the Internal Audit Function on the Internal Control System.

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



Pirelli monitors the risk of corruption, and if appropriate updates its risk analysis if its scope changes following “the admission” of “high-risk” countries (as defined in the Transparency International index), and defining education and awareness programs as appropriate.

In 2013 training and communication of the administrative liability of companies continued, pursuant to Legislative Decree 231/2001. This activity has been substantially completed and affected 98% of 1,649 employees at 12 Italian companies. A project to implement a Segregation of Duties (“SoD”) program was launched in 2013, aimed at further reinforcing the internal control system and preventing fraud.

In regard to the contributions made in favour of the External Community, for years Pirelli has adopted an internal procedure to regulate the distribution of gifts, contributions and payments to the External Community by Group companies and in regard to the roles and responsibilities of the functions involved, the operating process of planning, realisation and monitoring of the initiatives and disclosures related to these projects.

A key contribution to the initiatives satisfying local requirements is given by the dialogue with the locally operating NGOs. Priority is given to the initiatives whose positive effects on the External Community are tangible and measurable according to objective criteria.

The internal procedure also specifies that no initiatives may be taken in favour of beneficiaries for whom there is direct or indirect evidence of violation of human rights, worker rights, environmental protection or business ethics.

As envisaged in the “Pirelli Values and Ethical Code”, 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.”

In regard to sponsorship activities, in 2013 Pirelli updated its own operating procedure regulating the conception, planning, approval, management and control process of sponsorship activities by defining the roles and responsibilities of the functions involved, while guaranteeing the functional segregation of the activities.

The projects to be sponsored must always satisfy specific Guidelines in order to be approved by the Brand and Advertising Committee. The responsible function may grant formal and traced authorisation of the sponsorship only upon complete and total compliance with the Guidelines and necessary requirements.

The Guidelines define the following as prerequisites for obtaining approval of sponsorship projects:

- synergy with Group strategy and consistency with brand strategies and corporate communication;
- high visibility and impact of sponsored project;
- measurable return in terms of business or measured on the basis of media equivalent measurement standards for brand and communication projects;
- morality, fairness and integrity of the sponsored party, the parties controlled by, controlling or otherwise related to the sponsored party;
- expected use of Pirelli brands in accordance with Group policy.

As in the case of the procedure that governs charitable donations, the rules governing sponsorships specifies that no initiatives may be taken in favour of political parties, labour unions or their representatives or candidates, or in favour of beneficiaries for whom there is direct or indirect evidence of violation of human or worker rights, environmental protection, or business ethics.

Finally, the Pirelli Compliance Programme envisages two specific internal control systems concerning sponsorships and charitable donations, respectively based on the definition of criteria for:

- identification of the sponsorship projects and adequate contractual organisation;
- identification of the initiatives and adequate assessment of how the donations or payments are used or the outcome of the initiatives.

For control and prevention purposes, all internal audits are also designed to monitor the risk of criminal offences, including corruption and fraud risk.

Once again, in 2013 there was no case of corruption or any public prosecution involving corrupt practises.

Finally, in 2013 support of the activities of Transparency International continued to be provided. Pirelli has joined this organisation as a supporter of educational projects, aimed at promoting the active role of civic and moral education in strengthening civil society against crime and corruption, holding that only pro-active and concrete measures to promote values can lead to general improvement in the quality of life.

GROUP WHISTLEBLOWING PROCEDURE

The Group Whistleblowing Procedure is a tool that supports compliance and internal control activities, as well as risk prevention. Pirelli provides its shareholders, employees, suppliers, customers, all its stakeholders, and the general public with this channel to report any acts or omissions adopted by any party within Pirelli, in its relations with Pirelli or on its behalf such that constitute or may constitute a violation or inducement to violate laws and/or regulations, the principles enshrined in the Pirelli Values and Ethical Code – obviously including equal opportunities –, principles of internal control, company policies, rules and procedures and/or that can either directly or indirectly give rise to economic, financial or reputational damage for Pirelli Group companies.

The Procedure explicitly encourages employees who are aware of potential or real situations of violation to report them immediately – even anonymously – to the Company, with the guarantee that their identity will be kept absolutely confidential and that they will not suffer reprisals of any kind.

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.

An e-mail address (ethics@pirelli.com) is provided to anyone who wishes to file a report. That e-mail address is managed at the corporate level by the independent Internal Audit Function and is to be used by all Group affiliates and the External Community. The Group Internal Audit Department is responsible for:

- preparing, managing and updating the guidelines for transmitting notices; receiving, recording and analysis the reports received;
- 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);
- planning 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.

An updated version of the Whistleblowing Policy was approved during a meeting of the Board of Directors in March 2013. The updated procedure has been distributed internally in local language versions and is also published on the Pirelli website.

Group suppliers also have the Whistleblowing Reporting Channel (ethics@pirelli.com) specifically indicated in the Sustainability Clauses included in every supply contract.

The following table summarises the content and the number of reports received in 2012 and 2013.

	2012	2013
Total Reports	8	11
<i>Anonymous reports</i>	3	6
<i>Archived due to absolute vagueness</i>	2	3
<i>Investigated</i>	6	8
Countries of origin of report	Italy, Brazil, Egypt, Poland, Mexico	Italy, Brazil, Argentina, Venezuela
Allegation made in report	employee misconduct, trade union claims, a case of discrimination	employee misconduct, one case of post-sales disservice
Outcome of investigated cases	revision and modification of processes if deemed appropriate, a measure by the Human Resources Department	revision and modification of processes if deemed appropriate, measures by the competent functions and Human Resources Department, action in satisfaction of customer

With reference to the above table, you may find here some comments.

Eight reports were received during 2012 from Italy, Brazil, Egypt, Poland and Mexico. Four of these reports were received at the e-mail address given in the Group Whistleblowing Procedure (ethics@pirelli.com); three reports were received directly by management, which in turn alerted the Internal Audit Department. One report was received by the Legislative Decree

231/01 Compliance Program Supervisoroy Body at a Group company, which in turn alerted the Internal Audit Department to conduct an investigation. Three of the eight whistleblowing reports were received in anonymous form, while the remaining five were signed by the whistle-blower.

It was impossible to conduct any investigation into two of the anonymous reports, given the absolutely vague details provided. Instead, for the other six reports, the Internal Audit Department was able to conduct specific audits on what had been reported.

The examined reports concerned alleged misconduct by management, union claims, and discriminatory conduct against an employee. The results of the audits conducted on the basis of these six reports did not find any violations of laws, regulations, ethical principles or corporate procedures. In one case, it was decided to inform the Human Resources Department, which took the appropriate measures.

Eleven whistleblowing reports were received instead in 2013, from four different countries (Italy, Brazil, Argentina and Venezuela). Of these, eight reports were received at the e-mail address provided in the Group Whistleblowing Procedure (ethics@pirelli.com) and/or directly at the Internal Audit Department. Three reports were received directly by management, which in turn alerted the Internal Audit Department to conduct an investigation.

Six of the eleven whistleblowing reports were received in anonymous form, while the remaining five were signed by the whistle-blower.

It was impossible to conduct any investigation into three of the anonymous reports, given the absolutely vague details provided. Instead, for the other eight reports, the Internal Audit Department was able to conduct specific audits on what had been reported.

The examined reports mainly concerned alleged misconduct by employees. Upon conclusion of the audits carried out in response to these eight reports, no violations of laws, regulations, ethical principles or corporate procedures were found in four of the reported cases. However, the other four reports triggered the involvement of delegated corporate functions, and particular the Human Resources Department which, after reviewing the evidence, took action as provided by internal procedures and the applicable employment agreements.

Upon conclusion of the investigations, the Internal Audit Department conducted specific audits of the corporate processes involved in the whistleblowing incidents, and revised or modified them as necessary.

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

In regard to reports by the External Community, it is confirmed that no whistleblowing reports signed by suppliers or other categories of stakeholders were received at the whistleblowing e-mail address, with the exception of one received in 2013 from a customer involving an alleged case of post-sale disservice, where the Company took action in satisfaction of the customer's requests.

However, it is objectively impossible to confirm that absolutely no such reports have been received from suppliers, insofar as certain reports were made anonymously, as mentioned above.

The slight increase in reports in 2013 from 2012 may be attributed to repetition of the communication campaign to employees in their local language, advising them about the procedure and how to use it.

1.12 STOCK MARKET INDICES AND ETHICAL FINANCE

The commitment to create long-term value that characterises the company's responsible management and economic, social and environmental performance, has led to Pirelli being ranked on some of the world's most prestigious stock market sustainability indices for years. Pirelli is also substantially held in the portfolios of socially responsible investors, both inside and outside Europe. Specific road shows are dedicated to socially responsible investors, as illustrated in more detail in the section on relations with investors and the financial community presented in Chapter 2 of this report.

The major ethical finance indices on which Pirelli appears in 2013 are illustrated as follows.

DOW JONES SUSTAINABILITY



Pirelli has been included in the Dow Jones Sustainability indices since 2002. For the seventh year in a row, Pirelli was confirmed as global sustainability leader in the ATX Auto Components segment in September 2013, as part of the Dow Jones Sustainability World and Europe indices. Pirelli's overall rating for 2013-2014 was 85 points, compared with an industry average of 51.

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

In January 2014 Pirelli was named World Sustainability Leader in the ATX Auto Components" Sector and Gold Class Company for the seventh year in a row in the prestigious Sustainability Yearbook 2014, published by RobecoSAM. The Yearbook is one of the most complete and authoritative global reference tools for sustainable finance specialists. It includes only the top sustainability scoring companies, ranked as such by RobecoSAM in the Dow Jones Sustainability Assessment, or 15% of firms in 58 business sectors.

FTSE4GOOD



Pirelli has been included in the FTSE Global and European STOXX indices since 2002. Pirelli's 2012 rating in the Automobiles & Parts sector was 100 out of 100, up from 99 in March 2012 and 98 in September 2011. The analysed universe is the one of the FTSE All-Share Index and the FTSE Developed Europe Index..

CARBON DISCLOSURE LEADERSHIP



Also in 2013 Pirelli has been included in the Carbon Disclosure Leadership Index (CDLI), with a rating of 96 (compared with 89 in 2012), which is the top ranking among leading global tyre makers.

Carbon Disclosure Project (CDP) is an independent, non-profit organisation that offers companies and countries a system for measuring, recording, managing and sharing global information on climate and water resource change. Today more than 3,700 organisations present in the most economically developed countries measure their own greenhouse gas emissions and analyse the risks and opportunities related to climate change through the CDP, with the aim of establishing emission reduction objectives and improving results. The CDP is supported by 655 institutional investors that manage over USD 78 billion and control the largest international database containing information about the climate change management policies implemented by the most important global organisations.

GLOBAL COMPACT 100



Pirelli is the only tyre manufacturer among the 100 companies that comprise the global index.

The Global Compact 100 is composed of 100 companies chosen on the basis of their compliance with the ten guiding principles of the UN Global Compact, which expresses the commitment by management to issues related to sustainability and income level.

These companies, whose stock market performance was monitored by UN Global Compact over the last three years, have outperformed the FTSE® All World stock index over the past two years, generating a 26.4% return over the last 12 months. Inclusion in the Global Compact 100 is one of the most important forms of recognition in the sustainability sector for companies that are committed to aligning their activities and strategies with the ten universal principles in the areas of human rights, work, and environment in view of responsible globalisation.

OEKOM RESEARCH AG RANKING



Pirelli is the global sustainability leader among automotive sector suppliers, according to the Oekom Research AG ranking in 2013.

Oekom Research AG is one of the top rating agencies for responsible investments (i.e. Socially Responsible Investments, or SRI), partner of institutional investors and provider of financial services. Analysts have assessed the sustainability performance of the 40 top suppliers in the global automotive sector.

ETHIBEL EXCELLENCE INVESTMENT REGISTER



Pirelli & C has been included in the Ethibel EXCELLENCE Investment Register since December 19, 2013. Forum ETHIBEL (www.forumethibel.org) only considers shares of firms that receive a high CSR rating on all related issues. The selection of Pirelli by ETHIBEL confirms the superiority of the Company's CSR performance compared to the industry average.

STOXX GLOBAL ESG LEADERS



For the third year in a row, Pirelli is part of the STOXX® Global ESG Leaders Indices 2013-2014.

The indices were compiled in 2011 by STOXX Limited which, on the basis of sustainability performance, selects 313 companies from among the 1,800 stocks included in an initial basket of international equities, the STOXX Global 1800 Index.

These indices base their own selection criteria on indicators suggested by EFFAS (European Federation of Financial Analysts Societies) and DVFA (Society of Investment Professionals in Germany), awarding scores to the examined firms on the basis of ESG assessment principles given by the rating agency Sustainalytics.

EURONEXT-VIGEO EUROZONE 120

In 2013 Pirelli entered the Euronext-Vigeo Eurozone 120 index, which is comprised by the 120 listed companies with the highest sustainability rating in the eurozone.

ECPI



Pirelli has been included in ECPI sustainable finance indices since 2008, and in particular:

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

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

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

1.13 PRINCIPAL AWARDS AND RECOGNITION

Pirelli received numerous awards and recognition during 2013 for its sustainable performance accomplishments, the diversity of which reflects the sustainable approach throughout the entire value chain and towards all stakeholders. The principal awards it has received are listed below in reverse chronological order, from 2013. To give an overview on the last three-year period, the principal awards and recognition received by Pirelli in 2012 and 2011 are also mentioned.

NOVEMBER 2013

- Pirelli enters the Euronext-Vigeo Eurozone 120 index, which is comprised by the 120 companies with the highest sustainability rating of listed companies in the eurozone.
- Among the companies certified in information communication technology by SAP as a Skills Centre, Pirelli was a bronze winner in the innovation category.

OCTOBER 2013

- For the third year in a row, Pirelli is part of the STOXX® Global ESG Leaders Indices 2013-2014. The indices were compiled in 2011 by STOXX Limited which, on the basis of sustainability performance, selects 313 companies from among the 1,800 stocks included in an initial basket of international equities, the STOXX Global 1800 Index.
- “Pirelli Corporate App” was awarded as the best solution in the annual report category during the Digital Communication Awards 2013 ceremony. This is a prestigious European award given to digital communication campaigns and projects.

SEPTEMBER 2013

- Pirelli was added to the new sustainability index “Global Company 100” launched by UN Global Compact in collaboration with Sustainalytics. Pirelli is the only tyre manufacturer in the world to be included on the index.
- For the seven year in a row, Pirelli was confirmed the world leader in the ATX Auto Components sector in the Dow Jones Sustainability World and Dow Sustainability Europe sustainability indices, with 85 points compared with a sector average of 51 points.
- According to the ranking prepared by Oekom Research AG, Pirelli is number one in terms of sustainability among automotive sector suppliers. Oekom Research AG is one of the top rating agencies for responsible investments (i.e. Socially Responsible Investments, or SRI), partner of institutional investors and provider of financial services. Analysts have assessed the sustainability performance of the 40 top suppliers in the global automotive sector.

JULY 2013

- For its “commitment, competitiveness and capacity to innovate, with development of the Self Sealing technology that exhibits technological know-how and corporate capacity to meet future challenges”, Pirelli was given the “Global Champion” award as part of the Volkswagen Group Award, the prize that the car maker awards every year to its best suppliers. This award recognises the excellence of Pirelli in global partnership, product quality, competitiveness, project management and flexibility.

JUNE 2013

- Foreign Policy Association (FPA) awards the Chairman & C.E.O. of Pirelli, Marco Tronchetti Provera, with the Social Responsibility Award 2013 for his proven commitment to sustainability.

MAY 2013

- Pirelli Metzeler Tourance™ is ranked the best enduro street tyre by the German magazine Motorrad Motorrad. The new Metzeler Tourance™ tyre won because it offered the most balanced performance under all test conditions, performing outstandingly under dry conditions, while exhibiting excellent handling under wet conditions, combined with its high mileage.

APRIL 2013

- Pirelli was granted the Quality Award by the Fiat Chrysler Group, which is given annually to the best suppliers of the Fiat Chrysler Group in Latin America in different categories. Pirelli won the prize in the chemical materials category.
- Pirelli received a Certificate of Merit from Honda. This award was given to Pirelli for the excellence of its car tyre products supplied to the Honda plant in Sumaré.

- Pirelli Latam was rewarded by Peugeot-Citroën for its manufacturing excellence.
- Pirelli received the top score from J.D. Power for having offered “the best original equipment tyre in the opinion of consumers in the SUV and Truck segment” (out of about 27,000 persons interviewed).
- Pirelli was awarded by the J.D. Power and Associates Institute (United States) for the seventh time for the results it achieved in the Original Equipment (OE) category.

MARCH 2013

- Versalis (Eni) and Pirelli signed an important Memorandum of Understanding to undertake a joint research project on the use of natural rubber from guayule in tyre production. The agreement with Versalis will complement and expand the commitment made by Pirelli to research on innovative materials from renewable sources, and particularly from biomasses. Pirelli, which already makes tyres using raw materials derived from rice husks (the non-edible part of the rice grain and normally used for combustion), aims at steadily reducing petroleum-derived components by replacing them with new raw materials that simultaneously guarantee constant improvement in the performance and environmental sustainability of processes and products.

FEBRUARY 2013

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

JANUARY 2013

- Mv Agusta, the prestigious Italian motorcycle maker, chose the Pirelli Diablo Supercorsa™ SP as original equipment on the base versions of the R and RR models of the F4 2013 line.
- Pirelli was awarded by Jaguar Land Rover. Since 2011 Pirelli UK has always satisfied the requirements of JLRQ, the system used to monitor the performance of Jaguar Land Rover suppliers. Pirelli is the only tyre maker in Great Britain to have received this award..

NOVEMBER 2012

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

OCTOBER 2012

- Pirelli China received the “Sustainability Development in China 2011-2012” award, organised by the Chinese magazine Economic Observer, considered to be one of the three most important economic newspapers in China. The assessment criteria included economic performance, environmental protection and social responsibility.
- Pirelli was confirmed as the most famous tyre brand in Brazil for the tenth year in a row. This recognition comes in addition to the Top of Mind award. Pirelli was also the most famous company brand in the “Top Male” category of companies in all segments. The survey was conducted nationwide by the Instituto DataFolha. The award was given on October 24 in São Paulo, by the Folha de São Paulo Group.
- In the United States, the website of Pirelli & C. won the top spot in the prestigious WMA (Web Marketing Association – WebAward) ranking, being defined as an “Excellent Site” according to the standards of the New Media Awards, as part of a research project conducted by Columbia University.
- In Europe, the website of Pirelli & C. was ranked third in the Digital Communication Award 2012, the top European public relations and communication award hosted by the Berlin University of Applied Sciences. Here again, Pirelli competed against the top European contenders before a jury composed of 30 experts.
- For the third year in a row, Metzeler was the Italian Champion in the 600cc Supersport class of CIV.
- On the occasion of the 140th anniversary of the foundation of Pirelli in 1872, Chairman Marco Tronchetti Provera and the entire Pirelli top management were received by Italian President Giorgio Napolitano. “It is a great honour for me and all of us to have been received by President Napolitano on the occasion of the 140th anniversary of Pirelli,” said Marco Tronchetti Provera. “We are celebrating this birthday,” he continued, “together with the 36,000 persons around the world who share the pride of belonging to a Group that has been a standard bearer for the excellence of Italian industry worldwide.”
- The semi-annual audit conducted by the independent agency EIRIS reconfirms Pirelli on the ethical finance stock indices of the London Stock Exchange FTSE4Good (FTSE Global and FTSE4Good Europe), with a score of 100 points out of 100, up from 99 in March 2012 and 98 in September 2011. Pirelli, which has been on the FTSE4Good

indices since 2002, has also been reconfirmed as the only Italian company in the automotive and parts sector to be listed on the index.

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

SEPTEMBER 2012

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

AUGUST 2012

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

JULY 2012

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

JUNE 2012

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

MARCH 2012

- The March 2012 revision conducted by the independent agency EIRIS reconfirmed Pirelli on the ethical finance indices of the Financial Times “FTSE4Good,” with a score of 99 points out of 100, up from 97 in March 2011.
- The Pirelli Water Project was rewarded in Brazil. The Pirelli factory at Campinas, Brazil won the prestigious prize awarded by FIESP (Federation of Industries São Paulo). This recognition highlighted the commitment of our Brazilian colleagues in treating water after it is used in production. This award marked a first for Pirelli Brazil, which beat the tough competition fielded by several respected companies. The awarded project was the result of a gradual investment made over the last year, which allowed the reuse of 100% of the water treated in-house, plus a reduction of 35% in the volume of water drawn from the Capivari River. This important prize is the result of a series of analyses and tests conducted by public companies responsible for managing water resources.

JANUARY 2012

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

OCTOBER 2011

- Pirelli received the 82nd Tyre and Fast Fit Awards (TAFF) from the National Tyre Distributors Association (NTDA), an association that promotes the 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 was flanked by the Top of Mind award, in the Top Male category. Pirelli was also the most famous brand among companies in all segments. The survey was conducted nationwide by the Instituto DataFolha. The award was given on October 25 in São Paulo, by the Folha de São Paulo Group.

SEPTEMBER 2011

- Following the 2011 revision of the Dow Jones indices – carried out by SAM Group, the Swiss asset manager responsible for assessment, admission or exclusion of the companies from the Dow Jones sustainability equity indices – Pirelli was confirmed global Sustainability Leader in the Auto parts & Tires sector for the fifth year in a row, as part of the Dow Jones Sustainability World and Europe indices.

JUNE 2011

- Pirelli is one of the 100 companies with the best reputation in the world, being ranked 31 in the 2011 Global 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 tyres finished first in the annual comparative test of sports tyres conducted by two prestigious, specialised German publications: Motorrad and PS. The series of innovations developed over seven years as official supplier of WSBK enabled the Diablo Rosso II to beat the competition, with awesome track performance using highway tyres. It got the highest score for road hold and grip in dry conditions
- 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 Exchange as the Italian business with the best corporate governance. This recognition took the form of the World Finance Award 2011, the prestigious international prize that since 2007 has selected leading businesses in the areas of corporate governance and financial activity management. The survey by The Boston Consulting Group (BCG), a global leader in business strategy consulting, ranked Pirelli in the top ten of value creators. In fact, the Company was one of the top ten Italian companies that posted the highest rates of stock earnings in 2010.
- At Moline, Illinois in the United States, John Deere, one of the biggest makers of agricultural and construction equipment in the world, gave Pirelli Agro its highest recognition in the Hall of Fame sector, awarded every year only to those suppliers that over time (five years) have been confirmed as offering excellent products and service. For the fifth year in a row, Pirelli Agro Brasil won the world prize for excellence as best supplier.

FEBRUARY 2011

- In Tokyo Pirelli won the Toyota Regional Contribution Award as best supplier of tyres to this Japanese car maker in South America. The prize, awarded by the Chairman of Toyota, was given as part of the Toyota Global Contribution Award. Pirelli, the first tyre supplier to receive this prestigious Toyota award, was recognised for quality, price and prompt deliveries.
- PZero won the summer tyre tests organised by the specialised German magazine Auto Zeitung, which pitted 14 different tyre makers against each other in the 225/45 R 17 tyre category. In six tests under wet conditions, PZero proved exceptional in stopping from 100 km/h, safe driving and road hold, and very good in aquaplaning. In the seven tests under dry conditions, PZero stunned observers by its extremely fast speed in curves and directional stability.

JANUARY 2011

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

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)

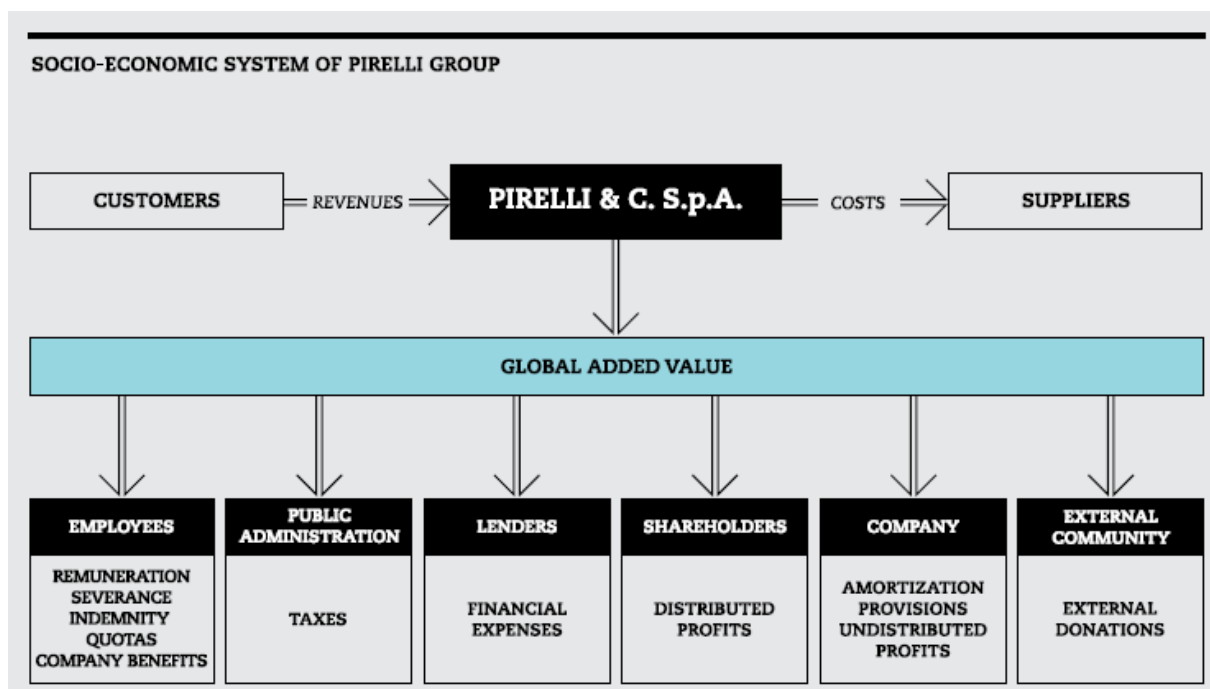
“The Pirelli Group endorses and, where appropriate gives support to educational, cultural and social initiatives for promoting personal development and improving living standards.”

(Values and Ethical Code – Community)

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 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)						
	2.013		2012		2011	
Global added value, gross	2.217.739		2.210.618		1.918.054	
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%	(129.471)	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 1: 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 2010-2012 (in thousands of euro)

	€000		€000		€000	
	2.013		2012		2011	
Sector of action						
Education						
Culture Research	655		714		674	
Charity Sports	4.003		3.859		3.319	
TOTAL	5.162		5.061		5.064	

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).

2.2 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.

2.2 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.

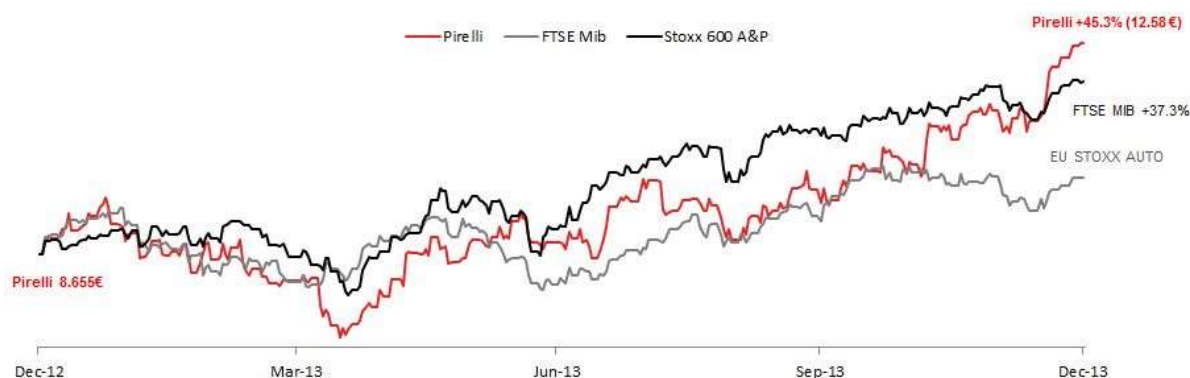
For the second year in a row, Pirelli also took part – as sponsor – in the Annual Conference and General Meeting of ICGN (International Corporate Governance Network) held in New York from June 26 to 28, an important occasion for dialogue with international investors and leading companies on the issue 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 Word 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).

Pirelli & C. S.p.A. stock price performance vs MIB FTSE, EU STOXX 600 A&P



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.

2.3 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 unfailing 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 CO₂ 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”.

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”.

(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 Sustainable Management System of the Pirelli supply chain was audited by an independent third party using a high standard of auditing procedures, in accordance with the AA1000 Assurance Standard (2008), in both 2009 and 2011, as documented in the Assurance Statements accompanying the Sustainability Reports for the years indicated.

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:
 - o ban of child labour;
 - o non discrimination;
 - o 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 possible replacement of the supplier may be complex;
- news of ESG risk events is received;
- or 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.

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.

<u>Percentage Value of Pirelli Tyre Purchasing by Type</u>	2013	2012	2011
Commodities	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%
Total	100%	100%	100%

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.

<u>Percentage of di Pirelli Tyre Suppliers by type of purchase</u>	2013	2012	2011
Commodities	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%
Total	100%	100%	100%

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%, in line with the previous year.

Purchased Raw Materials Purchased by Pirelli Tyre Mix (by Value)

	2013	2012	2011
Natural rubber	24%	26%	35%
Synthetic rubber	29%	31%	27%
Carbon black	13%	12%	11%
Chemicals	16%	14%	12%
Textiles	11%	10%	8%
Steel	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.

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 the “Rio Declaration on Environment and Development.” The above principles are illustrated in the Group Social Responsibility Policy for Occupational Health, Safety, Rights and Environment, according to which Pirelli undertakes to:

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

In its Group Quality Policy, Pirelli specifies that continuous innovation, product excellence and safety, and environmental protection throughout the product life cycle represent one of the principal sources of sustainable competitiveness on the global market. Through adoption of the Green Sourcing Policy, all Group employees undertake to consider environmental aspects in all of their design choices and sourcing of goods and services. The documents cited above have been distributed to all employees in their local languages and are published in the Sustainability section of the Pirelli website, and not just in the languages spoken by employees but also in those that are most representative of the panel of suppliers.

3.1 THE PIRELLI GROUP ENVIRONMENTAL STRATEGY

Management of environmental issues has always played a key role in business strategy at Pirelli. Indeed, by having a long-term perspective, which is the first priority of sustainability, Pirelli has always considered control over the environmental impact of its own industrial activity to be fundamental.

Given the intrinsic complexity of managing the reduction of its own environmental impact with targets that are contextualised only in specific parts of the tyre life cycle, the Group has implemented a control system that can display, analyse, decide and manage all of its own activities, with a 360° view. This makes it possible to identify the materiality of the impacts and, therefore, the consequent action plans. In accordance with the target set in its Industrial Plan, in 2013 Pirelli has calculated the carbon footprint and water footprint of its entire organisation.

The infographic illustrated on the following pages aims to give a unified and comprehensive view of the Pirelli approach to environmental management, which aims at reducing its impact on resources, the climate and ecosystems. It may be read both horizontally, following the phases of the tyre life cycle one by one, and vertically. This offers the possibility of grasping all the qualitative and quantitative elements related to each individual phase in the life cycle.

These life cycle phases have been analysed by using the Life Cycle Assessment, as defined by the ISO 14040 family of standards. This latter method is capable of validating the results and strategic decisions related to it as objectively as possible. Moreover, reporting of the emissions impacts also complies with the provisions of the GHG Protocol GRI-G4 Guidelines. All those impacts that are listed by the standard but that are not mentioned, both upstream and downstream from the industrial activity of Pirelli, are not applicable or are not material. Moreover, the Pirelli calculation model uses the ISO-TS 14067 technical specification and the draft ISO-DIS 14046 to determine its carbon footprint and water footprint, respectively.

In the upper part of the infographic, the drivers that exert pressure on the environment show how two principal actors alternate at Pirelli, the suppliers and the customers. The principal impact is generated at every stage by different types of activity. In the case of raw materials, their production and distribution – and so the natural resources consumed with this aim – are discussed. In the case of tyre manufacturing, the discussion focuses on the consumption of electric power and natural gas. The greatest amount of environmental pressure has to be attributed to these energy sources, and specifically in terms of atmospheric emissions and water consumption. In the case of distribution of new tyres and their use by customers, the environmental impact results from vehicle fuel consumption. In the specific case of customers, only the fuel consumption related to the power absorbed by the rolling resistance of the tyres themselves is allocated. Finally, in the last considered phase of life, the impact deriving from the preparation of end-of-life tyres for recovery in the form of energy or recycled raw material is calculated.

In regard to the carbon footprint, the drivers category also contains the breakdown of emissions in the three scope categories in relation to the GHG Protocol principles.

The central part of the infographic shows the actual quantification, in percentage terms, of the carbon and water footprint. These two aspects are summarised by four principal indicators: Primary Energy Demand (PED), Global Warming Potential (GWP), Blue Water Consumption (BWC) and Eutrophication Potential (EP). The values are managed in terms of GJ of energy, tons of CO₂, cubic metres of water and kilograms of equivalent phosphates.

The Primary Energy Demand (PED) refers to the quantity of energy that is taken directly from the hydrosphere, the atmosphere or the geosphere, be it renewable or non-renewable energy.

The Global Warming Potential (GWP) refers to the effect of anthropic activities on the climate, and is calculated in tons of CO₂ equivalent. This means that the potential greenhouse effect is given in relation to CO₂. The calculation assumed that the CO₂ would stay in the atmosphere for 100 years.

Blue Water Consumption (BWC) is given by the volume of consumed surface and underground water in consequence of the production of a good or service. Consumption refers to the fresh water used and then evaporated or incorporated in the product.

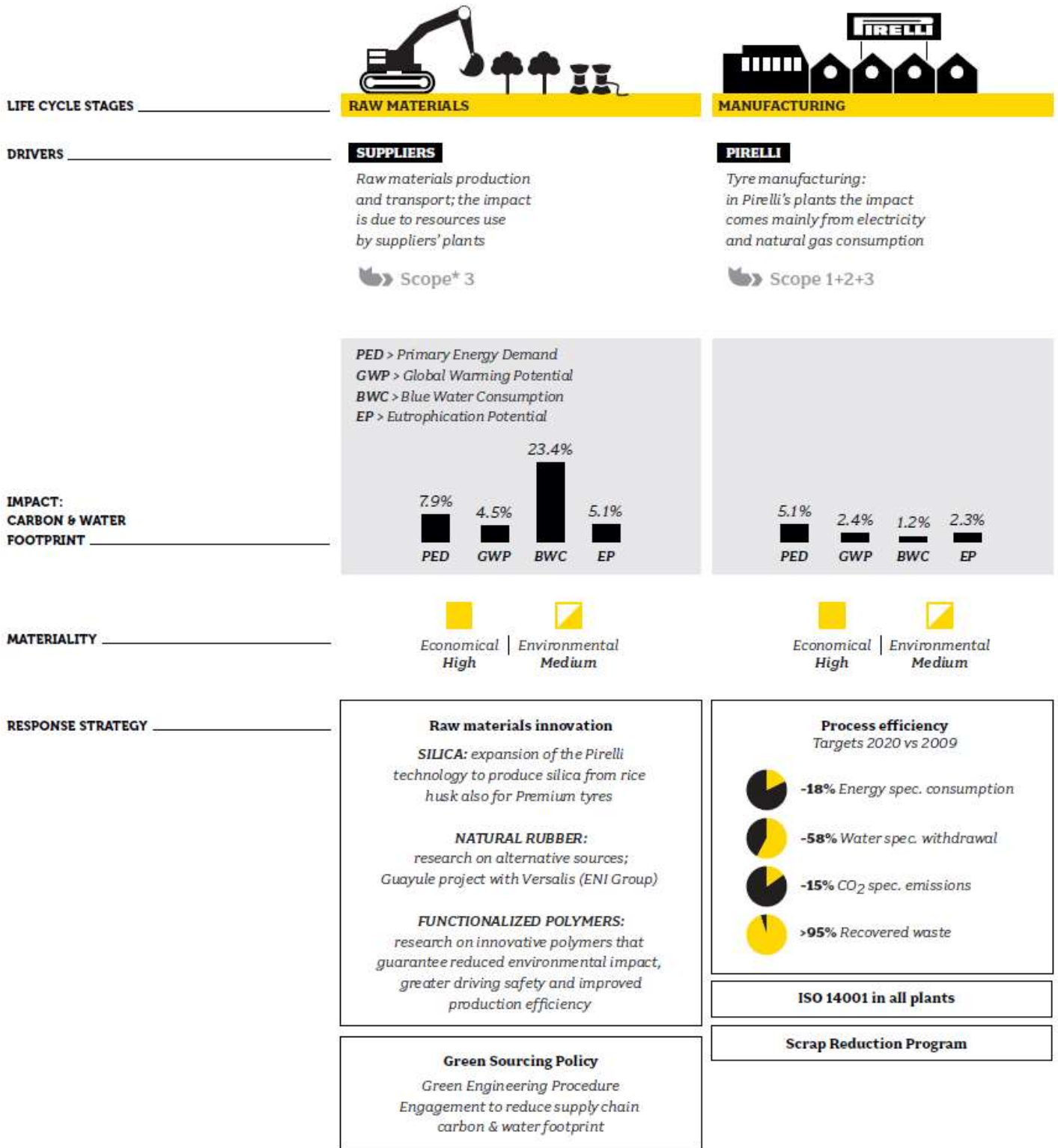
The Eutrophication Potential (EP) is the enrichment of nutrients in a specific aquatic or terrestrial ecosystem. Air pollution, water emissions and agricultural fertilizers all contribute to eutrophication. The result in aquatic systems is accelerated growth of algae, which does not allow sunlight to pass beyond the surface of water basins. This reduces photosynthesis and thus reduces the production of oxygen. Low concentrations of oxygen may cause mass death of fish and anaerobic decomposition of organic material, seriously compromising the entire ecosystem.

Consistently with the product environmental footprint, as already shown in the sustainability reports for the previous years, the tyre use phase is the most significant one for each of the four indicators.

The environmental materiality deriving from this type of analysis, which would logically lead to concentrating all actions on improvement of the product characteristics that determine the use phase, flanks economic materiality. The latter is identified on the basis of different management elements such as, for example, the amount of corporate spending and thus the level of opportunity in reducing and avoiding costs, as in the case of investments in energy efficiency.

In its response strategy, which may be consulted in the lower part of the infographic and corresponding to what has also been stated in the Industrial Plan, Pirelli has adopted adequate management models for monitoring and managing environmental issues, and has also voluntarily adopted specific targets to reduce its impact in each phase of the product life cycle.

All the models, projects and targets mentioned above and indicated in the infographic are discussed in the continuation of this chapter.



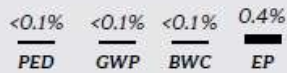


DISTRIBUTION

SUPPLIERS

Production and use of fuel by trucks and ships of logistic suppliers, delivering Pirelli tyres all around the world

Scope 3



Economical Medium | Environmental Low

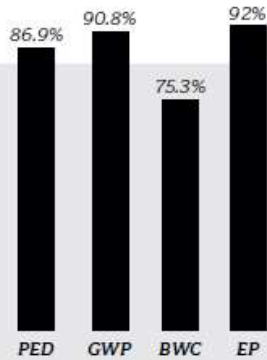


USE

CUSTOMERS

Production and use of fuel of customers' cars due to rolling resistance

Scope 3



Economical High | Environmental High



END OF LIFE

WASTE RECOVERING ACTORS

End of life tyre management: old tyres are prepared by specialized companies to be reused as both energy or regenerated raw material

Scope 3



Economical Low | Environmental Low

Green Sourcing Policy

Green Logistic Procedure
Engagement to reduce supply chain carbon & water footprint

Product efficiency

Targets 2020 vs 2007



RR -40% car -20% truck -10% moto

Presence on the major international worktables

WBCSD
ETRMA
to spread the recovery culture

Cyber Tyre development

CAR: "Base" System to manage tyre performance through pressure

CAR: "Premium" System with management of static load, tear consumption, hydroplaning alert, road surface alert and tyre vectorial strenghts

TRUCK: System to manage the tyres of whole fleets, to minimize fuel consumption

Regenerated raw materials

Study projects with universities in order to enhance the quality of regenerated materials in order to increase their presence in new compounds

Green Performance revenues 48% on total revenues by 2017

* According to GHG Protocol

3.2 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 made Joint Development Agreements with leading suppliers for the study of new polymers to be used for rolling resistance, performance under low temperature conditions, durability and grip.

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;
- new silanes to guarantee performance stability and processability.

The Consortium for Research on Advanced Materials (CORIMAV) and the University of Milan – Bicocca campus are studying a new selective vulcanisation technology for recycling materials derived from end-of-life tyre compounds. This would permit a significant reduction in production costs and the related environmental impact.

The three-year (2012-2014) JOINT LABS agreement made between Pirelli and the Milan Polytechnic for research and training in the tyre industry focuses its research on the de-vulcanisation of materials derived from used tyre compounds and on biopolymers. Pirelli is working 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.

Research on alternative sources of natural rubber

In March 2013 Versalis (Eni) and Pirelli signed an important Memorandum of Understanding to undertake a joint research project on the use of natural rubber from guayule in tyre production. The guayule (*Parthenium argentatum*) is a non-edible shrub that needs little water and no pesticides, and represents an alternative source to natural rubber thanks to its hypo-allergenic properties, unlike the more common *Hevea brasiliensis* rubber.

This study will engage the two firms for a period of three years. During that time, and operating on an exclusive basis between the parties, Versalis will provide innovative types of natural rubber extracted from guayule that will be tested by Pirelli for use in tyre production.

On the basis of this new collaboration and, upon industrial scale production of rubber from guayule, Versalis may provide Pirelli with new products that will consolidate and round out the commercial range of synthetic rubber made by Versalis and already used by Pirelli for quite some time in tyre production.

The agreement with Versalis will complement and expand the commitment made by Pirelli to research on innovative materials from renewable sources, and particularly from biomasses. Pirelli, which already makes tyres using raw materials derived from rice husks (as discussed in the following section), aims at steadily reducing petroleum-derived components by replacing them with new raw materials that simultaneously guarantee constant improvement in the performance and environmental sustainability of processes and products.

Silica from rice husks

Silica is used in tyres to reduce rolling resistance, improving vehicle efficiency without reducing its road hold, especially under wet conditions. In its research on ever-more sustainable materials, Pirelli has concentrated on this raw material by seeking an alternative source for traditional processing methods.

The Group has developed a process at its plant in Santa Catarina, a renowned rice producing centre in southern Brazil, which can extract silica from rice husks. Rice husks are the external shell of the rice grain. Rice husks account for 20% of the weight of raw rice, and represent the principal scrap material of rice processing. Given the volume of global rice production, rice husks are available in huge quantities in many areas of the world. Rice husks already have many applications that are

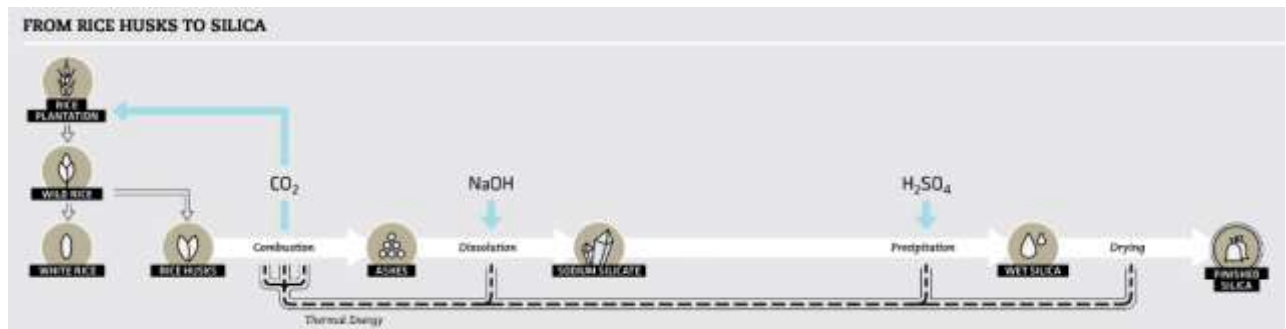
more or less sophisticated: from bedding for livestock to organic fertilizer, to solid fuel for electric power generation. In fact, rice husks have a significant energy content, amounting to 14 MJ/kg. However, it is not yet appreciated in less developed areas of the world, and is burned in the field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

Aside from its interesting level of energy content, rice husks have another exploitable property, represented by its high silica content, which accounts for about 18% of its weight. In the traditional process, silica is made with a chemical process where crystalline silica, typically sand, is dissolved in a solution of water and caustic soda (NaOH). The result of this first step in the process is sodium silicate. Then an acid is added (typically sulphuric acid) to obtain silica precipitate as the principal product and sodium sulphate as the by-product. The reaction of crystalline silica with caustic soda requires a huge amount of thermal energy. But when rice husks are burned, the resulting ash is composed of non-crystalline silica that has a maximum residual carbon content of 8%. Compared with crystalline silica, this silica requires much less energy in the initial reaction. It is easy to imagine that this biomass may thus constitute an ideal raw material for the production of silica precipitate. All the thermal energy necessary for production can be generated if the rice husks are burned in the right way, and, at the same time, the non-crystalline silica reacts at far lower temperatures than in the traditional method.

Since the production process is thermally self-sufficient, the production of silica from rice husks not only allows energy recovery but also a significant reduction in CO₂ emissions, precisely because all the necessary thermal energy is derived from the combustion of renewable biomass. This processing activity has been included in the research project being conducted in collaboration with the Italian Environment Ministry. More information about this project may be found in the section “Relations with Institutions and Public Administrations”, in the Social Dimension chapter of this Report. Initial analyses show that this process offers a great advantage in terms of carbon footprint. Pirelli silica made from rice husks can reduce the carbon footprint by over 90% as compared with silica made with traditional processing techniques.

The production of silica from rice husks by Pirelli stands as a clear example of how innovations in the area of materials can be totally sustainable, contributing both to the exploitation of by-products that would otherwise be only partially reused, and the eco-sustainability of production processes. All of these benefits are accompanied by economic advantages that can be immediately related to the efficiency of the process. This project was also reported in one of the most prestigious newspapers in the world, *The Economist*, at the beginning of 2013. In an article dedicated to Pirelli, this periodical mentioned the environmental benefits resulting from use of a substance obtained from renewable sources.

Pirelli has set itself the target of extending the use of silica obtained from rice husks to premium tyres by 2017.



3.3 ENVIRONMENTAL IMPACT OF PRODUCTION

As previously indicated in the introduction to this chapter, less than 5% of the environmental impact of the tyre life cycle results from the processing phase, where the principal component is the use of energy and production of related fuels. Nevertheless, this is precisely the phase when impacts occur due to activities directly operated by Pirelli (i.e. Scopes 1 and 2). Moreover, the economic materiality of this phase has led the Company to commit itself to specific targets in all impact categories. These targets were presented to the External Community in the Group Industrial Plan 2013-2017. The targets have a long-term time horizon (2020), are described in detail in the following paragraphs, and concern the Group's specific energy consumption, specific water uptake, CO₂ emissions and waste recovery.

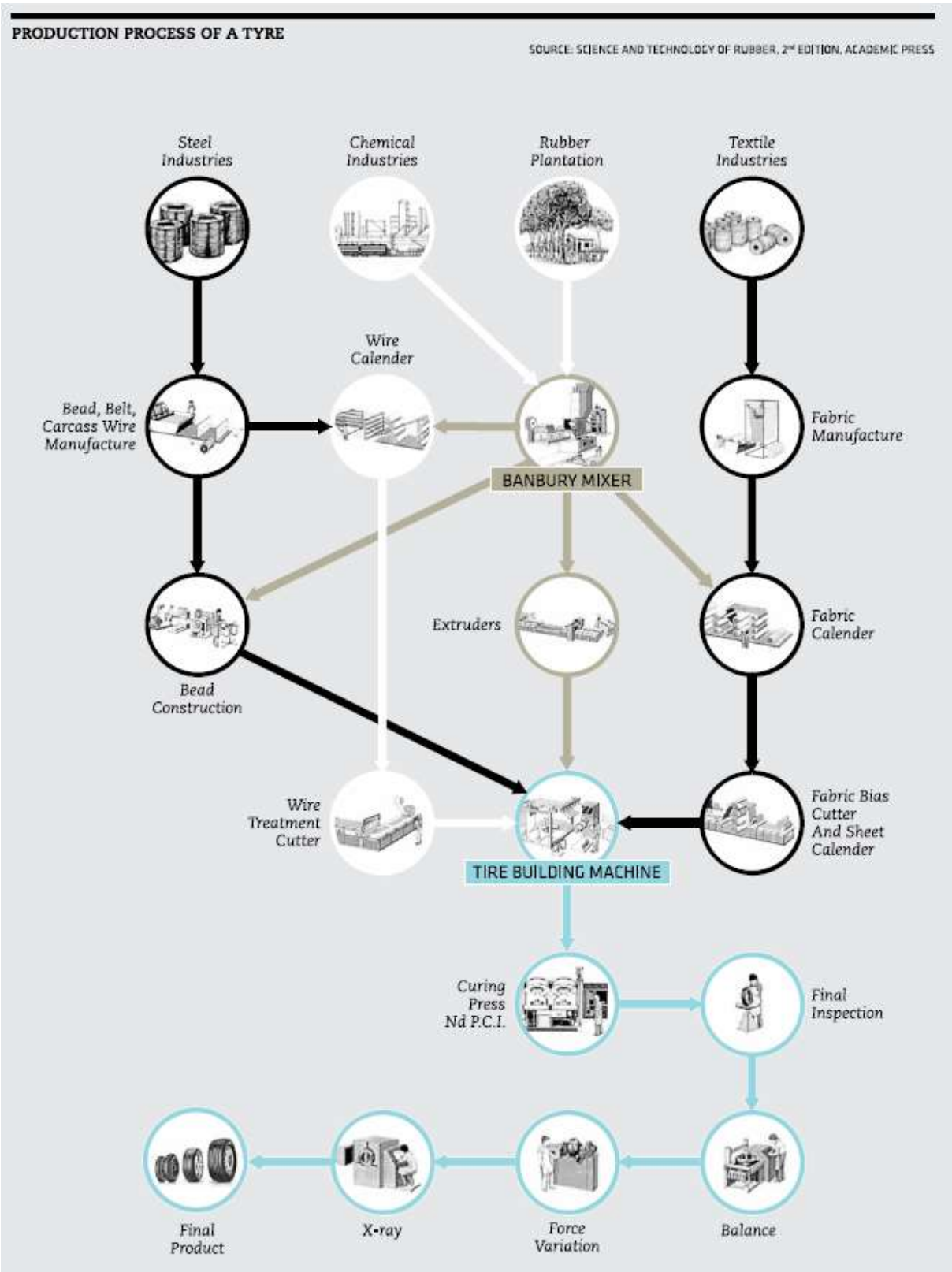
THE TYRE PRODUCTION PROCESS

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

1. production of the rubber compounds used in the various components of the tyre: tread, sidewalls, liner, bead filler, etc.;
2. 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), binders (mainly carbon black and silica) and plasticizers. Taken together, these components constitute about 90% of the compounds, while the remaining 10% or so is comprised of other components with specific functions such as, for example, accelerants, antioxidants, vulcanising agents, etc. The plasticizing components, the carbon black and the silica are stocked in dedicated silos and sent to a closed mixer (banbury), in which the compound undergoes its initial processing. A computer monitors and manages the quantity of ingredients coming from the silos. The lighter ingredients are instead pre-batched with specific control systems. In a second phase of mixing, special ingredients, such as vulcanising agents and accelerants, are added. The compound is then unloaded onto an open mixer consisting of two big rollers in order to complete its mixing and optimise its dispersion. Next, the compound sheet is plunged into a vat (batchoff) for cooling.

The prepared compound is then used to make the tyre tread and/or other tyre components. It is then extruded and assumes the appropriate form for subsequent processing. 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 semi-finished components described thus far (tread, beads, rubberised fabrics, sidewalls, etc.) must be assembled together to make the finished tyre, using "building machines". The resulting tyre (called a "raw tyre") is then sent to be vulcanised, which involves a genuine solid state chemical reaction. After being cooled, the vulcanised tyre is deburred to remove any imperfections that might alter its appearance. Then it is subjected to visual inspection (both internal and external) which is then followed – in the case of truck tyres – by X-ray inspection in specially shielded areas. The uniformity and balancing of the tyres are then checked.



ENVIRONMENTAL MANAGEMENT SYSTEM AND MONITORING OF ENVIRONMENTAL PERFORMANCE

Pirelli has adopted ISO 14001 since 1997 as the benchmark standard for its Environmental Management Systems. In 2012 all Pirelli Tyre industrial production sites and the tyre testing ground at Vizzola Ticino have pursued continuous improvement of their environmental performance by using Environmental Management Systems certified in accordance with ISO 14001. The sole exception is represented by the Russian site at Voronezh, which entered the scope of reporting this year. Implementation of the Environmental Management System has begun at that site, and it will be certified in 2014. The international standard ISO 14001 was adopted by Pirelli in 1997, and since 2011 all certificates have been given further SAS international accreditation (the Swiss Accreditation Service that assesses and accredits compliance assessment entities – laboratories, inspection and certification bodies).

Group policy mandates implementation and certification in accordance with ISO 14001. As such, it is also applied to new facilities. The certification 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.

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

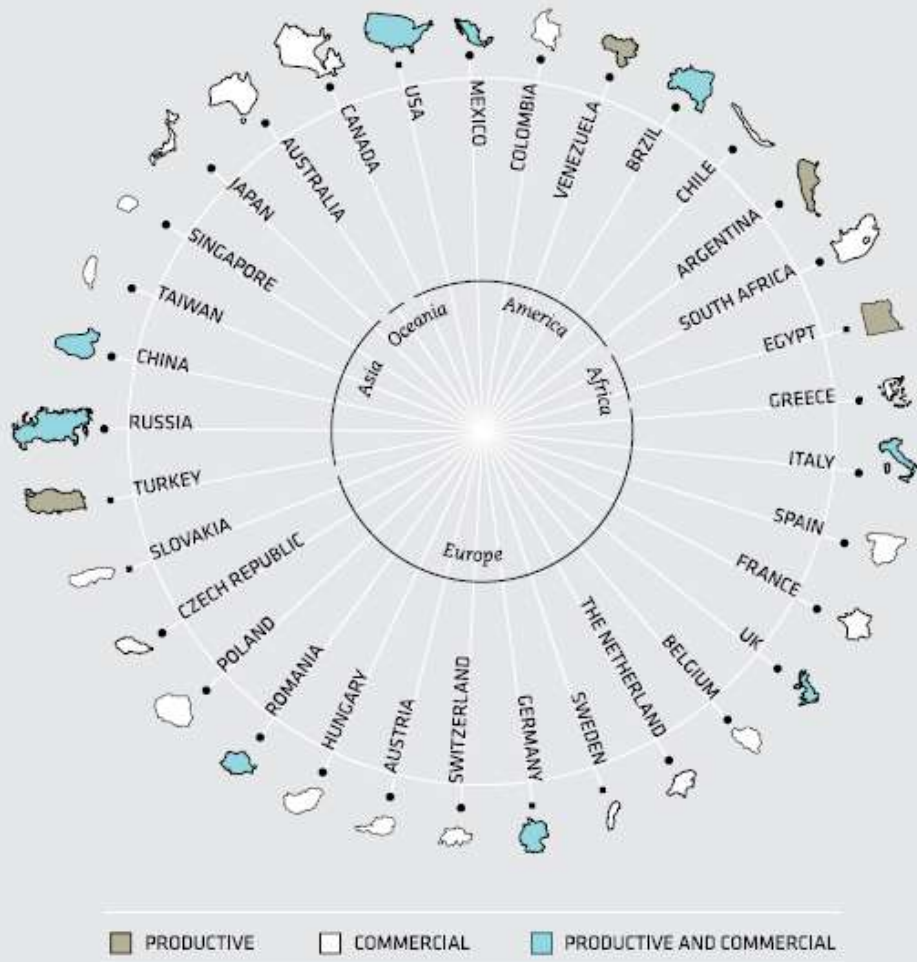
SCOPE OF PERFORMANCE REPORTING

The described performance covers the three-year period 2011-2012-2013 and covers the entire scope of consolidation of the Group, consistently with the *Annual Financial Report at December 31, 2013*.

The amount of finished product in 2013 was approximately 1,030,000 tonnes. This value also includes production by the steel cord business unit for the part sold to customers outside the Pirelli Group. The scope of reporting was expanded in 2013 upon inclusion of the Russian Voronezh plant. The entry of this site within this scope is instead classed as “acquisition” as this production unit was already in existence. As from 2013 Pirelli was in fact able to start work of modernisation and streamlining of that plant in order to bring production efficiency in line with the Pirelli Group standards. In accordance with the principles set out by the GRI, the historic value of the environmental indicators reported below has been recalculated by adding the Voronezh data from 2012 and 2011, regardless of the fact that that plant did not belong to Pirelli in those years. The purpose of doing so is to guarantee the comparability of the data on a like-for-like basis. Considering the reporting scope adopted following the “operational control” approach, the steel cord production site in Yanzhou (China) was not consolidated instead, as this is an associated company.

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

PERIMETER OF PRODUCTION SITES AND COMMERCIAL UNITS



PERFORMANCE INDEX TREND

The economic performance of Pirelli was positive again in 2013 in terms of net sales, as fully discussed in its Annual Financial Report 2013. This result is accompanied by the increase in production volumes that occurred from the previous year. The number of tons of finished product in 2013 was up by about 4.5% (increase calculated on a like-for-like basis). In regard to the performance of conventional indices based on this latter parameter, the increase in volumes has made it possible to increase the rate of use of manufacturing sites by interrupting the previous negative trend and improving the energy efficiency of investments that are made. In any case, it must be remembered that, in regard to the Group strategy of continuous pushing towards premium products, the latter are characterised by significant earnings margins but, on the other hand, also by extremely intense energy use. This stems from very stringent quality standards, smaller production lots than those for products made for the medium-low end segment, and obviously on more complex processing in a greater number of phases.

From this it is inferred that indices generally improved in 2013, when they are calculated according to the number of tons of finished product, even if the trend of standardised operating income indicators worsened instead. This was due not so much to the efficiency of Pirelli production processes but to stabilisation in PBIT when production volumes increase. However, if the view is expanded to the last three years, the performance of this last KPI is even more positive.

ENERGY MANAGEMENT

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

- absolute consumption, measured in GJ, which includes the total consumption of electrical energy, thermal energy, natural gas and petroleum derivatives (fuel oil, gasoline, diesel, and LPG);
- specific consumption, measured in GJ per tonne of finished product, which indicates the energy used to produce a tonne of finished product;
- specific consumption, as measured in GJ per euro of Operating Income.

In November 2013 the Pirelli Industrial Plan was revised and extended to 2017, with Vision on certain issues to 2020. This long-term strategy has renewed the specific energy consumption target, by reducing it to 18% in 2010 as compared with 2009 values. In 2013 the energy efficiency plan continued at all Group plants continued in 2013. This had already been undertaken over the last several years and has been characterised by the following actions:

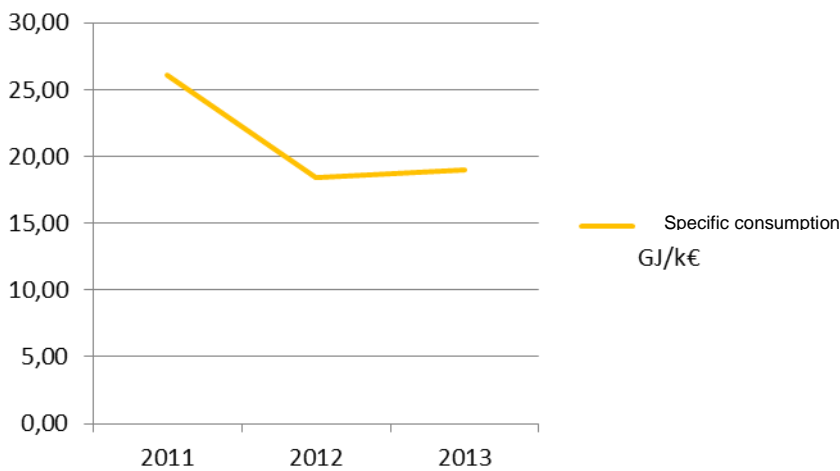
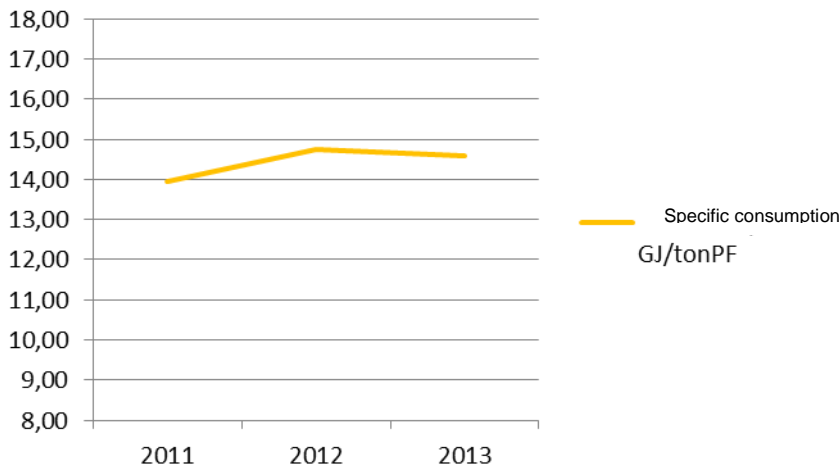
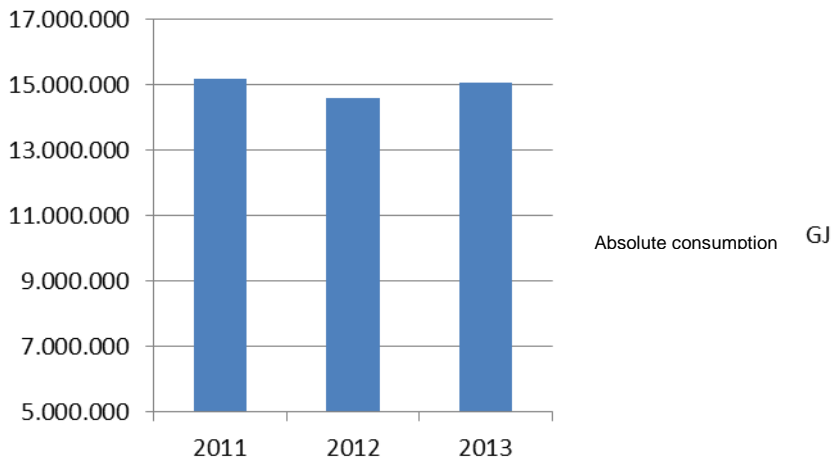
- improving energy management systems, by exactly measuring consumption and focusing daily on technical indicators;
- improving the quality of energy transformation by streamlining resource and plant use;
- improving the efficiency of distribution plants;
- improving the efficiency of production plants;
- recovering energy for other uses;
- applying targeted maintenance plans in order to reduce energy waste.

The efficiency improvement actions follow internal assessment rules. In the case of investments, these comply with the criteria of economic benefit normally applied to Pirelli industrial projects. The economic aspect is also completed by assessment of its environmental impact, in accordance with the reporting rules applied to this Sustainability Report. The areas for technical action both concern the traditional themes applied to each industrial area, such as modernisation of thermal insulation, maintenance of distribution plants, use of technologies using inverters, and special projects assessed according to the needs of each manufacturing site.

The actions undertaken in 2013 include the new thermal power plant at one of the Russian plants and start-up of the thermal recovery operations that provide energy for heating the Settimo Torinese plant. The first project will make it possible drastically to reduce thermal energy consumption through the reduction of nearly five kilometres of distribution networks. The second project will provide nearly one third of heating through the recovery of thermal wastes both from the manufacturing cycle and from the new cogeneration plant.

As explained in the paragraph “Performance Index Trend”, the weight of the energy index on tons of finished product fell slightly by -1%, as compared with 2012. In contrast, the weight of the energy index on operating income grew by 4% from 2012, although the trend was still in steep decline over the past three years (-27% since 2011). The reported data were

calculated by using direct measurements according to procedure and were subsequently converted into GJ by using heating values from official IPCC sources.

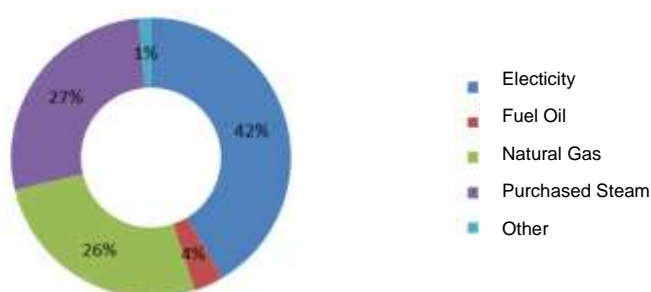


		<u>2011</u>	<u>2012</u>	<u>2013</u>
Absolute consumption	GJ	15.169.730	14.563.789	15.054.137
Specific consumption	GJ/tonPF	13,94	14,75	14,58
	GJ/k€	26,07	18,38	19,03

The energy efficiency plan applied to factories in 2013 made it possible to save about 190,000 GJ. This value was calculated on the basis of the production volumes of the reporting year and the change in efficiencies achieved in 2013 from the previous year.

The following graph illustrates the distribution of the energy sources used by Pirelli and reported overall in the previous graphs. The direct sources, all of fossil origin, include natural gas and, in smaller quantities, other liquid fuels such as oil, LPG and diesel (the last two classified as “others”). These direct sources constitute 31% of the whole. The remaining 69% is made up of indirect sources of purchased electrical energy and steam. On the basis of IEA (International Energy Agency) data, about 38% of electric power is generated by renewable sources.

Disribution of Enerav Sources - 2013



Every industrial plant complies with local laws in regard to energy consumption and management. No substantial changes have been made since 2012. Certain countries are introducing incentive mechanisms for the firms that certify their own energy management system. For example, the Energy Efficiency Directive 2012/27/EU that was issued to accelerate achievement of the 20-20-20 targets in Europe requires that all large enterprises conduct an energy audit by the end of 2015. This obligation may be satisfied with the ISO 50001 certification.

Likewise, the rate subsidies for high-energy consuming plants, according to the different definitions that are locally given, are increasingly conditioned on performance of energy audits or certification of the management system.

GREENHOUSE GAS EMISSIONS MANAGEMENT

Pirelli has monitored and reported on its CO_{2eq} emissions since 2002. The expression CO_{2eq} is used, which accounts for the contribution, albeit marginal, of methane (CH₄) and nitrous oxide (N₂O). Greenhouse gases are generated by the combustion of hydrocarbons at production sites, mainly to operate heat generators that power Group plants, and particularly those that produce steam for vulcanisers, or by the consumption of electrical or thermal energy. The first are called “direct emissions” or Scope 1 emissions insofar as they are produced at company production sites, while the emissions resulting from electrical power or thermal energy consumption are defined as “indirect emissions”, or Scope 2 emissions insofar as they are not produced within the perimeter of company production sites but at the plants that generate the energy and steam purchased and consumed by Pirelli. Performance as measured by energy and greenhouse gas emissions is calculated on the basis of coefficients obtained from the following official sources:

- IPCC: *Guidelines for National Greenhouse Gas Inventories* (2006);
- IEA: *CO₂ Emissions from Fuel Combustion*

and reported according to the scheme proposed by:

- GHG Protocol: *A Corporate Accounting and Reporting Standard*.

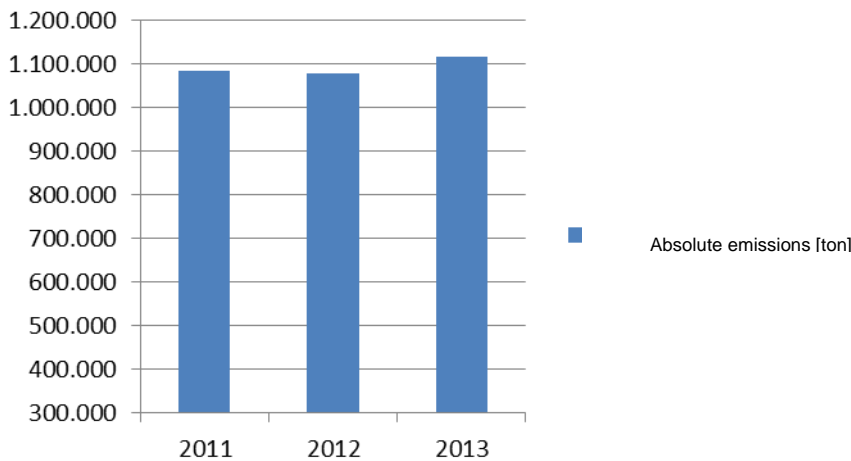
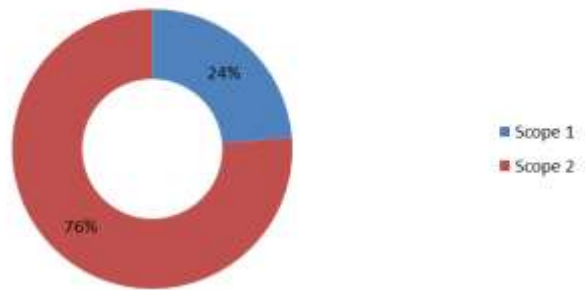
Specifically in regard to the CO_{2eq} emissions of Scope 2, the average national coefficients are defined in relation to the last available year in the aforementioned reports and are updated annually. It must be pointed out that tyre manufacturing industry is not carbon intensive, to the point that it is covered by the European Emission Trading Scheme only in reference to thermal plants having more than 20 MW of installed power. The Company is not subject to other specific regulations at the global level.

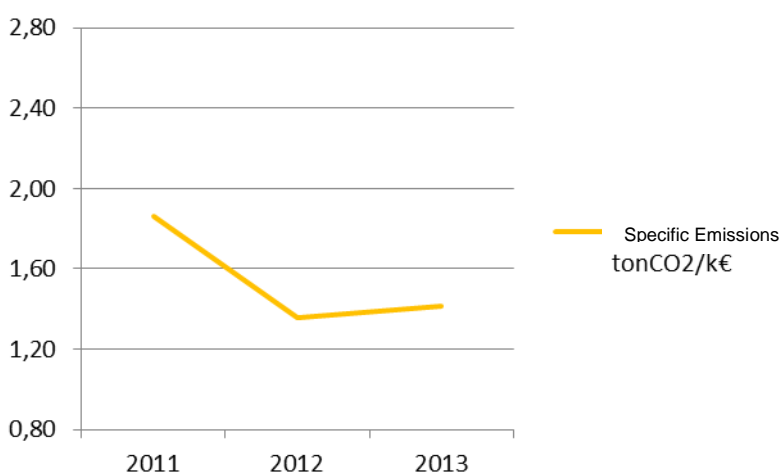
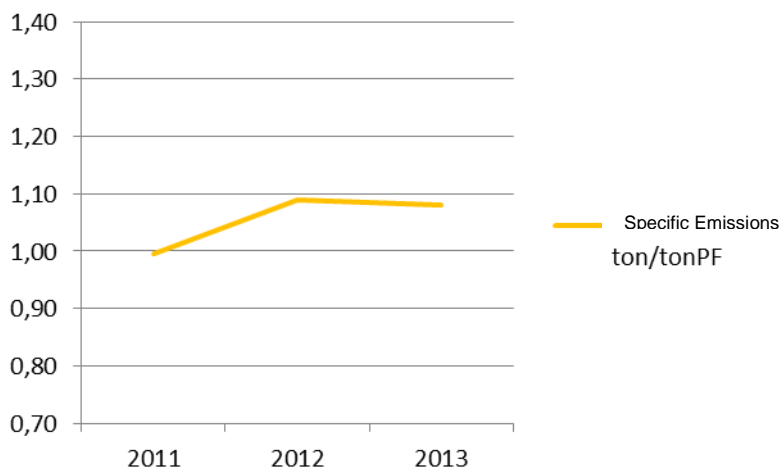
As in the case of energy, Pirelli monitors and accounts for its direct and indirect CO₂ emissions (either Scope 1 or Scope 2 as defined above) by using two principal indicators::

- absolute emissions, as measured in tons;
- specific emissions, as measured in tons per ton of finished product;
- specific emissions, as measured in tons per euro of Operating Income.

The Pirelli Industrial Plan has set a target to reduce specific CO₂ emissions by -15% by 2020 from its 2009 levels. The horizon for meeting this target has been extended from the previous goal (2015), due to the delay in production cycles that affected the previous Strategic Plan.

Disribution of Greenhouse Gas Emissions bu Scope - 2013





		<u>2011</u>	<u>2012</u>	<u>2013</u>
Absolute emissions	ton	1.083.392	1.076.361	1.116.762
Specific Emissions	ton/tonPF	1,00	1,09	1,08
	ton/k€	1,86	1,36	1,41

The close link between energy consumption and CO₂ emissions was confirmed again in 2013, with a decrease in specific emissions per tons of finished product down by -1% from the previous year. In contrast, the weight of the energy index on operating income grew by 4% from 2012, although the trend was still in steep decline over the past three years (-24% since 2011).

Biogenic CO₂, generated by the small rice husk silica manufacturing site, Pirelli emitted about 5,300 tons of CO₂ equivalent in 2013. This amount is not counted in the absolute emissions of the Group mentioned above.

The Pirelli greenhouse gas emissions management, calculation and reporting system was certified by an independent third party that implemented ISO 14064-1. This audit satisfies the criteria of materiality, competence, independence, terminology and methodology.

Pirelli participated in the Carbon Disclosure Project (CDP) again in 2013. The company reached the top positions in the ranking, obtaining a disclosure score of 96 points out of 100, falling in the top scoring bracket: Senior Management. In consequence of this score, and recognising the transparency and reporting quality of the information that relate to climate change, the CDP added Pirelli to the CDLI 2013 (Carbon Disclosure Leadership Index).



Carbon Action Plan

As part of the Carbon Action Plan, the conversion of the Egyptian manufacturing site to natural gas was completed in 2013, while its effects on the emissions intensity of this factory will be seen beginning in the next year. In regard to the supply of electric power from renewable resources, the opportunity sought last year found that the contract-making phase was still open. However, the Company is working to extend this opportunity to other Group affiliates as well. A 500 kW photovoltaic energy plant was installed at the United States manufacturing facility in 2013, with the aim of generating more than 13,000 MWh of clean energy over the next 20 years. This project will make it possible to reduce emissions at the affected manufacturing plant by 5%.

With the collaboration of the Forum das Américas, Pirelli and the Italian Environment Ministry presented a project in 2013 to build the first large solar energy plant in the world at the Pirelli Feira de Santana, Brazil plant for the direct production of medium temperature steam to serve the production process of a factory.

Construction of the plant implements the collaboration agreement signed in January 2012 by the Ministry and Pirelli to reduce carbon dioxide emissions, and falls in the context of environmental cooperation between Italy and Brazil, reinforced in June 2012 by the agreement signed by the Italian Environment Minister and the Brazilian Energy Minister. In particular, the Group will implement the most advanced technologies and know-how in the sector. The Milan Polytechnic as well as Italian and Brazilian firms assisted with the design of the plant, which is expected to be built in 2014. With this pilot plant, it is estimated that CO₂ emissions will be reduced by 2,000 tons over five years, avoiding the use of natural gas. The new Pirelli Tyre plant at Settimo Torinese started up its cogeneration plant to produce electricity, steam and hot water. There are two cogeneration modules, yielding a total of 6 MW in electric power. A 4.8 MW turbine fed by natural gas, and a 1 MW endothermic engine fuelled with vegetable oil will thus guarantee that 20% of energy comes from renewable sources. The generated electricity is used for the internal power needs of the plant. Thermal energy is used primarily to generate high pressure steam used by the production plant. Low temperature recoveries are instead dedicated to the production of hot water, used to improve the efficiency of the thermal power plant and to supplement plant heating. The plant is completed with an approximately 1.2 MWe photovoltaic plant, thereby complementing the generation of renewable energy at the Italian plant.

The benefits expected from the actions listed hitherto will have an impact on the trend in the indices in coming years. The actions taken over the past years, especially those related to energy efficiency, have helped to reduce emissions of CO_{2eq} by about 9,815 tons in 2013. This value was calculated on the basis of the production volumes of the reporting year and the change in efficiencies achieved in 2013 from the previous year.

Emissions offset activities

A new internal policy covering management of the company car fleet in Italy was drafted at the end of 2011. It applies to Italy, the Pirelli Group centre where most vehicles owned by the Group are concentrated. The policy affects all cars assigned to managers and the sales force, by calling for the complete offset of CO₂ emissions by each fleet vehicle with forest protection and development work.

Aside from being an incentive to choose more sustainable cars, the new policy has the merit of spreading the culture of environmental responsibility in a simple, tangible way, through the direct participation of employees. The calculation model used took account of the emission factors of each individual vehicle and of the miles covered. In 2013 about 1,290 tons of CO₂ were released, nearly 8% less than in 2012, when about 1,400 tons were released. In 2012 the Company had offset its consumption by purchasing credits from ARBolivia, a project associated with the reforestation of an area in Latin America, where Pirelli has a strong, recognised presence. By pursuing this philosophy, half the 2013 amount will be offset by an Italian forestry conservation project, while the other half will be offset by a Brazilian reforestation project.

The Italian project is named Forcredit and consists of a plant to manage the forest properties of the Township of Lemie in the Province of Turin, about 50 kilometres from the Pirelli manufacturing plant at Settimo Torinese. Its purpose is to promote sustainable forest management as a tool to reinforce biodiversity and promote the increase in carbon stored in forest ecosystems. The planned work is part of a management plan aimed at reducing wood cutting and uptake of wood material, so that tall trees may grow. Regardless of whether these woods consist of maple and ash trees, birch or beech trees, the activities are aimed at improving the structural quality of the plants. In addition to active forestry management

for sustainable development of local economies, the project aims at improving forestry assets and developing natural resources and the landscape for local tourism and recreational activities. The management implemented with this project allows lasting accumulation of carbon (i.e. “carbon sink”) in its components of epigeal biomass (trunk, branches, leaves), hypogeal biomass (roots), necromass (dead trees, stumps), forest bed and soil. In other words, this material is accumulated in the reservoirs that capture carbon and remove CO₂ from the atmosphere, in consequence of the natural process of photosynthesis. The affected area measures 670 hectares. Certification of the independent party VCS by CSQA and SAI Global Italia is still underway.

The Brazilian project is named Climate Protection Acacia. Its overall goal is a 3.7 million ton reduction in CO₂ through reforestation with Acacia mangium of 3,507 hectares of land in the far north of the South American nation, in the Boa Vista region. The project, aimed at sustainable production of wood and capture of CO₂, generates numerous benefits for local communities, such as the creation of over 200 permanent jobs, the construction of a new school and the implementation of professional courses. The project also respects the rights of local populations to collect non-wood materials from the forests, improves water and soil quality and secures over 15,000 hectares of bordering forest areas with great benefits for local biodiversity. The plantings are carried out in accordance with the principles and criteria set out in the Forest Stewardship Council (FSC) certification, which guarantees appropriate environmental management of forests, social benefits and economic feasibility. The project is audited by an independent certifying entity, using recognised standards. The Acacia Brazil project is developed according to the ACR (American Carbon Registry) standard and certified by SCS (Scientific Certification System).

Just as it has done every year, in 2013 Pirelli offset the CO₂ emissions at its Vizzola Ticino testing ground, corresponding to its 2012 test activities (about 20 tons of CO₂) with work to protect 3,704 square metres of forest in Italy, at the Rio Vallone park and in Costa Rica, with 6,300 square metres of growing forest. Pirelli is again committed to the Impatto Zero (“zero impact”) project that, through LifeGate, assigns a proportionate area of forest to be protected according to the CO₂ that is produced.

WATER MANAGEMENT

Efficient and conscious water use is one of the principal components of the Pirelli environmental strategy, which has undergone numerous improvements over the last several years. These activities have involved and still involve both the overall efficiency of production processes, from design of machinery to facility management, and the contribution which every employee can make towards reducing consumption of this precious resource.

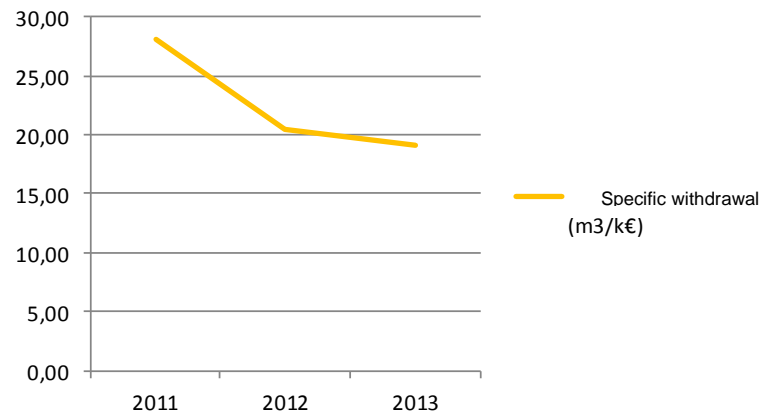
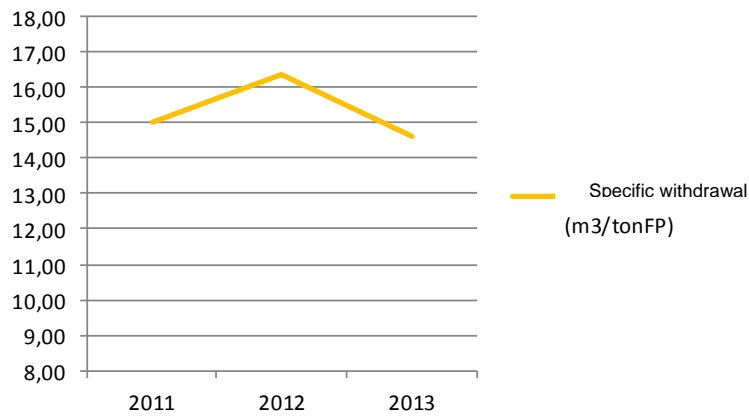
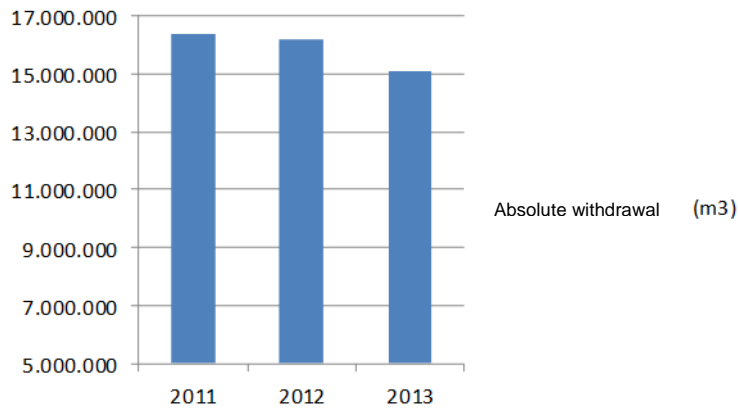
Since 2009, the commitment made at all manufacturing sites has led to saving 14.5 million cubic metres of water. This amount is very close to the absolute volume of the annual water uptake by the entire Pirelli Group. This figure might be the one that best expresses the commitment of the Company to protection of water sources in the communities where it operates. In fact, aside from the quantitative and global aspect, Pirelli dedicates great attention to the local context of water resources, aware that any water savings or improvement in discharges immediately and directly benefits the local community.

In quantitative terms, there was an absolute uptake of 15 million cubic metres in 2013, with a reduction in the specific amount that was 10% higher than in 2012. Notwithstanding this tangible and significant saving, following the macroeconomic conditions and new scope of reporting, the goal of reducing specific water uptake was redefined and transferred to 2020. As compared with 2009, the specific uptake will be reduced by 50% by 2017 and 58% by 2020.

Accordingly, to give a comprehensive overview of its water uptake, Pirelli monitors and reports on the following three indicators:

- absolute uptake, measured in cubic metres, which comprises the total uptake of water by the Group;
- specific uptake, measured in cubic metres per ton of finished product, which indicates the uptake of water used to make one ton of finished product;
- specific uptake, as measured in cubic metres per euro of Operating Income.

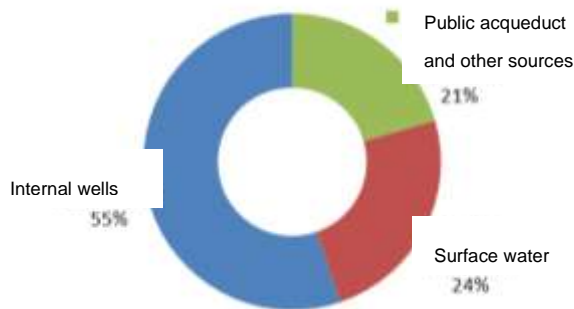
All the figures reported in this section have been collected by taking direct or indirect measurements, and are communicated by the local units.



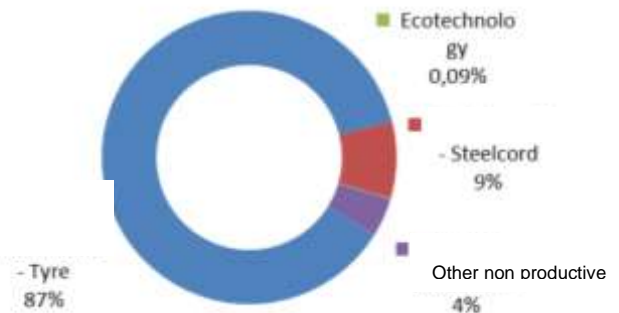
		<u>2011</u>	<u>2012</u>	<u>2013</u>
Absolute withdrawal	(m3)	16.349.000	16.174.000	15.119.000
Specific withdrawal	(m3/tonF)	15,0	16,4	14,6
	(m3/k€)	28,1	20,4	19,1

The two graphs below show the weight of the water procurement per type of source and the distribution of absolute uptakes per type of production business.

Type of water sources - 2013



Disribution of water withdrawal by use - 2013



More than half the water drawn is taken from wells within the plants and authorised by the delegated authorities. Furthermore, Pirelli obtains about one fourth of its requirements from surface water, while dedicating special care to guaranteeing that this volume is marginal in relation to the volume of the affected water bodies (always less than 5%). In particular, about 10% is taken from water bodies located in Brazil and protected by national laws and regulations. Finally, about 700,000 cubic metres of water used are obtained from treatment of waste water generated by its own manufacturing processes.

A total of about 10 million cubic metres of water were discharged, with about 70% of this into surface water bodies, but always in quantities that are marginal in relation to the volume of the capture basis (always less than 5%) and without significantly impacting biodiversity.

The remaining amount was discharged into sewer networks. Before being discharged into the final recipient, industrial waste water – adequately treated as necessary – is periodically subjected to analytical tests that certify compliance with locally applicable statutory limits. Specifically in regard to the quality of industrial discharges at the Tyre sites, indicative values of the total average are: 8 mg/l of BOD5 (Biochemical Oxygen Demand), 41 mg/l of COD (Chemical Oxygen Demand) and 23 mg/l of Total Suspended Solids.

WASTE MANAGEMENT

The aim in this section is to complete the overview of the environmental sustainability process by describing the approach adopted to improve environmental performance resulting from the production and management of waste, pursued through the following activities:

- innovation of production processes, with the aim of preventing the production of waste at the source, progressively reducing processing rejects and replacing current raw materials with other new ones that have a lower environmental impact;
- operating management of generated waste, aimed at identifying and ensuring the selection of waste treatment channels that can maximise recovery and recycling, gradually eliminating the amount sent to the landfill with the Zero Waste to Landfill vision;
- streamlining packaging management, both for the packaging of purchased products and the packaging for products made by the Group.

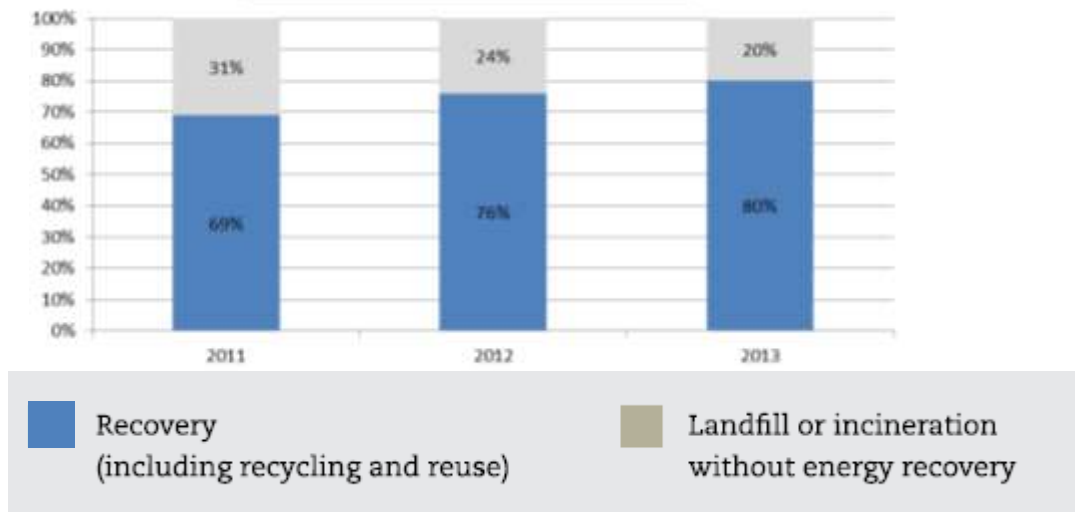
Pirelli monitors and reports on its own waste production, as measured and communicated by all operating units, using three key indicators:

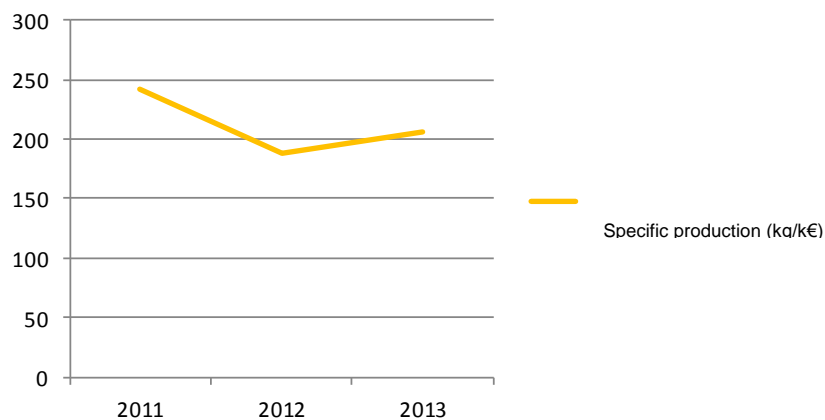
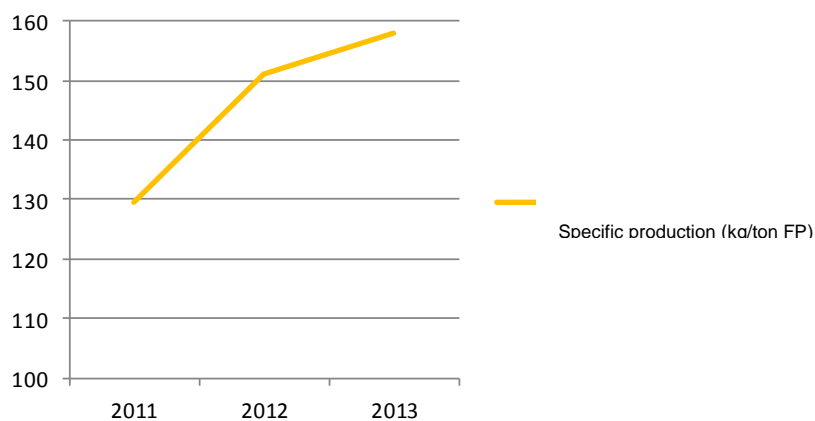
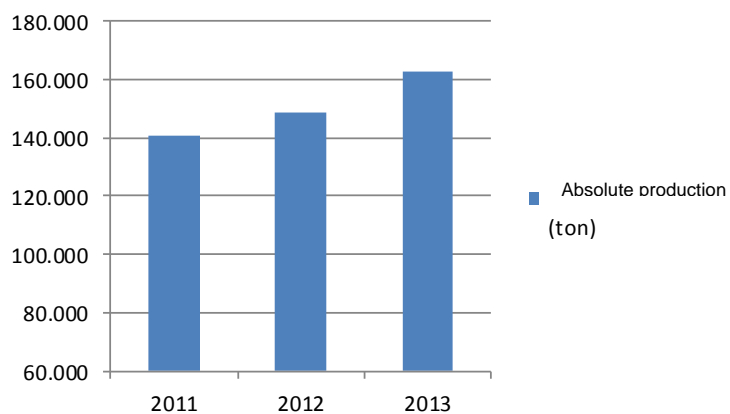
- absolute production, as measured in tons;
- specific production, as measured in kilograms per ton of finished product;
- specific production, as measured in kilograms per euro of Operating Income.

The Industrial Plan that was presented to the international financial community in November 2013 has redesigned the strategy to reduce the impact associated with wastes generated by Pirelli Group manufacturing activities, focusing attention on the value of wastes as a resource and then on its development through recovery activity. By 2020, more than 95% of waste products will be sent for recovery, with Vision Zero Waste to Landfill, extending the approach previously adopted with success at Breuberg in Germany and Rome in the United States to all operating affiliates.

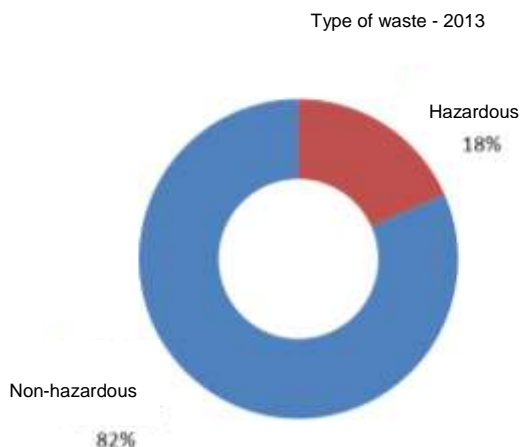
As anticipated in the section “Performance Index Trend”, 80% of the wastes were recovered in 2013, resulting an an increase of 4% from the previous year. The same trend was also recorded for the specific quantity of wastes produced, determined principally by conversion and renovation of manufacturing sites. Hazardous wastes represent slight less than 20% of total production and are sent in their entirety to plants located in the same country where they are produced.

Distribution of waste by type of treatment - 2013





		<u>2011</u>	<u>2012</u>	<u>2013</u>
Absolute production	(ton)	141.000	149.000	163.000
Specific production	(kg/tonFP)	130	151	158
	(kg/k€)	242	188	206



Handling of packaging

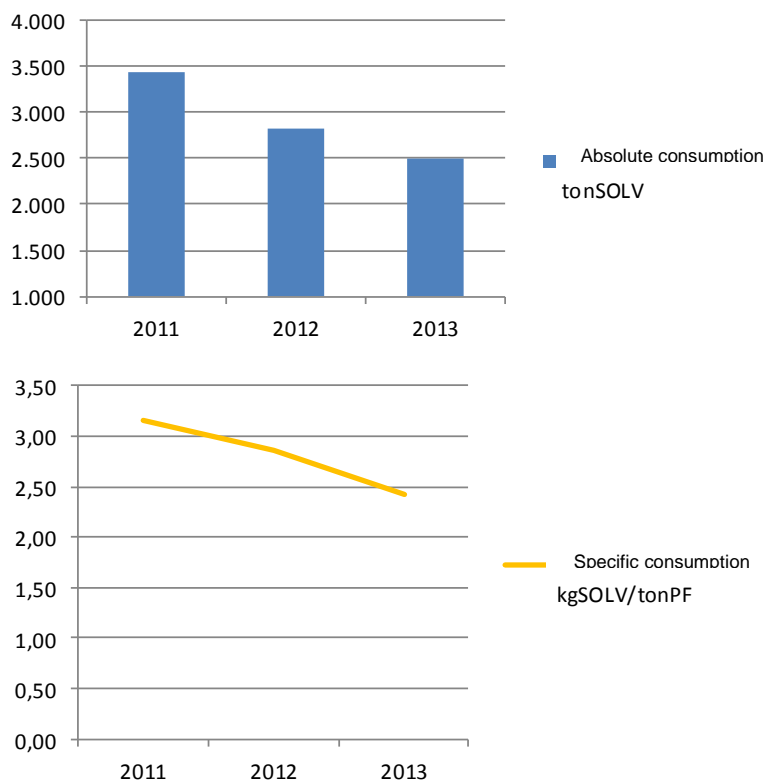
Different procedures for handling packaging materials exist for different types of products. While tyres are products generally sold without packaging materials, steel cord involves specific packaging. In this respect it should be pointed out that tyre sales account for over 99% of all Group sales in 2013. To reduce the waste from packaging of the products sold, the Steel Cord Business Unit manages and streamlines the use of packaging materials, in collaboration with its own customers. The purpose of these actions is to increase the quantities of reusable packaging materials, both through their being returned to production sites and through replacement of certain types of packaging with more resistant models that are less subject to wear and tear and thus having a longer life.

More specifically, attention was focused on the replacement of traditional wood pallets with new plastic or metal versions, which have a high rate of reusability. A plastic pallet can be reused about ten times, compared with one or at most two times for a traditional wooden pallet. Reducing waste generates obvious benefits. The data received by the Steel Cord Markets and Logistic Department confirm that beginning in early 2013, 100% of the pallets used in reverse logistic circuits are made of plastic or metal, covering 95% of sales volumes. For the remaining 5% wooden pallets are used, where they are more easy to reuse and recover in the areas where they are dispatched.

OTHER ENVIRONMENTAL ASPECTS

Solvents

Solvents are used as ingredients in processing, mainly to reactivate vulcanised rubber, during the fabrication and finishing of tyres. The Pirelli strategy is focused on steady reduction of these substances, both through streamlined use of solvents and dissemination of solvent-free technologies for those operations that may be carried out even without the use of these substances. This strategy has translated into a more than 30% reduction in the specific consumption of solvents, and the related emission of volatile organic compounds, as compared with the forecast 15% reduction from 2009 levels, with aggregate related emissions slightly lower than total consumption.



		<u>2011</u>	<u>2012</u>	<u>2013</u>
Absolute consumption	ton	3,435	2,826	2,496
Specific consumption	kg/tonPF	3,2	2,9	2,4

Biodiversity

For Pirelli, the responsible integration of its sites within the local territorial context is an essential cultural aspect. The greatest care is taken to guarantee that the corporate activities do not interfere with the typical biodiversity of the local environments. There are currently two Pirelli sites located inside protected areas that are extremely valuable in terms of biodiversity: the Vizzola Ticino site and the Gravatai site.

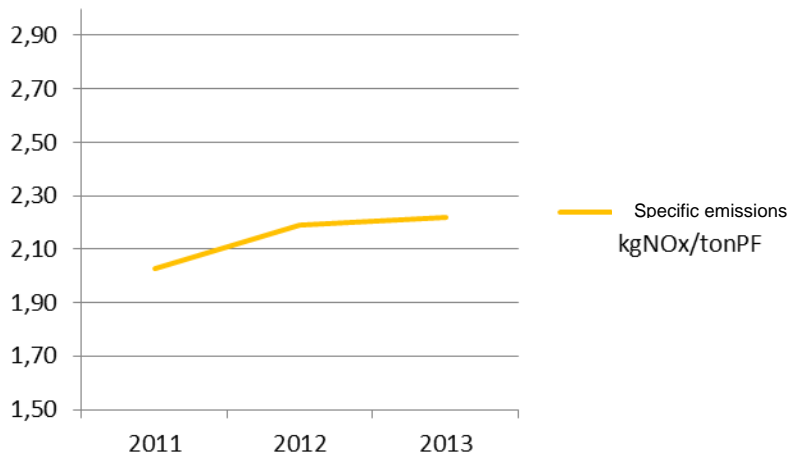
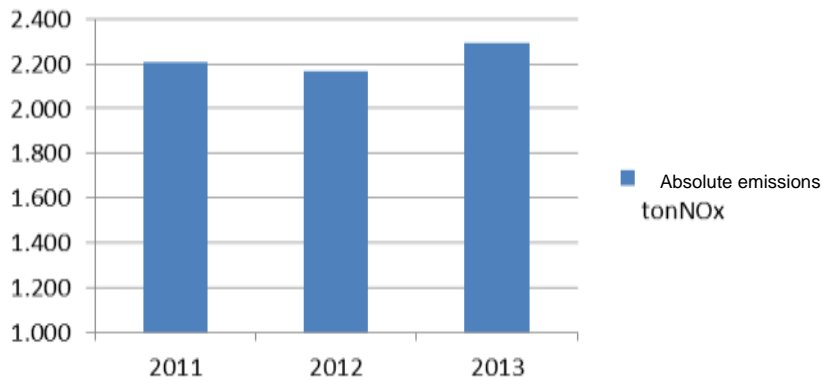
The Vizzola Ticino site, which has an area of 0.26 square kilometre, is part of the Parco del Ticino in Lombardy, an MAB (Man and Biosphere, a collection of 425 biosphere reserves located in 95 countries around the world) area of UNESCO. It features 27 species included on the IUCN Red List.

In view of better guaranteeing protection of the natural environment where the Vizzola test track is located, Pirelli has implemented an ISO 14001 certified Environmental Management System in accordance with the Parco del Ticino. The environmental impact on the biodiversity of the area is not significant; nevertheless, various activities have been undertaken to mitigate and improve the interaction of Pirelli activities with the natural context, performed directly both by the park administration, as agreed in writing in 2001, and aimed at improvement of the landscape and ecosystem functionality of the neighbouring areas or where the test track is located.

The Gravatai site in Brazil, measuring 0.57 square kilometre, including 0.16 square kilometre of land ecosystem protected under federal law. Here again, Pirelli has implemented an ISO 14001 certified environmental management system to guarantee that all potential impact on the environment and on biodiversity, while deemed relatively insignificant, be duly considered and managed in every case to reduce all possible interference to a minimum.

NO_x emissions

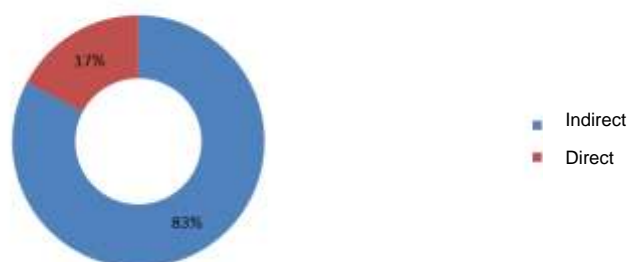
The NO_x emissions derive directly from the generation of energy used. For this reason they are impacted, both in absolute terms and in relation to the unit of finished product, by energy consumption trends, to which a specific section has been dedicated elsewhere in this report.



		<u>2011</u>	<u>2012</u>	<u>2013</u>
Absolute emissions	tonNOx	2,208	2,164	2,290
Specific emissions	kgNOx/tonPF	2,03	2,19	2,22

The following graph shows the weight in 2013 of the direct and indirect emissions of NO_x out of the total NO_x emissions. The emissions have been calculated by using the emission factors defined BUWAL 250 and IDEMAT 2001.

Distribution of NOx emissions - 2013



Other emissions and environmental aspects

The production process does not directly use substances that are harmful to the ozone layer. These are contained in certain closed circuits of the cooling and air conditioning plants. Therefore, except for accidental and unforeseeable losses, there are no free emissions into the atmosphere that can be correlated to Pirelli manufacturing activities.

Direct emissions of SO_x, caused by the combustion of diesel and fuel oil, was estimated to be about 325 tons in 2013 (U.S. EPA emissions standards).

The environmental management systems implemented at the production units have assured constant and prompt monitoring and intervention in potential emergency situations that may arise, as well as the reports received from stakeholders.

No significant environmental spills occurred in 2013, no complaints occurred in relation to significant environmental reasons, and no fines connected with them have been recorded.

Expenses and investments

In 2013 environmental expenses and investments related to the manufacturing process totalled over euro 15 million. About 85% is covered by normal management and administration of factories, while the remaining 15% is dedicated to preventive measures and improvement in environmental management.

To complete the picture, it must be pointed out that, consistently with the materiality analysis at the beginning of this chapter, the most important expenses dedicated by Pirelli to the environment are definitely those related to product research and development. In 2013 the Company invested euro 199 million in research and innovation of its own products, with a constant focus on safety performance and reduction of environmental impact and, at the same time, production efficiency.

3.4 PRODUCT AND USE PHASE

The impact of the use phase is completely indirect in relation to the industrial activity of Pirelli, there is no doubt that this is the phase that makes the greatest contribution by far during the tyre life cycle. The carbon and water impact varies from 75% to 90% of the total. This is due almost entirely to the power absorbed by the tyres, which deform by absorbing energy to guarantee road hold and braking performance. Rolling resistance is the characteristic that determines the level of energy absorption, and it precisely on this environmental performance that Pirelli is intensifying its own research. The reduction in rolling resistance entails lower fuel consumption by the vehicle system. This consumption, which is realised with combustion in vehicle heat engines, combined with production of the fuels themselves, results in the impact of this phase in the life cycle.

Green Performance targets

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

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

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

The new EU environmental and safety tyre labelling regulation applicable to tyres for sale in the replacement segment came into force on the European market in 2012. This regulation requires that tyre makers apply a label (the "Eurolabel") informing consumers about key product characteristics, such as rolling resistance (an indicator of energy efficiency), wet grip (a safety indicator) and external rolling noise (environmental impact indicator). Energy efficiency and safety are ranked by classes that run from "A" to "G", while external noise is measured in decibels and is shown with the sound wave symbol. The Eurolabel is applied to car tyres (C1) and light and heavy commercial vehicle tyres (C2 and C3).

During presentation of the Industrial Plan 2013-2017, Pirelli Research and Development committed itself by adopting targets to improve the environmental performance of its own products in an objective, measurable and transparent manner. In particular, the Group focused its commitment to the parameters of the European Rolling Resistance, Wet Grip and Noise labelling requirements, without neglecting all the other fundamental parameters in the Green Performance strategy. They will be presented in the following paragraphs.

Car Tyres

Pirelli is one of the most sustainable manufacturers of car tyres, with two outstanding products: the Cinturato™ P7™ Blue and the Winter Sottozero™ 3.

With the Cinturato™ P7™ Blue, Pirelli is the first tyre maker in the world that offers a tyre carrying a double A rating for certain sizes on the Eurolabel scale. According to its size, this tyre is sold either with a double A class rating or a class B rating for rolling resistance, while all sizes have an A rating for wet grip. On average, the Cinturato™ P7™ Blue guarantees 23% less rolling resistance compared with the Pirelli benchmark (class C rolling resistance), and thus lower fuel consumption and noxious emissions. Here is a concrete example: a sedan equipped with the Cinturato™ P7™ Blue tyre that travels 15,000 kilometres a year consumes 5.1% less fuel, equal to 52 litres of fuel, and reduces greenhouse gas emissions by 123.5 kilograms of CO₂. Its braking distance on wet surfaces is 9% less than the Pirelli benchmark (class B for wet grip) in the same segment. Moreover, the comparative tests by TÜV SÜD show that at a speed of 80 km/h on wet roads, P7™ Blue reduces braking distance by 2.6 metres as compared with a class B tyre. The Cinturato™ P7™ Blue has been developed for medium-high powered engines, as further evolution of the Cinturato™ P7™, the most famous Pirelli Green Performance

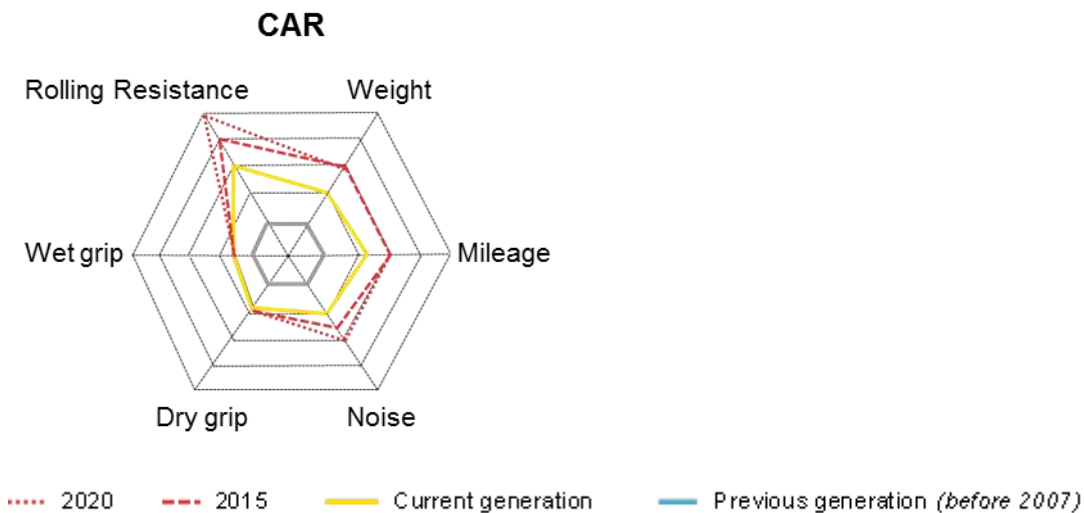
tyre presented in 2009. The evolution of the Cinturato line became necessary to meet drivers' growing need for safety and economy. The Cinturato™ P7™ Blue is sold only on the replacement market, unlike the Cinturato™ P7™, which is sold mainly through the original equipment channel. This latter model has taken just a few years to become the benchmark tyre for the most prestigious car makers in the sedan, coupé and medium-high powered sedan segments.

In March 2013 the Winter Sottozero™ 3 tyres were presented in a preview offered to over 400 European dealers in Austria, between Seefeld and the Kühtai pass at over 2,000 metres. The third generation of ultra-high performance tyres for the winter season, it was conceived to equip sports cars and powerful sedans and offer maximum grip on water, ice and snow. Here are the principal characteristics of this new product line:

- an innovative compound made of functional polymers (that improve the mechanical, thermal and dynamic properties of the compounds), improving tyre performance;
- an improved profile to guarantee greater mileage through uniform contact with the ground;
- more ground contact for better road hold, rendered possible by the Lamella 3D.

The new line guarantees control, mileage and grip under wintry conditions. The Winter Sottozero™ 3 tyres are offered in bore sizes ranging from 16 to 21 inches and in 11 runflat versions.

The following infographic refers to the entire range of car products and illustrates the technological progress made from 2007 until now, and the targets for 2020. In its Industrial Plan 2013-2017, Pirelli has undertaken to reduce the average rolling resistance of its own products by 40% from the 2007 average.



Truck Tyres

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

From the design stage on, Pirelli takes account of all product use conditions, including abnormal ones.

This permits the development of tyres that do not stop at compliance with legal regulations, but have all the characteristics necessary to guarantee complete safety, both for the customer and for the environment, in accordance with the highest Pirelli product standards. Numerous eco-compatibility features characterise the new generations of Pirelli truck tyres, beginning with the reduction in weight that in turn reduces both the quantity of raw materials used and energy needed to produce them. Furthermore the reusable materials that are employed and their durability are reflected in the duration of the “first life” of the tyre and the number of times that the same casing can be used for retreading the tyre. The Serie 01 is the green performance range of tyres for industrial vehicles, launched by Pirelli in 2009. The Serie 01 tyres share the latest generation SATT™ structure, the most advanced for production of truck tyres, and constitutes the basis for lengthening product life, elevated rebuildability, extremely regular wear and tear, and better driving precision. Compounds and tread

patterns are designed and optimised according to the performance requested for different uses. All Serie 01 product lines bear the Ecoimpact mark, which translates into:

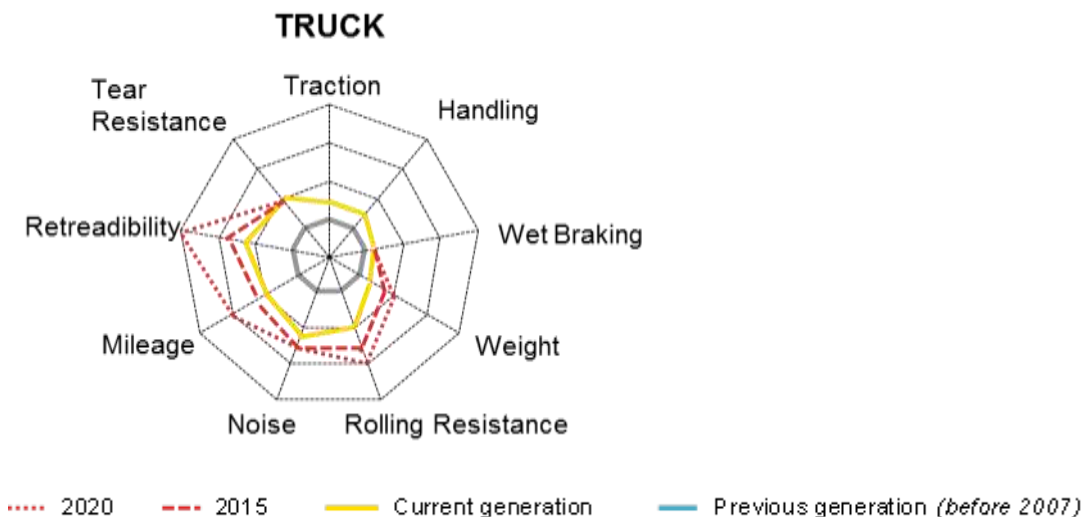
- high mileage and uniform tyre tread wear, through the use of high specific yield compounds, the SATT (Spiral Advanced Technology for Truck) structure, and an optimised tyre tread profile;
- low rolling resistance (already in compliance with 2016 regulatory limits) and consequent reduction in fuel consumption and CO₂ emissions;
- highly retreadability, construed as the greater residual durability at the end of the tyre’s first life thanks to the new SATT structure combined with compounds having low hysteresis (i.e. generating less heat), with the hexagonal flush ring and reinforced bead;
- low noise, construed as quiet ride and driving comfort, consistent with European regulations governing noise limits.

The ST:01™ Neverending Energy™ stands out among the top products. Developed specifically for equipping trailers and semi-trailers, ST:01™ Neverending Energy™ is the first line of truck tyres to be awarded the double class “A” of the European label, and thus both for rolling resistance and grip on wet roads. Like all the new Pirelli product groups, ST:01™ Neverending Energy™ also aims at maximum fuel consumption efficiency. There are considerable benefits for the fleet, considering that in a vehicle made up of a traction engine and semi-trailer the tyres fitted on the latter have 50% impact on the rolling resistance generated by all the tyres. The ST:01™ Neverending Energy™ line combines safety with energy saving (generating lower emissions), maintaining high performance in terms of mileage and durability, typical of a truck tyre. The benefits of the ST:01™ Neverending Energy™ line are made possible by:

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

The product line dedicated to the medium and long-distance transport segment has also been rounded out by a new tyre that enhances safety and minimises operating costs, by means of energy efficiency, high mileage, possibility of reconstruction, reduced noise and use of innovative materials. With the new ST:01™ Base™ – characterised by innovative materials, optimal reduction of wear and tear and use of a Pirelli patent – all different types of transport operator requirements are covered.

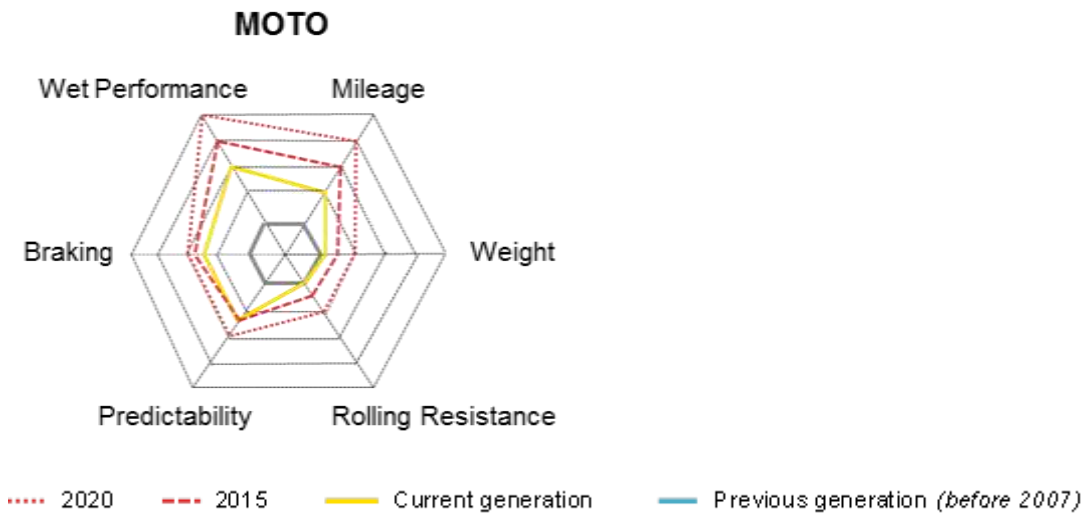
The following infographic refers to the entire range of car products and illustrates the technological progress made from 2007 until now, and the targets for 2020. In its Industrial Plan 2013-2017, Pirelli has undertaken to reduce the average rolling resistance of its own products by 20% from the 2007 average.



Motorcycle Tyres

Pirelli confirms its competitive advantage in terms of performance and safety on the motorcycle tyre market, characteristics that have made our Company the best tyre maker in this segment. However, by anticipating market demand, Pirelli is also focusing its research on the environmental performance of its motorcycle tyres, by equipping the innovative BMW C Evolution electric scooter. Engineers at Metzeler (the 100% Pirelli owned brand) are developing the new Feelgreen project, which will lead to marketing a product that, in comparison with the present standard, will reduce weight by 13% and rolling resistance by about 25%. However, the driving performance of the Feelgreen maintains the characteristic elements for which this brand's products are famous: fast warm-up and handling, which are essential for city driving conditions. Feelgreen was designed with the support of the FEA (Finite Elements Analysis) technique. It a high silica content compound, new tread design and new profile that were specifically designed to reduce rolling resistance.

The following infographic refers to the entire range of car products and illustrates the technological progress made from 2007 until now, and the targets for 2020. In its Industrial Plan 2013-2017, Pirelli has undertaken to reduce the average rolling resistance of its own products by 10% from the 2007 average. For the overall efficiency of motorcycles, the influence of this tyre characteristic is less significant than it is in the four-wheel vehicle world.



Cyber™ Tyre

The integration of electronics in tyres is one of the cornerstones of Pirelli's premium innovation strategy, aimed at guaranteeing continuous monitoring of key physical parameters, particularly tyre pressure. The use of tyres whose pressure is 20% less than its recommended pressure may result in up to 3% higher fuel consumption, with a correspondingly greater environmental impact in terms of CO₂ emissions. National Transportation Safety Board studies have shown that for every 20 kPa of under inflation, there is an average increase in fuel consumption of 1%. Furthermore, tyre pressure that is 20% below what it should be causes irregular wear on the tyre tread and consequently increases wear and tear by 25%, which translates into a 30% reduction in the lifetime of the tyre. Pirelli is able to offer its customers a family of Cyber products for monitoring tyres:

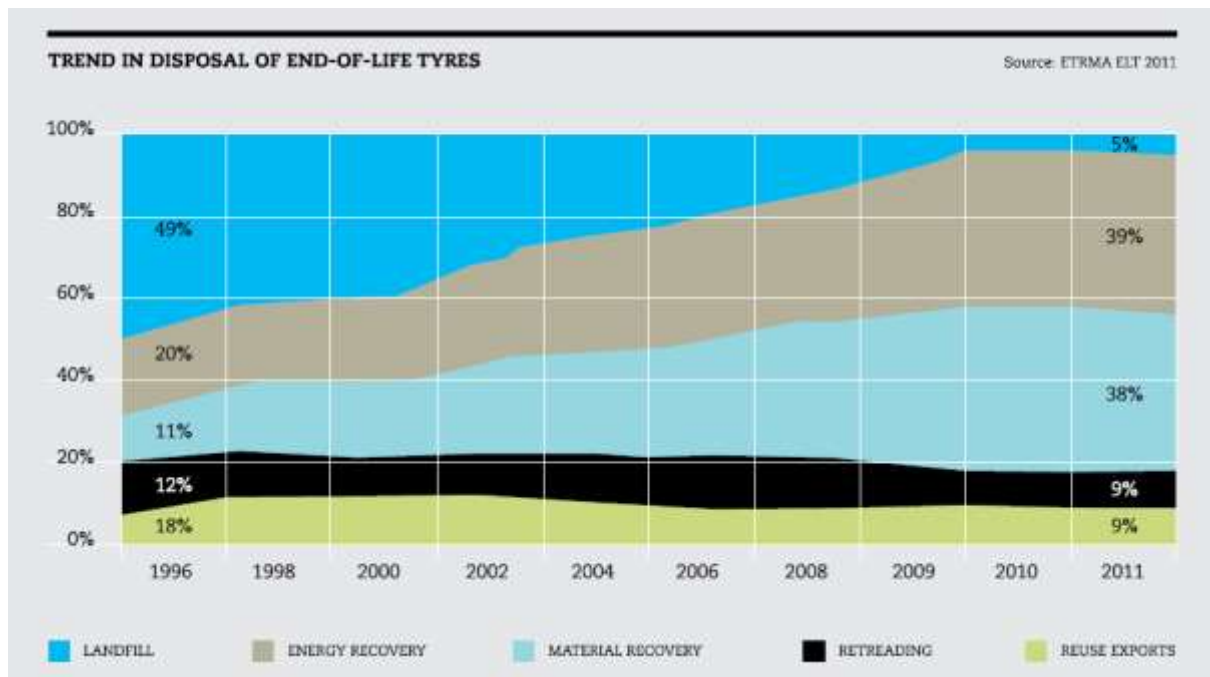
- the CyberFleet™ TPMS (Tyre Pressure Monitoring System) for truck use;
- the Cyber™ Tyre TMS (Tyre Mounted System) for car use.

In particular the CyberFleet™ technology, already available on the Brazilian market for end users (fleets of trucks, buses and dealers) since 2012, uses an electronic sensor embedded in the tyre to dialogue with the fleet management centre, reporting tyre pressure and temperature in real time. The new system is designed to keep tyres under continuous control by measuring any faults to assure proper maintenance. This leads to a significant reduction in the environmental impact from tyre use, by lengthening its useful life and limiting fuel consumption, as well as having a big impact on fleet safety.

The Cyber™ Tyre system of monitoring tyre dynamics, initially applied to car use, can interact in real time with the systems for controlling vehicle dynamics, benefiting driving safety, performance and fuel consumption. The TMS technology is a high performance solution of the TPMS system that is already widely used on cars in the United States. It can integrate additional functions, such as the amount of vertical static force to optimise tyre pressure according to load, and the RFID, or electronic tag that uniquely identifies the tyre. The Pirelli Cyber™ Tyre system, which is at an advanced stage of development and testing with certain prestige and premium car makers, constitutes the technological breakthrough that can significantly improve the performance limits of road hold and driving safety. This is accomplished on account of the sensor's capacity to transmit data and information to the vehicle in real time, being updated at every revolution of the tyre, in contrast with the previous methods used until now to make indirect and relatively inaccurate estimates. The Cyber™ Tyre technology was developed entirely at Pirelli, from the electronics, the heart of the system, to the algorithms for extraction of parameters, the basis for creating new vehicle control systems.

3.5 END-OF-LIFE MANAGEMENT OF TYRES

About 1.5 billion tyres are sold worldwide every year (IRSG Report 2010), and they are naturally destined to become end-of-life tyres. In 2011, about 2.9 million tons of tyres were manufactured in Europe. In the United States, 4.6 million tons of tyres were made in 2007, and 800,000 tons of tyres were produced in Japan. These numbers clearly indicate the dimensions of the phenomenon and its potential environmental impact. In these three cases, the efforts made by institutions, producers and recovery chains have made extremely positive results possible. In 2011, 95% of end-of-life tyres (ELT– End-of-Life Tyres) were recycled in Europe. In the United States, the figure is around 90%, while in Japan the percentage is slightly higher (ETRMA ELT 2011 data). Pirelli has been committed for years now to the management of ELTs both internally, through the research and innovation activity of Pirelli Labs, and by collaborating with major national and international organisations in the sector. Pirelli is in fact active in the Tyre Industry Project (TIPG) of the World Business Council for Sustainable Development (WBCSD), in the ELTs working group of ETRMA (European Tyres and Rubber Manufacturers' Association) and, at the national and local level, it interacts directly with leading organisations active in the recovery and recycling of ELTs. As a member of TIPG, Pirelli Tyre has collaborated on the publication of a report on the management of ELTs, taking a proactive approach to raising the awareness both of emerging countries and those that do not yet have a system for recycling ELTs, and to promote their recycling and reuse according to defined management models, which have already been launched successfully.



Products that can be obtained from recycling ELTs

Tyres are a mix of numerous materials that 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 energy content that characterises ELTs, higher even than coal, ELTs are used as fuel in thermoelectric plant ovens and in cement manufacturing plant ovens, guaranteeing a reduction in greenhouse gas emissions due to their biomass content resulting from natural rubber, which is close to or greater than 20% of their weight.

RECOVERY OF A TYRE AT END OF LIFE

1

Energy Recovery



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



Cement works



Thermal power stations



Paper mills

2

Recovery of Material



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



Asphalt

Paving with durability, low noise levels and braking grip



Sports playing surfaces

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



Building

Materials for sound insulation



Street furniture

Speed bumps, traffic demarcations, kerbs



Civil engineering

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



Miscellaneous manufactured items

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



Tyres

As the regenerated part of the compounds



Stationery

Items of stationery



Footwear

Soles for footwear

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

In regard to material recovery, recycled rubber is already reused by Pirelli in the compounds of new tyres. Together with traditional recovery and disposal methods, this contributes to reducing its environmental impact. Through research in collaboration with various university centres, in the near future it will be possible to improve the quality of compounds in terms of the affinity of their ingredients, thereby increasing the quantity of recoveries introduced with another environmental benefit. All this in addition to a positive drop in the consumption of non-renewable materials.

3.6 OTHER BUSINESSES

Pirelli Ambiente

This business operates in the field of sustainable mobility and renewable energy sources. This entity results from merger of the activities of Pirelli Eco Technology S.p.A. and Pirelli Ambiente S.p.A. In regard to the activities contributed by Pirelli Eco Technology, Pirelli makes, sells and markets products developed for the control of pollution emissions: FEELPURE™ anti-particulate filters and systems.

The activities taken over from Pirelli Ambiente offer solutions for sustainable development as part of energy issues. In this sector, Pirelli produces CDR-P, a quality fuel derived from solid urban waste. Pirelli also owns an indirect minority stake in the listed Danish company Greentech Energy Systems A/S, which operates in the renewable energy sector – wind power and photovoltaic energy.

Pzero

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

4. SOCIAL DIMENSION

4.1 INTERNAL COMMUNITY

“The Pirelli Group recognizes the crucial importance of human resources, in the belief that the key to success in any business is the professional input of the people that work for it in a climate of fairness and mutual trust. The Pirelli Group safeguards health, safety and industrial hygiene in the workplace, both through management systems that are continually improving and developing and by promoting an approach to health and safety based on prevention and the effective handling of occupational risk. The Pirelli Group consider respect for workers’ rights as fundamental to the business. Working relationships are managed 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 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 organizing and developing its activities. 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:

- *management of its activities by adopting occupational health, safety and rights and environmental policies in compliance with the highest international standards;*
- *the dissemination occupational health, safety and labour rights and environmental information to its internal and external stakeholders, both by communicating with them and actively co-operating with national and international government and academic bodies;*
- *promoting use of the most advanced technologies to achieve excellence in occupational health and safety and environmental protection; [...]*
- *not using or supporting the use of child labour and forced labour;*
- *ensuring equal opportunity, freedom of association and promotion of the development of each individual;*
- *opposing the use of corporal punishment, mental or physical coercion, or verbal abuse;*
- *compliance with applicable laws and industry standards on working hours.”*
- *[...]*

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

“The Pirelli Group has been and remains firmly committed to compliance with the principles of Equal Opportunities in the workplace, without any form of discrimination on the basis of gender, marital status, sexual orientation, religious or political beliefs, union membership, colour, ethnic origins, nationality, age or disability.”

“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 discussed in detail in the Group Social Responsibility Policy for Occupational Health, Safety, Rights and Environment. The commitments made by Pirelli in its Social Responsibility Policy are inspired by the SA8000® standard, which for years has been the benchmark tool for management of Group Social Responsibility, by the United Nations Global Compact, to which Pirelli has subscribed since 2004, and by the ISO 26000 Guidelines.

PIRELLI EMPLOYEES AROUND THE WORLD

The Pirelli headcount at December 31, 2013 was 37,979 employees (37,338 in 2012 and 34,259 in 2011), for a net increase of 641 employees yoy, including 60 executives and white collar employees and 581 blue collar employees.

BREAKDOWN OF EMPLOYEES BY CATEGORY*

2013	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
Tyre Business	316	7.217	30.234	37.766
Other Businesses**	6	85	122	213
PIRELLI TOTAL	322	7.302	30.356	37.979
2012	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
Tyre Business	343	7.096	29.644,0	37.082
Other Businesses**	11	114	131	256
PIRELLI TOTAL	354	7.210	29.775	37.338
2011	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
Tyre Business	315	6.140	27.489	33.945
Other Businesses**	11	140	163	314
PIRELLI TOTAL	326	6.280	27.652	34.259
2013 vs 2012	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
Tyre Business	-27	121	590	684
Other Businesses**	-5	-29	-9	-43
PIRELLI TOTAL	-32	92	581	641
2013 vs 2011	EXECUTIVES	WHITE COLLARS	BLUE COLLARS	TOTAL
Tyre Business	1	1.077	2.744	3.821
Other Businesses**	-5	-56	-41	-101
PIRELLI TOTAL	-4	1.021	2.704	3.720

NOTE:

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

**This includes P. Zero, P. Ambiente, and P. Eco Tech.

BREAKDOWN OF EMPLOYEES* BY GEOGRAPHICAL AREA AND GENDER

2013									
	TYRE BUSINESS			OTHER BUSINESSES			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
EUROPE	12.770	2.692	15.462	104	108	212	12.874	2.800	15.674
NAFTA	994	158	1.152	0	0	0	994	158	1.152
CENTRAL & SOUTH AMERICA	13.466	779	14.244	0	0	0	13.466	779	14.244
MEA	3.231	80	3.311	0	0	0	3.231	80	3.311
ASIA PACIFIC	2.817	780	3.597	1	0	1	2.818	780	3.598
TOTAL	33.278	4.488	37.766	105	108	213	33.383	4.596	37.979
2012									
	TYRE BUSINESS			OTHER BUSINESSES			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
EUROPE	12.674	2.845	15.519	136	115	251	12.810	2.960	15.769
NAFTA	847	147	994	0	0	0	847	147	994
CENTRAL & SOUTH AMERICA	13.049	810	13.860	0	0	0	13.049	810	13.860
MEA	3.228	73	3.301	0	0	0	3.228	73	3.301
ASIA PACIFIC	2.650	759	3.409	5	0	5	2.655	759	3.414
TOTAL	32.448	4.634	37.082	141	115	256	32.589	4.749	37.338
0									
2011									
	TYRE BUSINESS			OTHER BUSINESSES			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
EUROPE	11.619	2.476	14.095	155	125	280	11.774	2.601	14.375
NAFTA	432	58	490	0	0	0	432	58	490
CENTRAL & SOUTH AMERICA	12.676	526	13.202	0	0	0	12.675	527	13.202
MEA	3.228	68	3.296	0	0	0	3.228	68	3.296
ASIA PACIFIC	2.427	428	2.855	37	4	41	2.464	432	2.896
TOTAL	30.382	3.556	33.938	192	129	321	30.574	3.685	34.259
2013 vs 2012									
	TYRE BUSINESS			OTHER BUSINESSES			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
EUROPE	97	-153	-57	-32	-7	-39	65	-160	-96
NAFTA	147	11	158	0	0	0	147	11	158
CENTRAL & SOUTH AMERICA	416	-32	385	0	0	0	416	-32	385
MEA	3	7	10	0	0	0	3	7	10
ASIA PACIFIC	167	21	188	-4	0	-4	163	21	184
TOTAL	830	-146	684	-36	-7	-43	794	-153	641
2013 vs 2011									
	TYRE BUSINESS			OTHER BUSINESSES			PIRELLI TOTAL		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
EUROPE	1.151	216	1.367	-51	-17	-68	1.100	199	1.299
NAFTA	562	100	662	0	0	0	562	100	662
CENTRAL & SOUTH AMERICA	790	253	1.042	0	0	0	790	253	1.042
MEA	3	12	15	0	0	0	3	12	15
ASIA PACIFIC	390	352	742	-36	-4	-40	354	348	702
TOTAL	2.896	932	3.828	-87	-21	-108	2.809	911	3.720

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

TYPE OF EMPLOYMENT CONTRACT

TYPE OF EMPLOYMENT CONTRACT	2011	2012	2013	13 vs 12	13 vs 11
Permanent	91,6%	92,7%	93,1%	0,4%	1,5%
Temporary	8,1%	6,6%	6,6%	0,1%	-1,5%
Agency	0,3%	0,7%	0,3%	-0,4%	0,0%
Part-time (% of total FTE)	0,8%	0,8%	0,8%	0,0%	0,0%

Employee flows 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.

EMPLOYEE FLOWS BY GEOGRAPHIC AREA IN THE THREE-YEAR PERIOD 2011-2013

EMPLOYEE FLOWS BY GEOGRAPHIC AREA						
	2013		2012		2011	
	INCOMING	OUTGOING	INCOMING	OUTGOING	INCOMING	OUTGOING
EUROPE	1.805	1.891	1.378	1.581	1.606	1.218
NAFTA	507	355	770	247	245	35
CENTRAL & SOUTH AMERICA	2.945	2.527	2.733	2.633	3.191	2.525
MEA	573	531	243	212	1.018	688
ASIA PACIFIC	789	596	1.297	769	1.142	693
TOTAL	6.619	5.900	6.420	5.443	7.202	5.159

EMPLOYEE FLOWS 2013 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: TOTAL VALUES										
	INCOMING					OUTGOING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
EUROPE	1.030	661	115	1.481	324	580	741	570	1.432	459
NAFTA	384	121	2	442	65	279	76	0	299	56
CENTRAL & SOUTH AMERICA	1.950	974	22	2.747	199	1.399	1.019	109	2.332	195
MEA	534	38	1	567	6	417	104	10	528	3
ASIA PACIFIC	602	187	0	667	122	471	122	3	504	92
TOTAL	4.500	1.980	140	5.903	716	3.146	2.062	692	5.096	804

EMPLOYEE FLOWS 2013 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: PERCENTAGE VALUES										
	INCOMING					OUTGOING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
EUROPE	57%	37%	6%	82%	18%	31%	39%	30%	76%	24%
NAFTA	76%	24%	0%	87%	13%	79%	21%	0%	84%	16%
CENTRAL & SOUTH AMERICA	66%	33%	1%	93%	7%	55%	40%	4%	92%	8%
MEA	93%	7%	0%	99%	1%	79%	20%	2%	99%	1%
ASIA PACIFIC	76%	24%	0%	85%	15%	79%	20%	1%	85%	15%
TOTAL	68%	30%	2%	89%	11%	53%	35%	12%	86%	14%

EMPLOYEE FLOWS 2012 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: TOTAL VALUES										
	INCOMING					OUTGOING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
EUROPE	697	437	35	1.025	145	439	399	173	896	114
NAFTA	589	178	3	658	112	165	77	5	217	30
CENTRAL & SOUTH AMERICA	1.861	853	19	2.522	211	1.557	971	105	2.499	134
MEA	206	37	0	230	13	110	95	7	204	8
ASIA PACIFIC	1.007	287	3	860	437	614	149	6	648	121
TOTAL	4.360	1.792	60	5.295	918	2.885	1.691	296	4.464	407

EMPLOYEE FLOWS 2012 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: PERCENTAGE VALUES										
	INCOMING					OUTGOING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
EUROPE	60%	37%	3%	88%	12%	43%	39%	17%	89%	11%
NAFTA	76%	23%	0%	85%	15%	67%	31%	2%	88%	12%
CENTRAL & SOUTH AMERICA	68%	31%	1%	92%	8%	59%	37%	4%	95%	5%
MEA	85%	15%	0%	95%	5%	52%	45%	3%	96%	4%
ASIA PACIFIC	78%	22%	0%	66%	34%	80%	19%	1%	84%	16%
TOTAL	70%	29%	1%	85%	15%	59%	35%	6%	92%	8%

EMPLOYEE FLOWS 2011 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: TOTAL VALUES										
	INCOMING					OUTGOING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
EUROPE	1.001	564	41	1.364	242	593	487	139	1.075	143
NAFTA	167	77	1	219	26	14	21	0	26	9
CENTRAL & SOUTH AMERICA	2.252	923	16	3.044	147	1.539	918	68	2.390	135
MEA	980	38	0	998	20	579	95	14	680	8
ASIA PACIFIC	975	167	0	930	212	595	97	1	627	66
TOTAL	5.375	1.769	58	6.555	647	3.320	1.618	222	4.798	360

EMPLOYEE FLOWS 2011 BY GEOGRAPHIC AREA, GENDER AND AGE GROUP: PERCENTAGE VALUES										
	INCOMING					OUTGOING				
	<30	30-50	>50	MEN	WOMEN	<30	30-50	>50	MEN	WOMEN
EUROPE	62%	35%	3%	85%	15%	49%	40%	11%	88%	12%
NAFTA	68%	31%	0%	89%	11%	40%	60%	0%	74%	26%
CENTRAL & 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%
TOTAL	75%	25%	1%	91%	9%	64%	31%	4%	93%	7%

The overall trend with regards to personnel in 2013 was therefore one of substantial growth. In mature countries (those countries where Pirelli operates that are internationally defined as “mature” markets or “non-emerging” markets), efficiency improvement plans continued at Settimo Torinese in connection with the technological and organisational reorganisation related to start-up of the New Car Centre (-22 employees). In Germany, instead, 278 employees were added at the Pneumobil company for expansion of the Pirelli retail chain, while closure of the Merzig steel cord plant took place (-70 employees). In regard to emerging markets (those countries where Pirelli operates that are internationally defined as “emerging”, i.e. Romania, Russia, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Egypt, Turkey and China), the increases in production volumes contributed to growth in the labour force in China (+193), in Romania (+88), in Argentina (+103), in Brazil (+266) and in Mexico (+136) upon expansion of the new plant at Silao. Moreover, reorganisation is underway at the Russian plants in Kirov and Voronezh, leading to the reduction of 364 employees from 2012.

With regard to annual employee turnover, the number of employees hired in 2013 was up from the previous year, essentially due to a higher volume of production in the factories compared to 2012.

Pirelli does not employ anyone under the age of 14. The Company employs 58 young people aged between 16 and 18 (24 in Brazil, 23 in Germany, 3 in Switzerland, 3 in the United Kingdom and 2 in Venezuela) and, as an exception, 6 young people aged between 14 and 16 (of whom 5 in Brazil and 1 in Switzerland), all of whom are involved in training and integration programmes in line with local legislation.

DIVERSITY MANAGEMENT

Pirelli is characterised by a multinational context where individuals manifest a great diversity, whose conscious management simultaneously creates a competitive advantage for the Company and a 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, 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.

While respecting the cultural differences of the individual countries, what necessarily unites all Pirelli affiliates in the same culture are its shared corporate values, policies and rules, which are applied everywhere with the sole difference of the language into which they are translated.

Internationality and multiculturalism are the characteristic elements of the Group: Pirelli operates in over 160 countries on five continents, and 90.5% of employees on the payroll at December 31, 2013 worked outside of Italy.

Awareness of the cultural differences that create the identity of the company entails maximum confidence in management having local origins: 75% of the senior managers work in their country of origin, with "senior managers" meaning those who reported directly to the Chairman & C.E.O. at December 31, 2013.

To develop the innovative and managerial potential latent in a multicultural environment and in the encounter with diverse professional environments, the Company promotes the growth of its own managers through international mobility between different Group companies (see the following sections on "Compensation and International Mobility"). It is no accident that 50% of the senior managers active in 2013 had had at least one foreign intercompany work experience during their professional career at the Pirelli Group. Moreover, at December 31, 2013, 15% of all managers on foreign assignment were women.

Pirelli is also committed to promoting maximum awareness of the positive 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 2011-2011-2013, 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 2013 the number of women in the executive category reached 9%, up from the previous two years, while the percentage of women in the managerial category was 18%, and thus stable in comparison with the figures for the previous two years. The female presence in the blue collar category in 2013 reflected continuation of the growth recorded in 2012, amounting to 8% of workers in that category and up substantially from 2011. In 2013 female employees accounted for 12% of the total Group workforce, 3 percentage points above 2011.

PERCENTAGE OF WOMEN BY PROFESSIONAL CATEGORY

	EXECUTIVES	CADRES	EXEC+CADRES (=Tot Managers)	WHITE COLLARS	BLUE COLLARS	TOTAL
2011	8%	20%	18%	31%	5%	9%
2012	8%	20%	18%	35%	8%	13%
2013	9%	19%	18%	33%	8%	12%

Analysing the following table, the breakdown by gender in terms of employment contract shows a substantial balance between men and women. However, there is a small difference: the percentage of women with an indefinite term employment contract is slightly higher, while there is a greater percentage of men having a temporary employment position.

Moreover, the number of women with an indefinite term employment contract climbed from 93% in 2011 to 97% in 2013, while men rose from 92% to 93%. 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

	2011			2012			2013		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
PERMANENT	92%	93%	92%	92%	96%	93%	92,6%	97%	93%
TEMPORARY	8%	6%	8%	7%	3%	6%	7,1%	3%	7%
AGENCY	0%	1%	0%	1%	1%	1%	0,2%	0%	0%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100,0%

The rate of employee return to work after maternity/paternity leave at Pirelli in relation to its total workforce in all industrial countries where the Company operates was positive. In particular, one year after the date when the maternity or paternity event occurred in 2012, 90% of the women and 96% of the men were still employed at the Company in 2013. The difference, in the face of what must be considered a positive figure for women in any event, must be considered physiological in light of the different socio-cultural contexts in which Pirelli women work.

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

The countries considered in the analysis at December 31, 2013 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, just like last year, 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 differences in remuneration between men and men measured in the aforementioned countries is 6% (as opposed to 7% in 2012) in favour of men in the white collar job category, while it is 4% (compared with 5% in 2012), again in favour of men in the cadre category. Some examples:

- Italy, which features a difference of about 2% between the average remuneration for men and average remuneration for women (as opposed to 5% in 2012) in favour of men in the white collar job category, while it is 3% (compared with 7% in 2012), again in favour of men in the cadre category;
- Turkey, where the ratios favour men for both categories, with discrepancies of 1% (compared with 4% in 2012) if we refer to cadre and 6% (unchanged from 2012) for white collar workers;
- Romania, where the white collar category has a ratio of 3% (compared with 4% in 2012) in favour of women, while women are again favoured by 4% in the cadre category (in 2012 the ratio was 4% in favour of men);
- Brazil, where the ratio in the white collar category was 8% (compared with 6% in 2012) in favour of men, and 4% in favour of men in the cadre category (in 2012, there was substantial pay equality instead).

Finally, in regard to the executive category, where women account for 9% of the total (up from the 8% value in 2012), there was an average difference of about 1% in pay (compared with 3% in 2012), for the first time in favour of women. So, we have a situation of substantial pay equality that counterbalances the factors that are traditionally at the basis of differences in remuneration, such as professional seniority and age of the employees in the different cultures of the local markets.

In general, it must be considered that on the various markets, the “professional seniority” factor, which has had a powerful impact on pay trends, still favours men on average. On the other hand, the positive change in the international context in terms of attention to gender diversity and, especially, the numbers of women who are increasingly entering the labour market, will plausibly lead to greater gender balance over the medium term, including in terms of professional seniority, when the average seniority of women will have grown sufficiently to be comparable to that of men in most markets. The inclusive culture adopted by Pirelli as the basis for doing business permeates corporate life also in regard to individuals with handicaps.

As stated in the Group Sustainability Plan 2013-2017 with Targets to 2020, Pirelli is committed to increasing refinement of its proxy to identify any pay gaps, by expanding the formula to include elements of performance, rank, and seniority that heavily impact remuneration, that might plausibly cause an objective reduction in the gap, where it exists.

In regard to the standard salary of new hires during their first year of work at Pirelli, this is greater than the minimums prescribed by local legislation. And there are no differences between men, women, or any other sort of diversity.

The inclusive corporate culture cultivated by Pirelli in its way of doing business permeates corporate life even in the case of persons with different abilities. In order to standardise the corporate culture of subsidiaries and associated companies 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 participates in social programmes that facilitate matching the demand and supply of work between the Company and disabled candidates, but not only in relation to them (also between Company and foreign candidates).

The percentage measurement of disabled employees in the multinational context of the company clashes with the objective difficulty of measuring their number, both because in many countries where the Group is present, there are no specific laws or regulations promoting their employment and therefore disabilities are not automatically detected, and because in many countries this information is deemed confidential and protected by privacy laws. All this considered, about 1.5% of the total work force is comprised of disabled employees as defined by local legislation. It is likely that the actual percentage of disabled persons working at Pirelli might be higher, although any estimates would be discriminatory per se.

In regard to the “age” factor, the following table illustrates how the population (including the managerial population) is evenly young between the two genders, so that the average age of men and women was substantially the same over the entire three-year period.

AVERAGE AGE BY CATEGORY AND GENDER

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

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

2013****					
	Executives	Cadre	Staff	Blue Collars	Total average
Women	46	42	37	36	37
Men	48	44	38	36	36
Average by category	48	43	38	36	36

** : Figure covering 97% of total workforce

*** : Figure covering 98% of total workforce

**** : Figure covering 99.8% of total workforce

The following table instead shows the average seniority in service as highlighted by job category and gender. No significant differences are noted between men and women, since those measured over the last two years are substantially attributable to the entry into the scope of reporting of a large number of women who naturally began accumulating seniority at Pirelli only in 2012 and 2013.

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

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

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

2013****					
	Executives	Cadre	White Collars	Blue Collars	Total average
Women	12	13	8	4	6
Men	16	14	9	8	8
Average by category	16	14	8	8	8

** : Figure covering 97% of total workforce

*** : Figure covering 98% of total workforce

**** : Figure covering 99.8% of total workforce

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

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

Monitoring by the company of the level of acceptance and promotion of diversity as perceived by employees at its facilities plays a key role in terms of management opportunities. The Your Opinion survey is conducted in local languages at the Group level every two years. The results of the survey conducted at the end of 2013 are being consolidated and will be presented to employees during the first quarter of 2014, and thus reported in the next Sustainability Report. The results of the previous survey were highly appreciated in regard to employees' perception of high level of acceptance of gender, cultural and age differences within the Group.

The Group Whistleblowing Procedure is a tool that supports compliance and internal control activities, as well as risk prevention. It is used specifically for reports of possible cases of corruption, violation of the principles or precepts set out in the Ethical Code laws and regulations, obviously including equal opportunities.

There were no whistleblowing reports in 2013 concerning acts of discrimination. Reference is made to the section "Group Whistleblowing Procedure" in Chapter 1 of this report for more details on the whistleblowing reports received in 2012 and 2013.

Pirelli has been active for years in promoting external diversity, both nationally and internationally. Its membership in the European Alliance for CSR, CSR Europe, (of which Pirelli was a member of the Board as well), 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.

Pirelli is also committed to promoting welfare programmes for its own employees. For this purpose, it has created an ad hoc organisational function, the Welfare Group Manager with group level responsibility, confirming its growing attention 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 “Welfare and initiatives for the internal community” in this report.

Compensation

The compensation policies adopted by Pirelli aim to ensure fair remuneration in line with the individual’s contribution to the success of the Company, recognising the performance and quality of the individual’s professional input, in a philosophy of sustainable remuneration. Such policies have a dual aim: on the one hand, they seek to attract, retain and motivate the best human resources; on the other hand, they seek to promote conduct that is as consistent as possible with corporate culture and values.

Compensation policies and processes for the executive group are managed by the central HR department, while for non-executive personnel they are handled on a country basis.

Following the organisational changes that took place at Pirelli between May 2012 and 2013, this year the executive population has reassessed the weight of its organisational positions. This is the prerequisite for proper management of numerous HR processes, including, for example, the salary review process, which verifies both internal pay equity and competitiveness with the external market, and the process by which the population is segmented into the various “broad bands” applied by Pirelli, which are in turn anchored to various systems of compensation, such as short term and long term incentive plans.

The following events are reported in regard to management compensation policy.

Once again for 2013, the Pirelli Board of Directors approved the General Remuneration Policy that establishes general principles and Guidelines followed by Pirelli to (i) determine and (ii) monitor application of the remuneration practices relating to:

- the Directors holding specific positions, the General Managers and Executives with strategic responsibilities;
- the senior managers and the other executives of the Group.

For the individuals at the top of the organisation and for senior managers, the Pirelli Remuneration Policy has distinctly attractive characteristics by aiming at the third quartile of the benchmark market (as compared with commonly used benchmarks), and characteristics consistent with the benchmark market for the remainder of management, in order to attract, motivate and retain those resources who possess the professional qualities that the Group needs to pursue its goals profitably.

The Policy is defined in such a way as to align the interests of management with the priority goal of value creation that is sustainable over the medium-long term, through the creation of an effective and verifiable link between remuneration, on the one hand, and individual and Group performance on the other hand.

The remuneration structure of management, which is defined with the aid of companies specialised in executive compensation and on the basis of international benchmarks, is composed of three principal elements:

- fixed component: for those Directors holding specific positions, the fixed component is approved by the Board of Directors when they are appointed and for their entire term; for the remainder of management, the fixed component is determined at the time they are hired and may be periodically revised to account for their performance, assumption of new responsibilities, and the market remuneration trend for the position held by the individual employee;
- variable annual component (MBO): this is defined as a percentage of the fixed component with growing percentages according to the position held and considering the benchmarks for each job position. According

- to the beneficiary, this component tends to reward the annual performance of the Group, the Company and/or the department to which the employee belongs;
- variable long-term component (LTI plan): this too is set as a percentage of the fixed component and is designed to reward the medium-term, and thus sustainable performance of the Group.

Once again in 2013, and in accordance with market best practices, the impact of the (short-term and medium-term) variable component on the aggregate remuneration of Group management remained very high, which means that there is a strict correlation between remuneration and performance.

Entering into the specific operating characteristics of the incentive plans existing in 2013, it is seen how most of Group management participates in an annual incentive plan (MBO) tied to achievement of Group and/or business unit and/or country annual earnings/financial targets and the qualitative assessment resulting from the PM Tool. This was introduced for the first time in the MBO 2012, and makes it possible to attribute greater significance to organisational behaviour (how), and not just the achieved results (how much) in accordance with a remuneration logic that is sustainable over time.

In regard to medium-long term incentives, on February 28, 2014 the Pirelli Board of Directors resolved in favour of premature termination of the management Long Term Incentive (LTI) plan adopted in 2012 to support the goals for the 2012-2014 three-year period, without any full or pro-rated payment of the three-year incentive. The Board of Directors simultaneously approved the adoption of a new plan –applicable to all Executives– related to the targets set out in the 2014-2016 period contained in the Industrial Plan 2013-2017 presented on November 6, 2013, whose guidelines had already been previewed on that occasion.

The decision to terminate the previous LTI and to introduce the new one stemmed from the fact that in November 2013 Pirelli had presented its new Industrial Plan for the four-year period 2014-2017. This plan marks a significant departure from the plan presented in November 2011, partly in light of the changed economic context and industry performance. Termination of the old LTI and introduction of the new one highlights this discontinuity and makes it possible to give the necessary motivational push to incentive plans supporting realisation of the new business objectives.

The “new” LTI plan was resolved on proposal by the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, in relation to the parties for which this opinion is required. In the part tied to Total Shareholder Return, the LTI 2014-2016 plan will be submitted for approval by the Shareholders' Meeting called to approve the *Annual Financial Report at December 31, 2013*.

Consistently with the variable compensation mechanisms adopted at the international level, the three-year LTI 2014-2016 plan is entirely self-financed as in the past, given that the related liabilities are included in the profit and loss figures of the Industrial Plan.

The “new” LTI Plan includes an on/off condition, represented by the creation of value over the three-year period, and the following three targets:

- Total Shareholder Return (TSR) for the Group, with an aggregate target weight of 60% of the LTI bonus;
- Return on Sales (ROS) for the Group, with an aggregate target weight of 30% of the LTI bonus;
- position of Pirelli in selected global sustainability indicators, with an aggregate target weight of 10% of the LTI bonus.

The functioning of the TSR target is in turn broken down into two, mutually independent “sub-targets”:

- absolute TSR (with a target weight of 40% of the total LTI bonus);
- relative TSR in terms of a panel of selected peers (target weight 20% of the LTI bonus).

The Plan expires on December 31, 2016 and sets April 2017 as the date for any payment of the accrued long-term incentive to the plan participants, on condition that at December 31, 2016 their mandate and/or employment relationship have not terminated (for any reason) – if they should be terminated for any reason before December 31, 2016, no payment of the three-year incentive will be made either in full or on a pro-rated basis.

The Chairman and Chief Executive Officer of Pirelli & C., top management and Group executives in general participate in the LTI 2014-2016 Plan.

At the same time the new LTI Plan was adopted, it was decided to introduce several changes and improvements to the annual incentive system (MBO) that during the three-year period 2014-2016 will no longer be interrelated with the three-year LTI Plan, but will offer a form of payment deferred to the following year of a portion (25%) of the annual accrued incentive, on condition that the MBO for the following year is accrued. Payment of an additional amount equal to a variable

percentage of the entire MBO accrued during the previous year will be paid according to the degree that the MBO is achieved in the following year (this mechanism is envisaged to be rolling for the entire three-year period 2014-2016). This deferral mechanism means that the time when part of the variable long-term period amounts accrued will actually be paid in 2018, insofar as it is conditioned on the degree to which the financial year 2017 results are achieved (and thus two years after conclusion of the three-year period covered by the LTI 2014-2016).

These implemented modifications set the following principal goals:

- reinforce the alignment of management interest with that of stakeholders;
- preserve unchanged the allocation of total remuneration between the fixed component, the variable annual component and the variable long-term component (confirming that the variable part has a major impact overall).

INTERNATIONAL MOBILITY

With regards to international mobility, which Pirelli has always pursued with a view to integrating cultures and values, in 2012 there were 70 new expatriate employees, compared to around 100 in 2011. Numerous transfers (about one fifth) to the new industrial activities in Indonesia, Mexico and Russia are confirmed, and the mobility flow from emerging countries to mature countries continued. International mobility thus continues to play a key role in the Group's geographical expansion strategy, spreading Pirelli culture around the world and transferring precious technical know-how to the new start-ups.

At December 31, 2013 the expatriate population totalled about 240 persons (about 10 less than at December 31, 2012) from 17 different nations who moved to 32 different destination countries on all five continents, and 73% were non-executive employees and about 15% were women.

Most of the expatriate population (about 52%) is now comprised by non-Italian citizens, demonstrating the concrete progress being made towards the goal of creating an increasingly international management team.

In view of the complexity of this situation, the Group decided to introduce a new International Mobility Policy, which applies to all new international assignments as of January 1, 2013.

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

The new policy is harmonised and applied worldwide (with common rules of treatment), allowing uniform management of expatriate personnel throughout the entire Group.

Finally, through the application of "inviolable" rules, based on empirical considerations and facts and certified by specialised external service providers, clear and transparent ex ante communication of the criteria and "rules of the game" is facilitated.

EMPLOYER BRANDING, DEVELOPMENT AND TRAINING

Employer Branding: becoming acquainted with Pirelli

For quite some time now, Pirelli has been dedicating specific resources to employer branding activities, inasmuch as it believes it is crucial to present itself on the market as the employer of choice. It does so by communicating its characteristic traits outside the Company (e.g. internationality, meritocracy, stimulating and dynamic work environment, training and growth paths for young people and technological innovation), and spotlighting the work opportunities dedicated to new university graduates. Naturally, this is not done only on the Italian market but also globally. Considering only the countries where Pirelli has a presence with one or more production plants in Europe, the United States, South America, the Middle East, Africa, Russia and Asia Pacific, about 180 events/projects/occasions to meet were organised in 2013, where the Company promoted its own employer branding initiatives.

Special mention must be made of Brazil which, thanks to an enthusiastic and motivated HR team, has managed to achieve excellent results through its employer branding activities. It is worth mentioning that Pirelli Brazil had contacts with about 44,000 students in 2013 alone. About 4,000 persons applied for 100 internship positions offered in Brazil. A dedicated page was created on Facebook, where the Pirelli Brazil interns could share their experience at the Company, generating a significant virtual word of mouth process and causing the number of fans of this page to grow significantly. The careers sections on the Pirelli Brazil website was also made more visible and functional – through creation of the Work With Us channel – which led to the systematic and organised collection of curricula vitae. All of this has allowed Pirelli Brazil to draw on a greater number of talents wishing to join the Company, while also making the percentage of new university graduates hired by the Company after their 2013 internship rise to 55%, one of the best levels achieved in Brazil over the last several years.

In regard to the projects pursued at headquarters, they may be divided between several which can be defined as ongoing (i.e. which, on the basis of valid, justified reasons, are continued from year to year), and others that arise from particular or contingent opportunities or needs.

The former include all the activities that Pirelli operates in collaboration with its own university partners:

Polytechnic of Milan, Polytechnic of Turin, the Bocconi University, the Catholic University of Milan, the University of Florence and the University of Turin (these universities are considered partners both on account of the type of students that they have – principally economists and engineers – and because they are physically located close to Pirelli sites in Italy). With these institutions, Pirelli has organised Career Day, panel discussions, job fairs, corporate presentations and occasions for meeting students directly at the firm so that they can “touch our company with their own hand”.

Also within the framework of these ongoing activities, it is worth mentioning the presence of Pirelli on the web through the publication of its company profile and job want ads on targeted sites: LinkedIn and Monster. In regard to LinkedIn, between June 2012 and December 2013 our followers rose from 9,000 to 64,000, which means that they grew at a rate of more than 700%. At the time this report was written, Pirelli had the greatest number of followers amongst its leading competitors. Moreover, two more pages were created, one dedicated to new university graduates and the other to PZero.

Monster remains one of the principal channels for hiring new university graduates, together with Job Meeting and Job Advisor (both were new entries in 2013).

Visibility and promotion through universities and a significant web presence have enabled the Company to carry forward its new university graduate search and hiring process with success. A total of 23,311 persons applied for 42 internships offered in Italy over the course of the year (for a similar number of positions, there were 14,267 candidates in 2012 and 1,470 in 2011). Sixty-five assessment sessions were held for a total of 611 interviewed candidates. Of these 601, 192 candidates proceeded from the first step (the assessment centre) to the second selection step. The final 42 new interns were chosen from that second group.

Aside from these activities, mentioned should also be made of other projects that were successfully carried out in 2013, including:

- Bocconi Merit Award: to give support to worthy young people worldwide, Pirelli decided to collaborate with the Bocconi Foundation and make its own contribution to scholarships for particularly outstanding youths, with donations being made in both 2013 and 2014 (for more information, see: www.unibocconi.eu).
- Leonardo Mobility Project: in 2013 Pirelli participated in an initiative promoted by AIDP (Italian Association of Human Resources Directors), which involved several Italian companies that offered to host one or more HR professionals from Romania at their Human Resources Department. More specifically, Pirelli hosted two persons from medium-large Romanian companies and assigned a project to each of them, to be developed and completed over the course of two weeks, one in the organisational unit and the other in the ambit of training unit. At the end of the two weeks, the projects were presented to the heads of the two units. On the one hand, the result was useful for Pirelli, which was able to “exploit” the new and international point of view of the two professionals. On the other hand, the two hosted individuals acquired training that allowed them to become more familiar with a structured multinational organisation.
- HRC Talent Days: In collaboration with the HR Community, Pirelli sponsored an orientation day aimed at young university graduates, who were thus able to profit from the practical knowledge of experienced company managers at both Pirelli and other host companies. Aside from having sponsored, organised and hosted an orientation day with the participation of about 50 youths and eight testimonial companies, Pirelli was also

testimonial during other orientation days held at other companies. Some of the topics that were addressed included: how to write a curriculum vitae; how to handle a job interview; work and social networks; the most requested professional specialities; self-marketing: promoting “myself as the product”; job seeking methods; specialised search portals. The response of the youths participating through HRC was quite positive, and the organisers said that they were very proud to have contributed to clarifying their ideas and guiding the choices of young people who are finding their way around the complicated job world for the first time.

Participation at this event gave the participating Pirelli representatives the HRC CSR Ambassador award “for its exquisite cooperation, invaluable participation in the HRC Talent Days project, and important contribution made to the professional orientation of our country's youths”.

The work accomplished and commitment lavished on employer branding issues earned Pirelli recognition by Universum, the global leader in employer branding solutions. Its mission is to promote and improve communication between students seeking work and the companies that want to recruit them. In 2013 Pirelli was awarded for the fastest and most significant growth in the ranking of top employers from one year to the next. This recognition motivates Pirelli to stay the course, well aware of the value that persons have in the organisation and thus the importance of being recognised more and more as an employer of choice.

DEVELOPMENT

Performance Management

Performance management means the process whereby the contribution of each employee in an organisation is defined, observed and assessed. This assessment is made on the basis of a series of predefined indicators that are critical to the success of the Company and the employee himself.

PM is a unique, vital opportunity for personal development and guidance; during the process, particular value is given to feedback, with an open dialogue between the employee and management. In short, we could say that Performance Management starts from the past to improve the future. PM engages all Pirelli office staff worldwide (executives, managers and white collar employees). The opening of the process takes place between January and March, while the closing takes place one year later, when the process starts over again for the following year. So, the previous year was closed in 2013, and showed that the redemption rate (namely the percentage of all opened assessments that were closed) was very high: 92.1% (out of a total of about 6,000 people assessed), among whom 92.5% of women successfully completed their Performance Management process, and thus topping the overall average by 0.4 percentage points.

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

In the 2013 a new PM software programme was implemented and made available over :Pnet, the Pirelli intranet. It is designed to be more flexible, more in line with the company organisation, more intuitive and usable, and perfectly integrated with the other Human Resources Management systems currently in use. The new Performance Management platform, chosen from the leading software packages on the market, was launched on occasion of the 2013 Opening. The new system boasts a range of innovative features: the option of selecting objectives from a catalogue of corporate business indicators; cascading the objectives top-down; assigning technical competences that can be selected from a library organised into professional families. These new characteristics sit alongside those present in the previous programme and included in the new programme with the aim of assessing the quality and efficacy of the work carried out and constructing a structured Development Plan which enables the Company to identify actions to support performance improvement and fulfilment of objectives assigned.

All the PM forms of the participants in the process worldwide contain the Core Values. These are model forms of conduct applicable to all functions and regions that are aimed at realising the premium strategy of the Company. There are three Core Values, and they are broken down into as many areas that are considered crucial to the Company: the Business area, which covers aspects that relate particularly to the product and market; the People area, which highlights the attention

devoted by Pirelli to its own people; and finally the Change area, which highlights the importance that change and innovation have for the Company.

Competence Mapping

Beginning in 2011, a skills mapping process was undertaken on the Performance Management platform to provide:

- the Company with a complete, punctual snapshot of the distribution of skills and include specific training campaigns in the plan;
- the supervisor an opportunity to discuss his/her subordinates' strengths and areas needing improvement. The professional families involved in the process were Industrial, Quality and HSE, in eight countries (China, Egypt, Italy, Romania, Turkey, United Kingdom, United States, and Germany).

In the 2012 and 2013 Performance Management processes, drawing on the results of 2011, the technical skills deemed crucial to covering the various roles in all the professional families were mapped and compiled in a catalogue of selectable skills in the Performance Management software programme. This enables the Company to identify the areas where specific skills are present, with a view to the mobility and transferability of resources.

These technical skills can be selected by supervisors using the PM management software, and they are naturally complemented by the revised training catalogue which, in the section dedicated to the Professional Academies (i.e. the professional academies for each professional family), contains training courses conceived and provided (mainly but not exclusively) by trainers within the specific professional family. This provides individuals not only with the skills target to be achieved but also the most appropriate tool to be able to do so.

TRAINING

In view of tailoring training activities to meet the requirements of the premium strategy, Pirelli created a global training system in 2013 that makes it possible to align skills, contribute to the comprehensive system of knowledge management and create permanent training processes.

Pirelli training in the previous years was strongly and largely tied to local needs, or aimed at developing strategic skills at the international level, but often with a “campaign” and “on demand” slant. On the other hand, the ongoing global activities were mainly dedicated to talented employees.

The new training model, named Training@Pirelli, has simultaneously made it possible to extend the global reach of offered training courses to all countries, realising economies of scale and expanding the number of potential participants. Indeed, for the first time, the target of this innovation in training courses is comprised by the entire company population, albeit broken down by professional families and critical roles.

Finally, Training@Pirelli has the aim of implementing an organised educational and learning system, globally structured but nonetheless equipped to meet the needs that can arise at any time at the local level in each of the countries where Pirelli is present. In a word, it is “glocal”. The “glocal” dimension is also assured in terms of knowledge management, by providing all training content in digital format and didactically transferable to every country in the Group.

The new training system is based on three principal “pillars”: the Professional Academy, the School of Management and Local Education. The first two are centrally designed and are locally delivered in the various countries, but also centrally at headquarters in Milan for the most critical populations or skills. Local Education is instead locally established and provided in the individual countries and addresses specific local needs.

The Professional Academies

Nine Professional Academies have been set up, one for each principal professional area, which provide for development of the expertise and technical and professional skills of the principal rolls of each corporate function. The Academies are: Product, Manufacturing, Commercial, Quality, Supply Chain, Purchasing, Finance, Planning & Controlling, and HR.

The elements of Sustainable Management run through all the Academies, for example with a focus on product LCA, process environmental efficiency, health and safety, sustainable management of the supply chain and risk management.

The IT Academy, dedicated to information technology, will be created in 2014.

The Academies provide permanent training and guarantee the exchange of knowledge between countries, while contributing to the achievement of excellence, implementing and sharing Pirelli know-how, tools and procedures in every region and country. The training offered by the Academies targets the entire working population. The faculty of the Academies is composed primarily of in-house instructors who are expert in their specific functions that, according to training requirements and logistic needs, work mainly at the local and regional level, or via online seminars and webinar sessions. Certain specific courses targeting managerial levels are held at Milan headquarters.

The real peculiarity of the Professional Academies lies in the fact that each of them is headed by an accredited expert of the function, and is composed of a team of professionals from the function itself. The HR Department (and particularly the Training Department) closely monitor all staff members of the Academies, guaranteeing the uniformity of design, teaching, and learning assessment methods, while assuring consistency with human resource development policies.

The Academies have offered a total of 227 courses in 2014. Although each Academy differs from the others in terms of content and themes, it is broken down into common areas and types.

- A Day Into: a common course for someone who does not belong to the professional family in question, it provides an overview of the processes, roles and activities of the function.
- Basic Professional: aimed at newly hired persons and all resources of the function interested in broadening their own base knowledge, it aims to implement comprehension of key processes in view of improving the integration between different departments and areas.
- Advanced Professional: its focus aims to provide skills excellence in the specific professional segments, through highly specialised training courses.
- Functional Tools: a training area focused on knowledge and use of the typical tools, software and technologies of each department.
- Functional Skills: dedicated to improving specific behavioural skills in the professional family, in view of standardising and aligning processes and skills in each specific sector.

The School of Management

The School of Management aims to be the principal tool for development of the Pirelli Group managerial culture. Skills and training topics have been centrally defined at headquarters by senior management, deriving them directly from the strategic priorities of the Company.

The School of Management courses are focused on three broad training areas:

Business: for reading and interpreting the market and business culture, with a passion for technical and product aspects. Being able to draw concrete results from available information responsibly, with quick decision making and execution.

People: to obtain results through human resource management, working to comprehend the talent of everyone while developing a climate that favours open dialogue that allows everyone to be fully aware of his or her own contribution to the creation of corporate value.

Change: to be capable of making changes, innovating, improving, and comparing oneself with the best on the market; to develop the ability to assume risks and manage any resulting mistakes.

The School of Management offers a set of courses focused on three specific populations that are critical to the firm:

- Executives;
- Middle Management/Senior Professionals;
- New university graduates/Junior (up to two years working experience).

The executive courses are held centrally in Milan, to guarantee debate and sharing of strategies directly with senior management and to encourage the interdepartmental and geographical circulation of local practices as much as possible.

The courses and content for middle management and senior professionals were designed centrally and offered locally in the various countries and regions, through a network of centrally certified management education partners.

In regard to the population of new university graduates, the School of Management has put the finishing touches on a uniform biennial course for young hires every year in all countries for the first time at the Group. The general aim is to provide a shared vision of the business, its strategies and its operating processes from the very beginning, and to assure development in all countries of the most important basic skills for a young person who wants to become a future member of Company management.

The course has been significantly entitled WarmingUp@Pirelli. It is shaped as an induction programme that is deeply rooted in the Company business and its specific functional skills. This is why great emphasis has been placed on knowledge of the product, the functioning of internal processes and direct familiarity with customers and markets.

WarmingUp@Pirelli is essentially a course whose full duration is about two years. It opens with Plunga, an historic institutional course lasting five days. For years the Plunga course has not only represented an important opportunity to become familiar with corporate processes and strategies, but also continues to be a common denominator for all new hires at all locations in the Pirelli world, offering important occasions for networking.

On the job training follows that course: lasting a total of about three months, the participants at WarmingUp spend an average of two days a week at the individual company departments, beginning with the materials area until they go out into the field with the sales force. All modules have been planned to include a theoretical part in the classroom and an on the job part. This is why visits to suppliers, test tracks, the plant and sales outlets are planned. The participants take a final learning assessment test at the end of their on the job training.

This is followed by several, more traditional training modules to round out training on the behaviour and comprehension of the economics of business management.

A brief stint of being teamed up with a coach eases the transition from the first to the second year, in order to take stock of one's personal skills.

In contrast with the first year, the second year is more heavily concentrated on all the interdisciplinary skills. This will also be the year when, after acquiring greater awareness of one's own role in the Company, it will be possible to attend the training courses offered by the Academies, as compatible with the skills specifically required by one's own department.

At the end of the two years of Warming Up, all of its participants are supposed to attend an Orientation and Skills Review session, also called the "Orienteering Lab". Based on the observations of several independent professionals and a battery of logical and numerical exercises, the Orienteering Lab aims to develop the participants' self-awareness of their role at the Company and their command of the skills requested by the Company.

The highly innovative element of the Warming Up programme consists in its international character and its application at all Pirelli Group sites. During 2013 different editions of the course were organised for a total of 130 Pirelli Group employees in seven countries. The participating countries were: Italy, Romania, China, Brazil, Germany, Turkey, and Mexico.

Local Education

The training provided at the local level is obviously very important. The fundamental difference with the training provided before the creation of Training@Pirelli is the global structure of the courses. It is now the same for all countries, although a local focus is maintained for specific activities addressing the distinctive aspects of each individual nation.

The Local Education courses are typically related to basic training and then to the specific needs of the country or compliance with local laws and regulations. These seminars cover specific skills areas, which range from improving relationship skills to stress management, from development of computer and language skills to seminars on local welfare issues or improving sensitivity for local projects.

For example, several ad hoc training experiences were held in Italy during 2013, including:

- Working Parents Workshop: a mother is born... and also a father. Short coaching modules are led by professional psychologists to assist the employees who have just become parents in assuming their new role as working parents;
- course for Management Assistants;
- Customer Delighting course (targeting the entire population of the IT Department at headquarters in Italy).

In conclusion, the entire new Pirelli training scheme ultimately aims at contributing to the search for professional and managerial excellence consistently with the challenges faced by the Company, without losing sight of individual growth and development and support for performance. As in the past, the new training system is strictly related to the Pirelli system of Performance Management. Training priorities and the courses to be attended are largely defined during the annual and half-yearly performance meetings.

Training@Pirelli is offered to all employees in the form of a specific catalogue that explains the proposed courses in detail. The catalogue highlights all the programmes, which are broken down into the three course tracks described above. Employees choose their training by checking the level, contents and duration of each course in the catalogue through dialogue with their own supervisor and the applicable HR manager.



In the Learning Lab, all employees may check the training offered, find the description and Guidelines of the training courses, while learning about the details, educational materials used, in-depth readings and the possibility of self-enrolment.

Sustainability training

2013 saw the continuation of training regarding the Pirelli Model of Sustainable Management in line with the Sustainability plan. Training was diversified according to the target group. In the context of the international corporate course Pirelli's Way Joining the Group, Pirelli presents the Group's Sustainable Management strategy to all new employees, starting from the multi-stakeholder approach in the context of integrated economic, environmental and social management. The Pirelli Training Model also draws new employees' attention to the Group's Sustainability Policies and the commitments they involve, as detailed in the Ethical Code, the Code of Conduct, the Equal Opportunities Policy, and the Group Social Responsibility Policy for Occupational Health, Safety, Rights, and Environment. In addition to this Pirelli complies with and upholds the contents of the "Universal Declaration of Human Rights", the International Labour Organisation's "Declaration on Fundamental Principles and Rights at Work", the "Rio Declaration on Environment and Development" and the United Nations "Convention against Corruption", as well as the provisions of Standard SA8000® and internationally recognised human rights, including the ban on forced labour and child labour, proceeds to free bargaining, equal opportunities and non-discrimination.

All of these issues are also presented in training courses for all Group sustainability managers and buyers.

Pirelli training statistics

Analysing the new training strategy in terms of numbers, training effort rose again in 2013. The number of average days of training pro-capita was 7.2 at the global level, thus meeting the target of 7 average days of training pro-capita two years early, after originally being set for 2015.

The distribution by type of participants and type of training is highlighted in the following graphics.

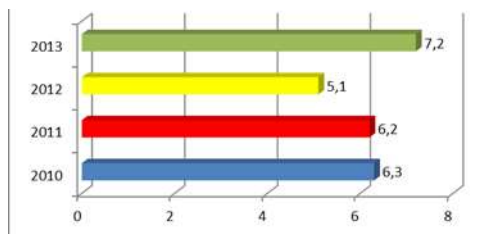
On average, training involved 80% of the Company population with at least one day pro-capita. There was substantial balance between the sexes even when this figure is broken down by gender, with 80% of female employees being involved in training activities, exactly the same as the 80% participation rate for the male population.

Of the total training provided by the Group in 2013, about 64% was provided at the local level. In regard to the type of training, 13.06% is accounted for by the Academies, 6.07% by the School of Management, and about 11% of the total training was related to Health and Safety.

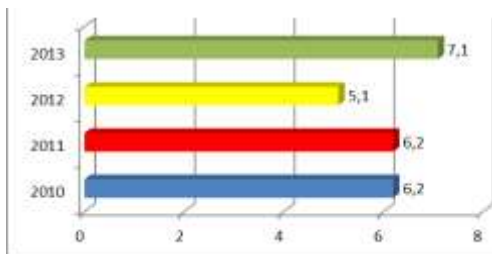
The new global training model based on the Professional Academies and the School of Management was launched in 2013 and will gradually replace most of the training previously offered at the local level.

Pirelli thus intends to standardise and gradually expand its global training effort, reaching 2017 with half of the training in every country being focused on the courses offered by the Academies and School of Management and an average number of training days pro-capita remaining at 7, plus the involvement of 90% of employees in at least one day pro-capita.

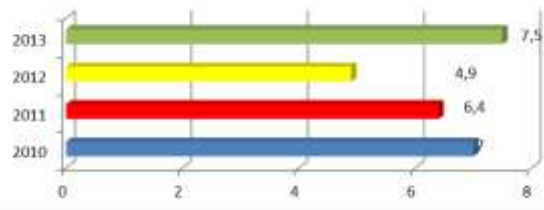
AVERAGE DAYS OF TRAINING PER CAPITA: PIRELLI TOTAL



AVERAGE DAYS OF TRAINING PER CAPITA: BLUE COLLARS



AVERAGE DAYS OF TRAINING PER CAPITA: MANAGEMENT + STAFF



GROUP OPINION SURVEY

MY VOICE – Pirelli Global Employee Survey

Over the years Pirelli has introduced and affirmed attitudinal surveys as a tool for actively listening to its own employees. The first global survey targeting white collar employees, conducted in 2008, was characterised by a high level of participation. This signalled the interest of Pirelli employees in expressing their own opinion about corporate life. Analysis of the results has suggested interesting possibilities for improvement that have been translated into specific action plans and follow-up both globally and locally. The second survey of white collar employees conducted in 2010 had the same response rate as the previous one (78%).

Over the last three years, the Company has been transforming its strategy, organisation, processes and managerial structure. This has led to the need to redefine the ways it engages people as well, according to a new logic aimed at determining the level of confidence that employees have in the organisation to identify the variables that render a Company an excellent work environment.

The basic assumption is that excellent work environments are the fruit of the daily relationships of its employees and managers, which are clearly based on trust. The responses given by employees to the questions on the trust index questionnaire will give Pirelli an idea of the organisational culture, as viewed in five dimensions. It derives from the credibility of management itself, the respect accorded to employees and the extent to which they believe they are treated fairly. The level of pride in their organisation, the level of sincerity in relationships and the quality of relationships between employees are other fundamental aspects of an excellent working environment.

The principle that drives the survey and the consequent employee engagement actions resulting from it begin with the premise that the Company can improve its own performance by leveraging and constantly improving the atmosphere of trust in the working environment.

In November 2013 Pirelli launched My Voice, the global company climate survey conducted among all employees for the very first time. Both white and blue collar employees in 34 countries were asked over the course of four weeks to express their own opinion on how they felt at the Company.

The survey was conducted in the form of an online questionnaire with 59 questions, available on a dedicated website maintained outside the Company. Special areas with PCs connected to the internet were set up at the various plants, where blue collar workers were able to go and complete the survey. All employees also had the possibility of filling out the questionnaire from their own PC at home, using the access credentials provided by the Company.

The survey had very high response rates, albeit with a certain degree of variation from country to country: 81% for white collar employees and 57% for blue collar employees. About 70% of the participants in the survey also responded to the open question at the end of the questionnaire. Taken together, these free comments will offer interesting qualitative insights that will facilitate more precise reading and interpretation of the results.

The success of the survey in terms of its overall participation rate was made possible by a series of enabling factors: effective internal communication and active involvement of management and local Human Resources Departments.

It is expected that the results will be returned beginning in March 2014, and their summary will be passed on to all employees over the Company intranet and local internal media reports. Locally dedicated action plans will be prepared on the basis of the survey results and be implemented over the course of 2014.



INTERNAL COMMUNICATIONS: INTERNATIONAL OUTLOOK, ENGAGEMENT AND SHARING

Targeted and smart information

Internal communication played an important role in 2013, both for the role it played yet again in support of the dissemination and comprehension of corporate strategies and goals, which marked the year and culminated in the new Industrial Plan presented on November 6, 2013, and for the innovations that were introduced, particularly by – and thanks to – the intranet.

Awareness of the Company, communication targeting the business, focus on individuals and internationalisation are the strong points of the strategy and tools implemented in 2013, with a more interdisciplinary objective that aims to reinforce trust and the sense of belonging in the Company.

OnAir: live communication on the intranet

During 2013, the OnAir information and communication channel revised its graphics and contents, accommodating new languages, always keeping pace with the new media, in view of further reducing the distance between what the individual sees in the Company (as an employee) and what he experiences outside the Company (as an individual). In the final analysis, this objective aims to realise increasingly direct and prompt communication and thus capable of contributing to reinforcement of the sense of trust in which the Company is investing globally. In this sense that an expanded editorial office for OnAir was created in 2013. Periodic meetings are held with representatives from all corporate departments for continuous and direct updates on events and individuals.

In April OnAir introduced itself to over 10,000 users in the world with a new look and feel. This was done in response to requests from certain users that were received in the form of statistics and through sample surveys. In fact, interaction with employees was the constant theme of OnAir communication in 2013, during which the employees were involved both as “active” users (e.g. through the quick polls) and as protagonists of Company stories. Even the new formats – *Faces&Jobs*, *CartoOnAir*’ and *From A to Z* – have employees directly recount the jobs, numbers and words of Pirelli people. These three columns, which use smart languages (videos with animation and cartoons), have been much appreciated, as demonstrated by the statistics.

While the international editorial offices have continued to feed not only their own local information space (466 country news in 10 languages), but also the shared global news space (68 from the world news), 2013 witnessed the début of OnAir in Italian production plants with special totems set up in the break areas.

The distribution of OnAir content crosses the borders of intranet to feed other channels and tools of communication in various countries. For example, in Brazil a newsletter named *No Ar* was created, and in Russia cartoons of *CartoOnAir* have become posters in the factory.

In 2014 plans call for continued work on live communication that engages more and more employees in story telling. New formats are on the way, including *:Passion*, the photographic space dedicated to persons and sharing of ideas and interests, and “Today in the editorial office”, the video feature that narrates Pirelli events and even hosts outside guests.

The House Organs in the world: the newsstand goes online

The corporate publications (newsletters, house organs, manuals and presentations), both online and hard copy, continue adjusting to comply with the Guidelines issued in 2012. The multitude of foreign magazines started to find a shared space in the section House Organs & Newsletter of OnAir to encourage the sharing of experiences and events in each country.

Beginning with *Fatti & Notizie*, the magazine distributed to Italian employees, the decision has been made to dedicate increasing attention to the business and factories with targeted articles and dedicated specials, like the one prepared in November 2013 on quality.

World: a transformation

Following a new editorial project, *World* has transformed into a monographic international magazine that is more oriented to the stakeholders of the Company. While remaining sensitive to corporate themes, it reflects on topical issues, the relations between Pirelli and the economy, industry, science, the markets and culture, to get into the quick of transformations in the contemporary world, thanks to the contribution of leading personalities in the academic, scientific and cultural world. The frequency of publication is scheduled to change in 2014, from once every six months to once every four months.

Programmes for employees and families

In 2013 the monthly meetings of *:PBook*, the book club at the Bicocca that will continue to meet in 2014, were animated by visits, on three separate occasions, of certain renowned authors, including the mystery writers Gianrico Carofiglio and

Maurizio De Giovanni, and the stage actor Alessandro Bergonzoni. In response to strong demand by employees, the Bicocca hosted an open day last September.

Brazil: an example of widespread communication

With over 12,000 Company employees and a communications team that was organised and expanded during 2013, Brazil represents an exemplary case for the diffusion of activities. Every working space is reached by a tool: from the canteen (Company TV, personalised placemats, advertising panels) to the factory (periodic meetings between blue collar workers and the Production Manager – Espaço Aberto da Fábrica – new visual communication systems), from the offices (a new newsletter – *No Ar* – via e-mail) to residences (magazine Giro em casa).

Russia: communication also focuses on families

Russia confirms its position as a strategic country on account of the approximately 3,500 employees who are the targets of numerous communication programmes, which often extend to their families. In addition to the magazine *Shinnik*, a quarterly publication dedicated to blue collar workers and the quarterly newsletter for white collar employees, soccer tournaments, photography competitions, celebration of employee children who get top grades in school, factory visits by former employees, family days are organised, receiving the enthusiastic approval of everyone.

WELFARE AND INITIATIVES FOR THE INTERNAL COMMUNITY

With the creation of the Group Welfare Manager, the welfare activities that have already been undertaken by the Pirelli Group have gradually been organised and expanded at the local and international level.

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

At the end of 2011 an ad hoc organisational function was set up – the Group Welfare Manager – with Group level responsibility, confirming the increasing attention dedicated to this issue.

The Company's initiatives for the Internal Community have always varied from country to country, and address the specific needs that are typical of the various social contexts in which the affiliates operate.

They are aimed at all employees, regardless of whether they are unlimited term, limited term or part-time employees.

Periodic surveys and exchanges of experiences with the management located in different countries has shown that the work/professional services and private/family services offered to the Internal Community can be broken down into four basic areas of action: health care, the family, leisure time, and work (facility, training, group celebrations).

With regards to celebratory events for employees and their friends and families, as usual the company organised a number of open days on various sites. In terms of health assistance, Pirelli factories have always had infirmaries, with medical personnel and specialised doctors available for all employees during working hours. These facilities also offer first aid services, advice for health problems not connected to the workplace and health surveillance for any workers exposed to specific risks. The infirmaries also support the various health-related promotional campaigns that are launched on a local level, and prevention campaigns. Once again in 2013, Pirelli offered all its employees the opportunity to be inoculated with the seasonal flu vaccine free of charge.

The programmes offered to employees have been significantly expanded in Italy, and even the services that were already active and present in the Company (company canteen, tax assistance, health care assistance, specialised day hospital, summer holidays and scholarships, shuttle buses, merchant discounts for company employees...) have been communicated in a more organic and structured way and, as such, used more. In this sense, consider the realisation and distribution of the pamphlet Pirelli Plus, a detailed hard copy guide that describes the services and offers available to Pirelli employees, in view of growing reconciliation between personal life and work.

To guarantee ever easier and more immediate access to the welfare services offered by the Company, a special portal was also created in 2013 that all Italian employees can access from the intranet, from special totems set up in the factory or from the comfort of one's own home. The portal, named Pirelli People Care and that had over 1,350 registered users in January 2014, was created with the intent of bringing together in one space all available welfare services offered and to allow employees fast use in just a few clicks.

The range of services offered in 2013 responds to specific wishes of employees who, after being engaged in specific focus groups at the beginning of the year, identified areas of interest to them for which they asked the Company to take specific actions.

This has given rise to services dedicated to families, such as the possibility of reserving baby sitters, housekeepers, social workers, domestic assistants, personal services such as legal advice, car pooling, and a wide range of merchant discounts for company employees at the local and national level for shopping, free time and health.

Among the services that immediately generated particular among employees was the possibility of purchasing monthly or annual passes for use of public transport and school books at discounted prices through instalment payments deducted from their paychecks and delivery at the Company.

Convinced that welfare activities must first and foremost satisfy the needs of employees and be designed for the direct users, the Welfare Department is committed to monitoring the level of employee satisfaction and constantly receives feedback and reports. For example, the People Care portal contains a section where employees may indicate merchant discounts for company employees that they want to obtain or any other needs.

In response to what was requested by the focus groups and to provide employees with concrete, tangible assistance, a special space named People Care for Bicocca was set up in early 2013 near the company canteen at the Milan headquarters of the Pirelli Group. Two days a week, during the lunch break, dedicated staff provides laundry, tailoring and postal services on behalf of employees. This is an important and efficient aid that saves employees time.

To promote the new programmes and internally publicise what welfare services are now available, several information counters have been set up. These "Welfare Corners" are found at the Milan headquarters and at the Settimo Torinese plant.

During 2013 special attention was also dedicated to the contribution that the Pirelli Group can make in its daily activities to the socio-economic context in Lombardy. The various charitable activities that have been set up include the one organised with Citycibo. For years Pirelli has contributed the complete, uneaten meals from its company canteen to this entity years ago, and in 2014 the Group will organise volunteer work by its employees together with that institution.

One of the next goals that the Welfare Manager is already working on is a campaign to raise awareness of preventive health and wellness, so that people can take care of their own physical and mental health at the Company.

Even on the international front, welfare activities in 2013 have taken an increasingly leading role in the individual local realities and individual countries where they have been historically located. These have been communicated internally in a more organic and structured way, made possible largely by the new communication channels that have been created in the meantime.

The welfare experiences accumulated in the individual countries have been collected at Company headquarters, with the aim of initiating a process of structured sharing of internal best practices in 2014. Two of the most virtuous and original examples found at our non-Italian sites definitely include the establishment of an in-house gym at the Company (e.g. in France, Germany, Mexico, Russia, Turkey and the United States) and, nearly everywhere, the availability of a Company shuttle. The Smile Campaign organised in Romania is an innovative programme that promotes organisational wellness. Another innovative programme is represented by the choice made by Pirelli Argentina to have interested blue collar workers attend professional technical schools to improve their educational level and develop specific technical skills. In this regard, it is worth mentioning that Pirelli devotes constant and widespread attention to the education of its employees' children. This is substantiated by the fact that in nearly all countries where the Group operates, the Company partially or fully subsidises the purchase of school books for those children.

Finally, the programme operated by Pirelli China is particularly interesting: it provides fully furnished apartments to newly hired employees who do not originally come from the place where the Company is located.

Moreover, Pirelli tyres have been supplied to employees at heavily discounted prices for years in nearly all countries.

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 own Human Resource Management System. Relations and negotiations with trade unions are managed locally by each affiliate in accordance with the laws, national and/or company-level collective bargaining agreements, and the prevailing customs and practices in each country. At this level, these activities are supported by the central departments, which coordinate activities and ensure that the aforementioned principles are observed throughout the Group.

During 2013 this activity achieved significant negotiating results for the renewal of collective agreements at various Group sites, such as Mexico. This is complemented by the important role played by the Group in Italy for renewal of the national collective bargaining agreement in the Rubber and Plastic sector, signed on January 8, 2014.

Following the persistently sharp contraction in consumption at the European level in 2013, which also impacted the tyre industry, the Company continued with an organisational and production streamlining process to contain its costs. In this perspective, an agreement was signed in July 2013 at the Bollate plant together with plant union representatives and local trade union representatives. They agreed that beginning January 2014, two new types of products would gradually come into production, in order to support a forecast output of about 2 million units annually during the two-year period 2014-2015. Accordingly, agreement was also reached on the following: a different and coherent operating structure based on a new organisation of work, a new staff of permanent employees for regular operation of the plant, amounting to 239 blue collar employees and 37 white collar employees; the redundancy of 90 workers (80 blue collar employees and 10 white collar employees); the non-traumatic management of redundancies through recourse to solidarity contracts for the period January 1, 2014 – December 31, 2015.

In the context of restructuring resulting from the crisis, the activities for closure of the steel cord plant at Merzig, Germany that began in 2012 were completed in June 2013. This closure affected about 100 employees, of whom 70 left the Company in 2013.

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

During 2013 Pirelli initiated a process to dispose of its steel cord business, by examining – with the support of an internationally prestigious advisor – the opportunities to sell in view of better development of the business by potential buyers that might be able to guarantee a significant international presence and adequate competitive standards.

At the end of February 2014 Pirelli & C. S.p.A. and Bekaert announced that they had signed an agreement for sale of 100% of the Pirelli steel cord activities to Bekaert for an enterprise value of about euro 255 million. Disposal of the steel cord business will enable Pirelli to withdraw from an activity whose dimensions are no longer competitive and to focus on the more profitable premium tyre segment, while simultaneously assuring that the steel cord business would have a future in a group that is a leader in transformation technologies and sheathing of steel cables.

As part of the agreement, the two companies agreed on a long-term supply and on joint products development to boost R&D activities and guarantee that the transition to the new agreement be consistent with the companies' respective growth and development plans, while also developing existing assets and simultaneously laying the basis for gradually opening to the market. The closing of the deal, which is subject to regulatory approval, is expected to take place in the second half of 2014 and affects all five of the Pirelli steel cord plants located in Italy, Turkey, Romania, China and Brazil.

Finally, Industrial Relations play an active role in the Group's commitment to health and safety. In fact, 81% of Group employees are covered by representative bodies that periodically collaborate with the Company and the support of specialists in monitoring and confronting current issues and the awareness plans or programmes, in view of continuous dialogue aimed at improving the various activities operated by Pirelli to protect the health and safety of its own workers.

European Works Council (EWC)

The Pirelli European Works Council (EWC), formed in 1998, holds its ordinary meeting once annually after presentation of the Group Annual Financial Report, where it is informed about the operating performance, operating and financial forecasts, investments made and planned, research progress, and other matters concerning the Group. The agreement

establishing the EWC envisages the possibility of holding additional, special meetings to comply with disclosure obligations towards delegates in consequence of transnational events concerning material changes in the organisational structure of the Company: opening, restructuring or closure of offices and plants, and important and widespread changes in the organisation of work. EWC delegates are provided with the IT tools that they need to perform their duties and a connection with the corporate intranet system, for the real time communication of official Company press releases.

The Committee currently has 14 members from the Company installations in countries entitled to be represented on the Committee itself, i.e. Italy, Germany, Spain, Sweden, Romania and the United Kingdom.

Compliance with statutory and contractual obligations governing overtime, time off, association and negotiation, Equal Opportunities and Non-Discrimination, bans on child and forced labour

Group policy has always promoted compliance with all legal and/or contractual requirements concerning working hours, the use of overtime and the right to regular days of rest.

These requirements are often the subject of agreements with trade unions, in line with the regulatory context of each country. There are no restrictions on any worker's right to use his/her total number of holidays. The holiday period is generally agreed between the worker and the Company.

As the Company also states in its Social Responsibility Policy for Occupational Health, Safety, Rights, and Environment, and in compliance with the provisions of International Standard SA8000, which it adopted in 2004 as the benchmark tool for the management of social responsibility at its own subsidiaries and associated companies, Pirelli audits the application of provisions governing social sustainability and, in particular, respect of human and labour rights through periodic audits that are commissioned to specialised independent firms and/or performed by the Internal Audit Department. This latter entity has a high degree of independence at Pirelli insofar as it reports not only to the Board of Statutory Auditors but also to the Internal Control, Risks and Corporate Governance Committee of Pirelli, which is composed only of Independent Directors. Particular attention is devoted to the sustainability of Pirelli's sites (and the company's suppliers) operating in emerging countries.

The three year internal auditing plan covers all Pirelli sites. Normally every audit is carried out by two auditors and takes three weeks on site. The Internal Audit Team receives training on the environmental, social and ethical elements of an audit from the directors of the various departments to enable them to carry out an effective, clear and structured audit, giving Pirelli effective control over all aspects of sustainability. If compliance violations were found during these audits, an action plan was agreed between the local managers and central management, with precise implementation dates and responsibilities.

The Internal Audit Department is monitoring the status of implementation of agreed action plans, through specific follow-up measures.

All the managers of the affiliates involved in the audits receive training on the purpose and procedures of the audit from the central departments in question: Sustainability and Industrial Relations. In 2008 independent audits were conducted at Company sites located in Turkey, Brazil, Venezuela, Argentina, Egypt, China, Romania, Colombia, Mexico and Chile. In 2011, Pirelli commissioned new, independent audits at production sites located in Argentina, Venezuela, Brazil, China, Egypt, Turkey and Romania. In 2012 the Internal Audit function conducted sustainability audits at Company facilities in Italy, Brazil, Argentina, Venezuela and Turkey and, in 2013, in Argentina, the United States, Romania and Brazil. The audits will continue in Italy, United Kingdom, Egypt and China in 2014.

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, and will be subject to follow up in 2014 by the Internal Audit Department.

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

Labour and social security lawsuits

In 2013, as in the past, the level of work and social security litigation remained low, thanks to a continuing trend of conflict avoidance, substantially in line with previous years.

Just as in previous years the level of litigation remains high in Brazil, to the point of representing about 90% of all the labour lawsuits currently pending against the entire Group. Labour lawsuits are extremely common in this country and depend on the peculiarities of the local culture. As such, they affect not only Pirelli but also the other multinational companies operating there. Labour lawsuits are generally initiated when an employment contract 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 exactly measure the consolidated percentage of union membership at Group companies, since this information is not legitimately available in all countries where Pirelli has a presence (over 160 countries on five continents). However, it is estimated that about half the Group's employees are trade union members.

The percentage of workers covered by a collective bargaining agreement amounted to about 81%, consistently with the previous three-year period. This figure is associated with the historical, regulatory and cultural differences between each country.

Trade union agitation affected the Italian manufacturing sites only during renewal of the national collective bargaining agreement for the rubber and plastic sector and, in regard to the steel cord plant at Figline Valdarno, during the phases related to disposal of the steel cord business.

Occupational retirement and health-care plans

Defined benefit plans are in place in the United Kingdom (the fund was closed for all employees on the payroll at April 1, 2010), in the United States (these plans were closed a number of years ago to employees on the payroll, in 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 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. The plans are managed by insurance companies or funds created ad hoc, in which the Company participates by paying a fixed amount as is done in Italy, or an insurance premium as is done in Brazil and the United States. For measurement of the liabilities and costs represented by these benefits, reference is made to *notes 22 – Provisions for employee benefits and 31 – Personnel expenses in Volume 1: Annual Financial Report at December 31, 2013.*

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 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.

To these ends, 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 labour rights and environmental information to its internal and external stakeholders, both by communicating with them and actively co-operating with national and international government and academic bodies;
- promoting use of the most advanced technologies to achieve excellence in occupational health and safety and environmental protection”.

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

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

(Quality Policy)

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

Safety Management System

Pirelli Tyre implements a Safety Management System that is structured and certified in accordance with OHSAS 18001:2007..

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).

Beginning in 2014, RINA Services S.p.A. will be the new compliance auditor of the Pirelli Tyre Safety Management System and environment. The Company has opted for ANAB (a United States accreditation entity) international accreditation. The introduction of this new service provider addresses the need to have the greatest degree of transparency in the certification process, which assumes periodic changes in both the Management Systems compliance assessment entity and the accreditation entity.

For reasons related to transfer of the certifications from one compliance assessment entity to another, the Merlo, Argentina plant will have to get its Safety Management System recertified in the first few months of 2014.

To date all Pirelli Tyre production sites are certified according to this standard, with the exception of:

- the plant in Rome (United States), which in line with local legislation already has a management system comparable to the OHSAS 18001 standard. For this reason, the certification activity is a parallel activity whose value is relative. Instead, the Environmental Management System is fully operative and certified pursuant to ISO 14001;
- the process for the two recently acquired Russian plants at Kirov and Voronezh was initiated in 2013 so that they may be certified in 2014;
- the plant in Merlo, Argentina, due to purely technical reasons related to the change in certifying entity as described above.

The OHSAS 18001 (as well as the ISO 14001) certification of the Tyre manufacturing site operating in Mexico was completed in 2013 as planned.

The Safety Management System and the Environmental Management System implemented at the Pirelli Tyre production sites have been developed on the basis of procedures and guidelines drafted at corporate headquarters. This has made it possible to adopt a “common language” within the Group, in terms of the key elements of operating that guarantee effective, uniform and shared management.

Safety Culture

The Zero Accidents Target is a precise and strong corporate position. Pirelli strongly believes that leaders play a strategic role in risk prevention. Their behaviour must therefore be an example for all employees. Management must make a clear, visible commitment to safety culture in order to achieve the ambitious aims that the Group has set itself.

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 everyone’s responsibilities to themselves, others, and their family. In this area as well, fostering engagement and ongoing communications between management and staff has proved a successful strategy. In 2013 the Company continued to reinforce and consolidate the behaviour-related aspects of safety culture. The Company has maintained and developed the focus on Leading Indicators, namely measuring what preventive measures should be implemented and how this should be done, rather than Lagging Indicators, namely reactive indicators such as the number or frequency of accidents.

In 2013 the Company signed a global agreement with DuPont Sustainable Solution in support of the Management System outlined above, with a special focus on a standard approach to Behavioural Safety in the Group.

The resulting programme begins in 2014, initially at the English sites and in Venezuela, and will then be extended to all Pirelli industrial sites.

Communication and sharing information play an important role in internal dissemination of the Safety Culture. This is accomplished with monthly newsletters like the *Safety Bulletin*, and the periodic publication of significant events through the traditional channels of internal communication.

Consistently with its own “cultural” approach to occupational safety, Pirelli has been an official partner of the European Occupational Health and Safety Agency (EU-OSHA) for years, actively supporting its campaigns. Every two years the Agency tackles a different issue. The theme for the 2012-2013 period was “Working together for Risk Prevention”.

The common goal of the various European Agency campaigns is to provide further support to management when it comes to showing leadership in the context of occupational health and safety, and fostering worker participation. Workers and their representatives are encouraged to share their ideas and work with management to improve health and safety for all.

Safety training

In addition to safety training offered locally at every Pirelli location (which is 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 Manufacturing Academy merits special mention. This is the Pirelli Professional Academy dedicated to factories, where health, safety and environment issues are discussed in detail. In 2013 attention was focused on training for assessing the risks related to machinery, consistently with the concurrent update of applicable internal procedures.

It must be pointed out that 11% of the training provided by Pirelli in 2013 addressed occupational health and safety issues.

The sixth edition of the Pirelli Health, Safety and Environment global meeting is scheduled to be held in the first quarter of 2014, at the Pirelli manufacturing centre in Yanzhou, China. The meeting has always had the purpose of treating the best practices applied by the various Pirelli sites in the world as a common factor.

Healthcare assistance during working hours and prevention campaigns

The infirmaries at the production units offer all employees care by health care workers and specialised physicians on duty during working hours.

These facilities provide first aid care, advice on health problems unrelated to work and health supervision for workers exposed to specific hazards.

Once again in 2013, Pirelli offered all its employees the opportunity to be inoculated with the seasonal flu vaccine free of charge.

The Health and Lifestyle campaign developed in Brazil was particularly significant, engaging the participation of nearly 4,000 employees, and will be completed in 2014. This programme involves medical exams, blood chemistry and instrumental tests, and individual interviews aimed at improved understanding.

Monitoring of performance

Alongside establishing specific guidelines and procedures for implementing management systems, Pirelli uses 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. This system makes it possible to monitor HSE performance at every production site in the Tyre Business and prepare numerous types of reports as necessary for management or operating purposes.

In particular, the HSE-DM system collects all information about accidents that occur in factories (accident analysis, corrective measures adopted, etc.).

If the dynamics of a particular case are significant, all plants are not only provided with the information via a Safety Alert system, 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. By using this system, every site may audit the solutions adopted by other plants in order to share the best choices.

In 2013 the HSE-DM system was further developed, enhancing its data management and analysis capabilities.

Performance

In 2013 Pirelli achieved an FI (Frequency Index – i.e. the ratio of accidents to the hours actually worked) of 0.62, meeting and surpassing two years early the target it had set in the Industrial Plan 2012-2014 and Vision to 2015. This target called for reducing the Occupational Accident FI by 60% in 2015 from the 2009 figure. The new target, set with the Industrial Plan 2013-2017 and Vision to 2020, calls for reducing the FI by 90% between 2009 and 2020.

In 2013 the Frequency Index (FI) of accidents at the Group (i.e. for all employees) fell by a total of 20% from 2012.

It should be pointed out that the frequency index for women is considerably lower than the Group's average, partly due to the fact that most of the female employees are engaged in activities with a lower level of risk as compared with male employees.

Even the Severity Index (SI) of accidents at the Group continued tracking a steady downward trend that had begun in the previous years, falling from 0.26 in 2012 to 0.18 in 2013.

The Severity Index (SI) 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.

Both in the case of the Frequency Index and the Severity Index, Europe and Latin America have a higher rate than the other geographical areas where Pirelli operates (Africa, Asia, North America and Oceania), although it has been steadily declining for years.

The calculation of the IF and IG rates mentioned above do not include the business *in itinere* accidents and agency worker accidents, which are listed separately.

ACCIDENTS FREQUENCY AND SEVERITY INDEXES

	2013	2012	2011
Frequency Index	0.62	0.77	1.10
Frequency Index Men	0.68	0.86	N/A
Frequency Index Women	0.10	0.18	N/A
Severity Index	0.18	0.26	0.27
<i>In itinere</i> accidents	107	136	142

The most representative accidents involve events resulting in contusions, cuts and fractures to upper limbs. There were seven accident events involving agency workers at the Group in 2013.

There were 104 accident events involving workers of independent contractors working at Pirelli.

There are no workers in the manufacturing process who have a high incidence or high risk of illness related to their occupation.

As illustrated in the following table, the Frequency Index of occupational diseases in 2013 fell to 0.09.

OCCUPATIONAL DISEASES

	2013	2012	2011
Occupational Diseases Frequency Index	0.09	0.10	0.07

Fatalities

- 2013: there was no fatal accident involving Group employees or employees of independent contractors working at the Group's operating sites.
- 2012: there was no fatal accident involving employees of independent contractors working at the Group's operating sites; on September 30, 2012, one Group employee suffered a fatal accident at the Carlisle, United Kingdom plant. Following and investigation of the incident, the authorities found that it was accidental. Pirelli continues to provide full support to the UK Health & Safety Executive authority as the investigation proceeds.
- 2011: there was no fatal accident involving Group employees or employees of independent contractors working at the Group's operating sites.

Best Practices

Eight tyre manufacturing plants were "sites of excellence" in 2013, since no employees were injured there in 2013:

- CMP Milano (since 2009);
- Slatina-Steelcord in Romania (as in 2012);
- Breuberg-MIRS in Germany;
- Kirov in Russia;
- Rome-MIRS in the United States;
- three "Fitted Units" in Brazil (Sao Josè dos Pinhais, Camaçari, Sorocaba).

These results should be attributed to the constant focus on leading indicators, namely in terms of prevention.

Health and Safety Expenditure

In 2013 health and safety expenditure by Pirelli Tyre totalled more than 14 million euro. Pirelli Tyre expenditure (in millions of euro):

- 2011: 12.2;
- 2012: 14.7;
- 2013: 14.3.

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

Health and Safety targets

Quantitative

2015: reduction in the Accident Frequency Index by 60% in 2015 from 2009 (strategic plan to 2015): achieved two years early in 2013.

2020: reduction in the Accident Frequency Index by 90% from 2009.

Qualitative

- OHSAS18001 certification of the Guacara factory (Venezuela) achieved;
- 2013-2014: OHSAS 18001 and ISO 14001 of the Silao, Mexico site: achieved;
- OHSAS 18001 certification for the Voronezh and Kirov, Russia sites and ISO 14001 certification for the Voronezh site: pending;
- 2011-2012: integration of an HSE module in the Process Kaizen Engineer training course; this goal has been broadened to include HSE training in the new Manufacturing Academy: achieved;
- 2013-2015: implementation and consolidation of the systems Behaviour Based Safety (BBS), LockOut tagOut (LOTO), and Point of Work Risk Assessment (POWRA): pending;
- 2014-2018: implementation of the global programme "Excellence in Safety". Starting in Carlisle, Burton and Guacara.

4.2 EXTERNAL COMMUNITY

RELATIONS WITH INSTITUTIONS AND PUBLIC AUTHORITIES

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

The Pirelli Group intends to contribute to the prosperity and growth of the communities it operates in by providing efficient and technologically advanced services. The Pirelli Group endorses and, where appropriate, gives support to educational, cultural, and social initiatives for promoting personal development and improving living standards.

The 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 – “Wider Community”)

In all countries where Pirelli has a presence, the aim of institutional relations is aimed primarily at the creation of structured and constant relations with institutions to assure adequate representation of Group interests, including participation in the different phases of the decision-making process. All activities are characterised by maximum transparency, legitimate authority and responsibility for all information that is released in public venues and in direct relations with institutions.

In the process of consolidating and developing institutional relations, Pirelli focuses on active monitoring and detailed analysis of the legislation and regulations in force with a view to verifying possible areas of interest as well as identifying the stakeholders in question. To guarantee optimum comprehension of the activities performed and the interests represented, institutional interlocutors are targeted by a constant flow of information about the industrial identity of the Pirelli Group, its principal business activities, the development of new process and product technologies, and, last but not least, elements of economic, environmental and social sustainability.

In view of guaranteeing more effective engagement of Group stakeholders, institutional dialogue is also enriched by numerous projects and initiatives undertaken with institutions to promote and support issues of public interest.

The geographical scope of the Pirelli Group’s industrial and economic interests calls for an extended network of institutional relations on a national, European and international level. In Italy, the Group interacts in a system of relations involving the most important institutional bodies at both the national and regional levels. At the parliamentary level, it analyses draft legislation affecting the Group, focusing on the initiatives taken by the standing committees of the lower house of Parliament and the Senate, and occasionally offering support to parliamentary activity in the form of technical information, studies and specialised analyses concerning the Group’s activities. At the government level, Pirelli maintains constant relations with the Prime Minister’s Office and the principal ministries and related governmental entities that have an impact on the Group. At the local level, Pirelli devotes special attention to relations with governmental bodies in the regions where Pirelli has a presence with its manufacturing plants.

During the year, the Institutional Affairs Department constantly worked to defend and support Group interests, by promoting the most effective representation at the various levels of the political and administrative system. Among the ordinary activities carried out to defend these interests, initiatives have been taken in relation to: support for industrial development, particularly in regard to research and development projects; promotion and reinforcement of international relations in the countries where the Group has a presence with industrial sites; analysis and study of the impact of tyre regulations; warnings on highway safety issues.

Pirelli also considers its relations with European Union institutions to be of key importance, dedicating special attention to them. In this context as well, continuous dialogue with the European Commission, the European Council and the European Parliament is conducted in the form of legislative analyses and concerns a broad range of issues that run from transport to environmental policies, and internal market or international trade issues. Pirelli represents Group interests to stakeholders, contributing to the formation of adequate and informed legislative decisions, while always guaranteeing an approach based on maximum transparency, fairness and collaboration with institutional representatives.

The Pirelli Group is entered in the European Transparency Register established and maintained by the European Parliament and Commission with the aim of improving levels of transparency in EU decision-making processes.

At the international level, Pirelli is planning numerous meetings with its principal institutional counterparts in the countries where the Company has manufacturing facilities, in order to promote an effective Institutional Relations strategy based on a fair perception of the Group's industrial presence and encouraging dialogue to further mutual understanding. On these occasions, all issues related to local growth and competitive factors are presented to direct sustainable investments and facilitate appropriate initiatives to remove any obstacles to economic and industrial development. Public initiatives aimed at solid institutional engagement are also promoted and facilitated in these contexts, and they are often tied to the needs of local communities in collaboration with Group Sustainability Departments.

PRINCIPAL INTERNATIONAL COMMITMENTS FOR SUSTAINABILITY

A number of the principal commitments made by Pirelli worldwide are illustrated as follows. The list does not include the numerous activities and agreements existing at the local level with Group affiliates.

ETRMA – European Tyre and Rubber Manufacturers Association

ETRMA, the principal partner of EU institutions for the sustainable development of new European policies for the sector and their proper implementation with the institutional support of the Pirelli Group, worked very intensely again in 2013 on the preparation of provisions to implement regulations issued by the European Commission covering the general vehicle and tyre safety and energy efficiency, as well as tyre labelling, which represents an absolute first for the sector in Europe.

In conjunction with these activities, ETRMA is actively involved in defining the European Commission market supervision regulation. It continues to urge EU Member States to develop policies for monitoring the compliance sold on the market with EU laws. Partly for this reason, it has reinforced its partnership with national tyre industry associations. Rounding out its vehicle safety regulatory objectives, ETRMA has contributed to revision of the European policy governing periodic technical inspections, where tyre compliance plays a key role in road safety.

ETRMA actively participates in the implementation of the new CARS 2020 (Competitive Automotive Regulatory System) system. Pirelli has participated in the working groups supporting the high level CARS 21 group, and its challenges concern access to raw materials, the need for new skills and greater worker flexibility, the sustainability of production processes and the need to guarantee compliance with the new and sophisticated product regulations that focus on safety and environmental impact. The CARS 2020 strategy is part of the Europe 2020 strategy, in which ETRMA is heavily involved. It aims at defining the economic and social action of the Community over the next decade. It is continuing with its programme of activities to raise awareness of road safety and sustainable mobility.

Another strategic activity in which ETRMA is heavily involved is implementation of the Emission Trading Scheme. This aims to reduce the economic impact of European energy policies, and just as in the European Innovation Partnership on Raw Materials, it has the goal of guaranteeing fair and unrestricted access to key raw materials for the sector. Finally, the association is successfully promoting sustainable manufacturer responsibility practices for the management of end-of-life tyres. This has led Europe to achieve a more than 95% recovery rate, through close collaboration with the various operating partnerships existing in European countries. Special mention must be made of the fact that the good ETRMA and European practices constitute an international benchmark.

IRSG – International Rubber Study Group

Pirelli is a member of the Industry Advisory Panel of the International Rubber Study Group (IRSG), an intergovernmental organisation that brings together rubber producers and consumers, acting as a valuable platform for discussion on issues regarding the supply and demand for natural and synthetic rubber. It is the principal source for information and analyses on all aspects related to the rubber industry.

Under the auspices of the IRSG, since 2012 Pirelli has been involved in the Sustainability Rubber Project, among other initiatives. The aim is to create a Global Standard for Sustainable Management in the rubber industry. The initial focus is on natural rubber and, at a later time, the project may also be extended to synthetic rubber.

The Sustainable Natural Rubber Action Plan was announced at the World Rubber Summit in May 2013. This Plan is based on the recommendations of the Heads of Delegation and the Industry Advisory Panel to which Pirelli belongs. It aims to promote the use of a voluntary standard for sustainable natural rubber that is valid for all stakeholders.

About 85% of natural rubber is produced by small-scale farmers who own less than three hectares of land. The decision to plant trees and produce natural rubber thus depends on the cost/benefit relationship, and consequently on an adequate long-term plan to guarantee stable growth, which must be based on sustainability.

The announced plan is complementary to national economic, social and environmental programmes promoted in the producer nations.

WBCSD – World Business Council for Sustainable Development

Pirelli actively participated in the WBCSD – World Business Council for Sustainable Development again in 2013. This is a Geneva-based association of about 200 multinational companies based in over 30 countries that have made a voluntary commitment to link economic growth to sustainable development.

In particular, Pirelli Tyre belongs to the Tyre Industry Project Group, whose members represent about 75% of global production capacity. The goal of the project, which was launched in 2005, is to seize and even anticipate the challenges of sustainable development through assessment of the potential impact of tyres on health and the environment throughout their life cycle. The project, which initially focussed solely on raw materials and tyre debris, with the aim of developing new knowledge and formulating a new approach in the industry, has extended its scope to nanomaterials. Its goal is to develop a specific guide for the sector in collaboration with the Organization for Economic Cooperation and Development (OECD). This guide would set out the best practices for research, development and production of new nanomaterials, ensuring that the use of any nanomaterial is safe for both people and the environment.

The members of the group have also 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.

In view of contributing to guidance for technological choices, management systems and sustainable mobility policy, since 2013 Pirelli Tyre has actively participated in the Sustainable Mobility 2.0 (SMP 2.0) project. Its principal aim is to make a tangible contribution to realisation of the Vision (2050) linked to a notion of universally accessible urban mobility having a low environmental impact, both for human transport and freight transport in motor vehicles. In this three-year project (2013-2015), which originates from two previous works by the WBCSD (Mobility 2020 and Mobility For Development), the key player is a heterogeneous group of international companies that are largely involved in the automotive and auto&parts sector.

Sustainable Mobility 2.0 will raise awareness of the need to promote sustainable mobility, both in an environmental perspective (low impact in terms of energy consumption) and social perspective (with special focus on less affluent segments of the population, fewer road accidents). Through this comprehensive approach to urban mobility, SMP 2.0 will contribute to a more prosperous society, not only in terms of new mobility solutions, but especially by altering the existing paradigms of urban travel.

SMP 2.0 recognises the need for city governments, private business and non-governmental organisations to work together to achieve these ambitious, but now essential goals for a world in which 70% of the population will live in urban areas by 2050. Precisely for this reason, the companies participating in the Sustainability Mobility 2.0 project, assisted by WBCSD, have selected six pilot cities (which are highly representative of the different geographic, economic and infrastructure contexts) for which to develop a roadmap that offers a detailed action plan to improve urban performance in terms of sustainable mobility.

EU-OSHA – European Occupational Safety and Health Agency

For the fifth consecutive year, Pirelli continued to be an official partner of the European Occupational Safety and Health Agency (EU-OSHA) in 2013. Every two years the Agency tackles a different issue. The new campaign for 2012-2013 is entitled “Working together for Risk Prevention”, and focuses on fostering leadership in the context of health and safety at work, fundamental when it comes to involving all members of personnel in reducing the number of accidents in the workplace. Pirelli is counting a lot on the strategic role of leaders in risk prevention, considering it fundamental that leaders have a clear and visible commitment together with engaging in exemplary conduct for all workers.

CSR Europe

Pirelli has been a member of the Board of CSR Europe since 2010. It is represented by the Sustainability and Risk Governance Manager, who holds the position of Deputy Chairman of the Board with delegated authority over Governance and Finance.

CSR Europe is a network of companies in Europe that are leaders in the area of corporate social responsibility. Its members include more than 60 multinational companies and 38 national partner organisations from 29 European countries.

The network was founded in 1995 by European business leaders, in response to an appeal by European Commission President Jacques Delors.

CSR Europe functions as the European platform for the more than 5,000 businesses and interested parties, enabling them to cooperate and exchange experiences to become global leaders with Europe in the areas of sustainable competitiveness and social well-being.

The European Commission Statement on the CSR sets out a new European strategy for the CSR and recognises the “Enterprise 2020” initiative of CSR Europe as an example of particularly important business leadership in support of attaining the political objectives of Europe.

Jose Manuel Barroso, President of the European Commission, has said:

“Europe 2020 aims at building a stronger European Union, based on a competitive economy, with the skills and flexibility necessary to confront a rapidly changing world, but also characterised by social inclusion according to the European Model. This is a task for all of us – the European Commission and all European institutions, the Member States, businesses and social partners – and for this reason the European Commission fully supports the Enterprise 2020 initiative”.

Herman Van Rompuy, President of the European Council:

“Together, your network and the Union share a common interest: restoration of employment and economic growth. This is not only a common objective that we share, but we must also co-operate to achieve it. European Institutions and governments may jointly decide on the agreements and contexts, but then it is business alone that will have to take action in the field”.

Through the Enterprise 2020 initiative that is part of the Europe 2020 strategy adopted by the European Council, CSR Europe promotes collaboration, innovation and practical action to shape the contribution of companies to the Europe 2020 strategy for intelligent, sustainable and inclusive growth.

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.

CSR Europe has prioritised two European business campaigns – *Skills for Jobs* and *Sustainable Living in Cities* – as well as a number of collaboration projects and sector initiatives that aim to improve corporate management performance..

Pirelli has participated in the European Alliance for CSR since 2007, fully sharing the approach to sustainability as a strategic and competitive business management technique. Until now, the participation of Pirelli – promoted by the European Commission in Brussels to encourage the dissemination and exchange of best practices for sustainability amongst companies – of active involvement in the European Laboratories of the initiative, coordinated in Italy by the Sodalitas Foundation and by CSR Europe throughout Europe.

Endorsement of the Communiqué of the Corporate Leaders' Group on Climate Change

Pirelli has renewed its commitment for years in the fight against climate change, promoting the adoption of adequate energy policies to reduce CO₂ emissions.

It is expected that the next *Communiqué of the Corporate Leaders' Group on Climate Change* will be issued in 2014. The last one was issued 2012, when Pirelli signed *The Carbon Pricing Communiqué*, a planning document that originated at Cambridge University on the initiative of the Prince of Wales. Since its origin, it has aimed to bring together the biggest British, European and international corporate groups, motivated by the conviction that new, long-term policies are essential for coping with climate change. In 2011 Pirelli signed the 2nd *Challenge Communiqué*, while in 2010 it signed the *Cancún Communiqué*, in 2009 signed the *Copenhagen Communiqué* and in 2007 it signed the *Bali Communiqué*. That was the first document for development of concrete strategies through joint work by governments on a comprehensive global climate agreement.

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, Rights, and Environment, Pirelli has developed a global strategy for protection of the territory, supporting health, education and training, environmental, cultural and sport initiatives.

Aware of the importance of contributing to the community by capitalising on the natural strengths of the Company, Pirelli has identified three areas of focus. The Company plays an important role in the transport sector, and particular in regard to transportation safety. The four tyres mounted on a vehicle represent the only tangible contact between the vehicle and the road. So, tyre safety is fundamental and of the greatest importance. The experience of Pirelli in the field of road safety has led it to sharing its focus and expertise with stakeholders, i.e. the driving world.

The second area where Pirelli can make a special contribution is technical training. In the countries where it operates, especially in emerging markets, Pirelli possesses technical know-how that can be used as leverage for development of the community. Industrialisation requires training, and good training can become a driver of economic growth. In certain cases, Pirelli has to provide the instruction that its own new hires or future hires need, but in other cases Pirelli contributes to the community and, more in general, offers know-how that is key to development of the area.

Pirelli is now present in many countries undergoing rapid development. Many of its factories have brought jobs to poor communities, where it is important to contribute to children's growth even before it is possible to work on their technical skills. Children can find a supportive community and important lifelong values through social programmes focused on sport. As a sponsor of professional and amateur sport activities for over a century, Pirelli has know-how that it easily re-proposes in the field of social solidarity. In particular, Pirelli is the principal sponsor of the FC Internazionale Milano soccer team. Through the company Inter Futura, it has created an important network of sports and solidarity activities for disadvantaged children around the world. Pirelli sponsors these activities in several markets. In other markets, the Company supports other soccer activities or other sports like basketball or baseball.

Pirelli has adopted an internal procedure for years to regulate the distribution of gifts, contributions and payments to the External Community by Group companies and in relation to the roles and responsibilities of the functions involved, the operational process of planning, realising and monitoring the initiatives and making disclosures about these projects.

A key contribution to the initiatives satisfying local requirements is made by the dialogue with locally operating NGOs. Priority is given to those initiatives whose positive effects on the External Community are tangible and measurable according to objective criteria.

The internal procedure also specifies that no initiatives may be taken in favour of beneficiaries for whom there is direct or indirect evidence of violation of human rights, worker rights, environmental protection or business ethics.

As envisaged in the “Pirelli Values and Ethical Code”, 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.”*

Road Safety

Pirelli is synonymous worldwide not only with high performance, but also safety. Together with environmental protection, road safety is the key element of the Green Performance strategy that inspires the Group’s industrial and commercial choices. Pirelli’s commitment to road safety takes the form of numerous training and awareness-raising activities, but above all in terms of research and the ongoing application of innovative technological solutions for sustainable transport.

The importance of taking action cannot be underestimated. This is why, when it agreed to renew the exclusive supply agreement with the FIA Formula One World Championship, Pirelli and the Federation agreed to discuss the procedures for partnership in the area of highway safety as part of the FIA Action for Road Safety programme.

As a member of the World Business Council for Sustainable Development, Pirelli also wants to assume a responsible leadership role. The Company is active in the Mobility 2.0 working group, an ambitious project that is developing pilot projects in several cities around the world, identifying and implementing sustainable mobility solutions.

Pirelli is also highly focused on the road accident reduction objectives identified by the European Commission in the European Road Safety Charter, of which the Company is a signatory with the following undertakings:

- contribute to consumer awareness of the fundamental aspects of road safety, through the safe driver experience, in France for example, and through partnership with driving schools, in Italy and Germany, for example;
- increase young drivers' awareness of the causes of road accidents, through demonstration crash tests (pilot project in France);
- provide material on winter road safety, with the support of the Pirelli website (potential reach of 9 million users worldwide in one year);
- organise training seminars for driving school owners and instructors on the elements of road safety that are directly related to the tyre and its use (pilot project in Germany);
- train dealers at the international level about the importance of tyres in road safety, the differences between winter tyre performance and summer tyre performance, etc. The activity has already engaged 15 countries and will engage another eight in 2014;
- actively participate in national road safety programmes, in collaboration with associations, institutions, automotive and motorcycle makers.

In regard to heavy vehicle transport, in 2013 Pirelli Truck continued the activities it had already undertaken in previous years related to sustainable mobility and road safety. Special mention should be made of the Driving Innovation events (the first held in Munich, March 10-12, 2013, the second in Istanbul on October 3, and finally the third in São Paulo, from October 28 to November 1), where the invited customers, who were both operators in the tyre business and transport fleet operators, were treated to in-depth discussions on issues related to transport safety and proper tyre maintenance (with a special focus on the CyberFleet system, the latest Pirelli innovation for precise control of tyre pressure and temperature), and participation at the Environmental Sustainability in Freight Transport seminar organised by Green Freight Europe held on May 10, 2013 at the University of Cranfield in the United Kingdom.

Pirelli Moto dedicated great attention to road safety in 2013, for example with the Bikers Academy, a training course for the youths enrolled at driving schools belonging to Unasca and Confarca to obtain the “young driver's license” and “A1 driver's license”, sponsored by Confindustria ANCMA, Associazione Vittime della Strada, the Italian Senate, the Ministry of Infrastructure and Transport, and the Chamber of Deputies of the Italian Parliament (where press conference for presentation of the project was held).

This project was organised with the aim of promoting the safe use of scooters and motorcycles for oneself and for others. For this reason, Pirelli Moto (acting under the Metzeler brand) supplied materials and information that explained the proper use and maintenance of motorcycle and scooter tyres.

Metzeler has in turn made it a priority to promote training programmes on the role of tyres as a means to improve motorcycle driving safety.

With the goal of reaching as many motorcyclists as possible, numerous collaboration agreements were signed with on-road and off-road European driving schools, and in particular:

- in Germany with Action Team, ADAC – Ressort Motorsport, BMW Motorrad Enduro Park Hechlingen, BMW Motorrad Race Academy;
- in the United Kingdom with BMW Motorrad Off Road Skills;
- in France with ZEBRA, EASYMONNERET, H2S;
- in Spain with BMW Motorrad Enduropark Aras Rural;
- in Italy with BMW Motorrad GS Academy.

Pirelli also sponsors specific programmes in certain countries around the world to improve awareness of road safety. Pirelli conducts information and training campaigns in Italy to improve the awareness of Italian motorists and, in particular, new license holders and middle and high school students. Part of this project involved producing an educational video on road safety in collaboration with the Police.

In Romania Pirelli conducted a road safety programme at the high school level. In Turkey, the Company launched a wide-ranging educational project at university level in collaboration with the local office of the World Health Organization, the General Directorate on Safety and the universities to create e-learning courses on road safety. The course for university credits, Traffic is Life – Traffic Safety, was introduced at seven universities, with more than 5,000 students enrolling in it.

The Ciclovias Amigas programme was launched in Brazil to raise awareness about traffic and road safety regulation topics, by presenting stage plays for public school students and several needier schools. Pirelli organised a rally at Kirov in Russia to promote safe driving, with about 2,000 spectators. Pirelli also sponsored a day with the slogan “Kirov is the friendly driver city”.

Training

The promotion of technical education and training are very old values that are well-established in the history of Pirelli.

Pirelli continues to benefit from technical and research cooperation with various universities around the world, beginning with the Milan and Turin Polytechnic Universities, and also the Shandong University in China and the University of Craiova in Romania, among others. Technical training is particularly important for Pirelli, including but not only in terms of creating a pool of skilled labour needed to optimise productivity in its factories..

Internally, Pirelli uses its own resources to optimise training, as in the case of the workers for the new factory in Mexico trained at Slatina in Romania.

Externally, Pirelli has supported projects in the communities where it operates for technical training useful to create a good balance between labour supply and demand.

In Egypt Pirelli launched a major project for developing the Al Amreya Industrial Secondary School. As well as committing itself to full renovation of the facilities, from the sewers to the classrooms, Pirelli provided a complete training course for instructors and developed a curriculum based on various specialisations: refrigeration and air conditioning, electronics and electric power, and construction. About 550-600 students enrol in the courses every year.

In Turkey a large number of teaching programmes are offered by expert Pirelli volunteers in technical schools, together with the sponsorship of Pirelli schools.

The Merlo, Argentina factory hosts students for technical training, while Pirelli operates an internship programme in Yanzhou, China.

In Romania, aside from collaboration with the University of Craiova, the Slatina technical college offers training programmes at the Pirelli factory. Other programmes include the Romanian START project for training in manufacturing processes, with the participation of 112 students and nearly 30,000 hours of training offered by Pirelli.

In Russia the Company collaborates with the Voronezh State Technological University, training students in specific courses and inviting them to the factory for on-site training. About 100 students participated in the programme in 2013.

Sport and social responsibility

There is a close link between solidarity and sport, in a virtuous circle where commitment to sports becomes synonymous with the commitment to promoting solidarity and ethics, especially amongst young people. Getting young people involved in sport is a way to teach the notion of integration to children from different social groups, and helps prevent negative situations like isolation and solitude.

Since 2008, FC Internazionale Milano, Pirelli and Comunità Nuova have been running the “Inter Campus” social project in Slatina, Romania. The sports and recreational activities are organised for the entire year, with the participation of over 80 children from different social contexts who have been learning the values of team work, social integration and friendship through soccer for over two years.

In 2012 Pirelli and FC Internazionale Milano replicated the experience with Inter Campus at Silao, Mexico, near the new Pirelli factory. The Inter Campus Silao, inaugurated by President Felipe Calderon, is attended by 150 local children.

In 2013 the Company sponsored the Pirelli Cup 2013 in Argentina, an important national summer soccer tournament. The election of Pope Francis, from Argentina, prompted an soccer event to promote peace, sponsored by Pirelli. This is an interfaith event for peace, based on the concept of inclusive education and against discrimination, with the PUPI Onlus foundation..

Pirelli also sponsors baseball in Venezuela through the Pirelli Baseball School, which is attended by more than 300 children and teenagers; basketball, volleyball, soccer and motorsport in Brazil; and basketball in Spain, to mention but a few.

In the United States, Pirelli sponsored the Citizens Committee for New York City for all of 2013, with the Pirelli Fun & Fit project, while financing various social sports projects.

In the United Kingdom, Pirelli organises a rally in Carlisle for the Richard Burns Foundation, which assists victims of serious illnesses or accidents.

In Russia Pirelli has organised an ice hockey tournament, where it promoted “healthy living”.

Solidarity

The inclusive approach taken by Pirelli to involvement and inclusion takes the form of social solidarity worldwide.

The Company supports educational programmes that can give less fortunate children the tools to escape poverty. It contributes scholarships and research projects, firmly believing in training as key to individual growth and the economic growth of a country.

In Brazil, for example, where Pirelli has been historically active in the local community with social projects, the Company provided for about 450 children in the city of Feira de Santana, near the Pirelli factory, in an after-school programme with 15 different types of activities. Similar projects are offered near the factories in Gravataí and Sumaré, and Pirelli has continued to provide support to the Projeto Guri, a project to give musical instrument and singing lessons to 230 children from the poorest families in Campinas and Elias Fausto in São Paulo.

Pirelli also supports Aliança da Misericórdia, an orphanage in São Paulo that offers shelter to 300 orphans and homeless children, as well as the Dr. Klaide Nursery in Santo André and Escadinha do Tempo in Meleiros.

Since 2013 Pirelli has been providing support to the Centro de Convivência Santa Dorotéia in Grajaú, and specifically computer courses combined with drug awareness education.

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. The Company also sponsors programmes to provide food to needy families.

In China Pirelli provides support to the poorest families in the community with donations of rice and oil. In Russia, the employees at the Kirov factory gave support to an orphanage, by organising activities and gifts for the children there. They also organised activities for war veterans. In another charity project, Pirelli employees in Kirov have committed themselves to building a sports field for local children.

In France the Company contributed to the Special Olympics, in Turkey it contributed to a foundation for the education and protection of mentally disturbed children, while in Romania it contributed to a home for disabled youths.

In the United Kingdom Pirelli made a donation to the YMCA in support of the homeless, and in the United States consumers have been involved in a marketing project with donations to the NGO Make a Wish, which realises little dreams for children with terminal illnesses.

In Brazil Pirelli supports Educandario Imaculado Coracao de Maria in Amélia Rodrigues, an elementary school run by Italian nuns and attended by 1,100 children.

In Turkey the Company provides support for ad hoc programmes at the Turk Pirelli Primary School and the Turk Pirelli High School, such as renovation of the school gym.

Under the coordination of the Kocaeli Chamber of Industry in Turkey, a school was built in Gölcük, the new Gölcük Dumlupınar School.

In particular, Pirelli and 16 of its own suppliers collaborated on the construction of a schoolroom.

The school opened in May 2013, with 34 schoolrooms and 900 students.

Special mention must be made of the recent agreement between Pirelli and Qufu Normal University in China: Pirelli will finance 25 excellent students from poor backgrounds so that they can complete their studies.

Health

Pirelli considers contributing to improving the health services of the communities where it operates to be a priority.

Since 2008 Pirelli Tyres Romania, in collaboration with the Niguarda Hospital in Milan, has supported the professional training of medical and nursing professionals and the donation of medical equipment and devices to Slatina Hospital. Over 120 professionals, who annually care for more than 40,000 patients, were trained in this programme, and specifically in oncology, paediatric care and emergency care. Pirelli Tyres Romania has also provided dental treatment to around 350 children in Slatina and Bals through the project Overland for Smile.

Since 2010 Pirelli has supported the Pequeno Principe Hospital in Curitiba, the biggest paediatric hospital in Brazil. In Argentina Pirelli has sponsored a marathon in support of children who had tumours, and a flu vaccination campaign. In the United Kingdom, Pirelli has been involved in a long series of initiatives, sponsorships, fund raising and donations on behalf of research and tumour, paediatric, eye, cardiology and diabetes treatment.

Environmental initiatives

Many Pirelli employees around the world enthusiastically participate every year in Pirelli environmental projects. In Venezuela the company organised a large group of volunteers to clear beaches and adjacent areas.

“Let’s do it Romania” is an important project organised by Pirelli in conjunction with the municipality of Slatina, which recruited 350 volunteers to clean up brownfield sites and restore nature. In China Pirelli employees committed themselves to planting trees in the Friendship Forest project. In Mexico Pirelli signed an important agreement with the government of Guanajuato for a reforestation project. Pirelli Mexico has also committed itself to cleaning up and restoring a river bed in the area. In Russia, 300 Pirelli workers participated in a voluntary cleaning day in the Voronezh area, and another 300 workers did the same in the Kirov area.

For the Earth Day celebration on April 22, Pirelli decided to offset the CO₂ emissions produced by its own fleet with carbon credits generated by the Bolivia Project. The direct result of the new car policy adopted by Pirelli in December 2011, this initiative promotes the choice of vehicles that have lower environmental impact and supports a project to save forests and the populations that live there.

Culture and social value

The international character of Pirelli is also visible in its love for culture, with initiatives that were undertaken in many countries around the world during 2013. Its attention to culture, and even more its commitment to preserve, disseminate and cultivate it, are an integral part of the creation of social value.

Pirelli is one of the sponsors of the São Paulo Modern Art Museum, one of the most important museums in Latin America. Aside from its permanent collection, the museum organises important exhibits, seminars, events and courses during the year.

At the MASP – São Paulo Art Museum – the Company has sponsored the photography biennale. At Rio de Janeiro in 2012, Pirelli supported an important exhibition of European portraits from the 16th-18th centuries from the collections of the Vatican Museums and other Italian museums.

In Argentina Pirelli sponsored the Lucio Fontana art prize, and in Spain a programme for especially talented design students.

The Mozarteum project, which presents great international classical music orchestras, was sponsored by Pirelli in both Brazil and in Argentina, at the famous Teatro Colon.

In Turkey Pirelli sponsored a jazz concert at the Istanbul Culture and Art Foundation.

In Brazil Pirelli also sponsored two movie productions on the theme of challenges by disabled artists, and a television programme on consumer and handicapped persons' rights.

In many countries Pirelli is conducting a small mission, as an Italian multinational company, to protect and disseminate Italian culture abroad. Consequently, Pirelli sponsors the Italian theatre in Romania, Italian cinema programmes in Brazil and the United Kingdom, Italian song in Argentina, and in New York Pirelli sponsored a prize at the Italian Cultural Institute for the best young designers, with a show on Park Avenue.

In regard to the conservation of local cultures, Pirelli underwrites research on Confucianism in China by supporting the China Confucius Website.

In Brazil, Pirelli itself will organise restoration of the Christ the Redeemer statue in Rio de Janeiro, the right hand of which was damaged by lightning in 2014.

Pirelli Foundation

One of the missions of the “Fondazione Pirelli”, or Pirelli Foundation, established in 2009, is the preservation of the Group's historic and cultural heritage and the promotion of its corporate culture through local initiatives and projects having a strong social impact, exhibition activities, as well as collaborations with other cultural institutions.

Numerous projects were carried out again in 2013 to develop and promote the Pirelli archives.

In particular, these included:

- “Pirelli e l'Italia in movimento. Ricerca e tecnologia, il Cinturato conquista i mercati del mondo”, (Pirelli and Italy in Motion. Research and Technology, the Cinturato Conquers World Markets), an exhibition created to provide the public with some of the advertising material that was restored in 2013, including the renowned 1968 Cinturato Campaign by Pino Tovaglia.
- Loan of materials from the Pirelli Historic Archive. The participation of the Foundation in exhibitions and publications both domestically and internationally expanded from 2012, through the lending of materials. A total of 2,424 loans were made, including: 518 for exhibits and events, 277 for publications and 1,297 for study and research.
- Participation in the Business Culture Week (November 2013). These initiatives, aimed at promoting and developing historic Pirelli sites and its cultural heritage, were: the exhibition organised at the Foundation premises, “Sulla sponda del Nilo” (On the Shore of the Nile) dedicated to works created by Renato Guttuso for Pirelli; the special opening and guided tour of the Pirelli Foundation, at the Bicocca degli Arcimboldi and at the HangarBicocca; a Sunday dedicated to creative courses for children. These various initiatives attracted the participation of 470 persons, including 120 children.

- To celebrate the 50th anniversary of the Pirelli Calendar, the Foundation provided support for historic reconstruction of the 1986 Calendar by Helmut Newton.

In October 2013 the exhibition “L’anima di gomma – estetica e tecnica al passo con la moda” (“The Soul of Rubber – Aesthetics and Technique Keep Up with Fashion”, held at the Milan Triennale in June 2011) won the prestigious Red Dot Award “Best Of The Best” 2013 in the Communication Design category, which is one of the most important prizes of its kind in the world. The exhibition also made it to the short list for the Premio Adi Compasso d'oro prize.

Just as many programmes having a direct social impact were organised, including the following:

- the Fondazione Pirelli Educational project, rolled out in October 2013 and aimed at students in elementary schools and I and II grade secondary schools, with the aim of bringing young people closer to the world of production and work and the values on which the Pirelli business culture is based. Through creative courses and lab activities, children and youths confront topics such as: the history and technology of tyres, graphics and advertising, urban transformation, and the relationship between art and science (in collaboration with HangarBicocca). About 26 classes have visited the Foundation between October 2013 and now, for a total of more than 600 children and youths;
- educational activities for university students (about 250) from different universities and specialist school;
- support with the preparation of the university degree thesis for university students nearing graduation. Twenty-seven students conducted research in 2013 at the Pirelli Historic Archive, for preparation of the final thesis in their course of studies;
- the inter-generational project “Il tempo dell’uomo: lavoro e no” (Man's Time: Work and Not), launched in 2013 by the Pirelli Foundation and HangarBicocca, aims to assist children in a course to recover the historic memory of Zone 9 in Milan through the direct testimony of local old residents. This objective is flanked by the desire to contribute to developing and enlivening cultural life in Zone 9 of Milan by engaging senior citizens in HangarBicocca activities. The project will be developed in 2014.

Then, since 2010 the Foundation has had a seat of the Board of Trustees of the Scuola dell'Infanzia G.B. Pirelli kindergarten in Varenna, Province of Lecco, just as it actively supports the activities of the Istituto di Istruzione Superiore Leopoldo Pirelli high school in Rome, where the annual Premio Leopoldo Pirelli prize was established in 2011, and reserved as a scholarship for particularly worthy students. Pirelli also continues its collaboration with the Fondazione Agnelli and the Fondazione Garrone in the Associazione per la Formazione d’Eccellenza.

Altogether, 4,850 researchers, students, artists, historians and designers visited the Foundation headquarters and conducted research at the Pirelli Historic Archive in 2013.

The development and promotion of the enormous artistic heritage of the Group also relies on digital communication. Aside from the website www.fondazionepirelli.org, the Foundation constantly updates its own Facebook page, which has 4,600 followers.

HangarBicocca

Pirelli HangarBicocca is an institution dedicated to contemporary art. It offers a programme of exhibitions by the greatest Italian and international artists, accompanied by a calendar dedicated to the public, youths and schools. The project was created in 2012, in the conviction that contemporary art is a fertile field for research, experimentation and critical reflection on the most important themes of contemporary life. These are values that have been part of the Pirelli corporate culture for over 140 years.

A very large number of visitors was recorded in 2013: over 276,800 visits and a sharp increase in the number of foreign visitors (+20%).

In addition to the communication material available to visitors and obtainable at the exhibition space, a revamping of HangarBicocca digital communication was launched in September 2013.

The artistic programming in 2013 brought high-profile international artists to HangarBicocca, attracting the attention not only of art lovers and art experts, but also families and students. Five exhibitions were presented:

- Tomás Saraceno, *On Space Time Foam*, 140,000 visitors;
- Apichatpong Weerasethakul, *Primitive*, 21,405 visitors;

- Mike Kelley, *Eternity is a long time*, 32,503 visitors;
- Ragnar Kjartansson, *The Visitors*, 55,938 visitors;
- Dieter Roth Björn Roth, *Islands* (counting only the first two months of exhibition in 2013), about 27,000 visitors.

The vocation of Pirelli HangarBicocca is also that of a place open to the city and its hinterland, whose normal exhibition activity is accompanied by a range of programmes and activities intended to attract even the non-specialised public to contemporary art.

With a busy calendar of events, guided tours of the exhibition space and neighbourhood, screenings and meetings with leading figures from the art and culture world, HangarBicocca now offers different types of visitors the possibility of learning more about topical issues specifically related to contemporary art and its expressions.

Different events were held in 2013, dedicated to discovery of the city, knowledge about the most remote corners of the earth, the screening of documentaries, feature length films, unpublished films, and even fund-raising on behalf of NGOs. About 8,000 persons participated at these events, including about 600 children.

HangarBicocca created the Hb Kids programme for the youngest children. It offers creative and laboratory activities to introduce children aged 4 through 10 to the languages of contemporary art.

In 2013, 435 creative projects were presented, attracting over 8,000 visitors.

For students from all types and level of schools, HangarBicocca conceived the HB School programme, which complements traditional art education with a methodology inspired by the principle of educating with art.

In 2013 the programme had the participation of over 3,500 students, for a total of about 130 classes.

HangarBicocca received recognition in 2013 from the most important international museum institutions and official organs of culture. These include: Tate Modern in London, Shcontemporary in Shanghai, The Reina Sofia Museum in Madrid, MMK in Frankfurt, the Fondazione Prada of Milan, the Carmignac Foundation in Paris, the Trussardi Foundation in Milan, Royal College of Art in London, Getty Center in Los Angeles, Biennale in Taipei, Mart in Rovereto, Madre in Naples, Goldsmiths in London, Schirn Kunsthalle in Frankfurt, Garage in Moscow, NYU in New York, Fondazione Magistretti in Milan and the Haus der Kultuern der Welt in Berlin.

Mention must also be made of the partnership agreements signed with public and private institutions, with the aim of improving the panorama of cultural activities on offer in the local area. The relationship with the Culture Department of the City of Milan also continues on the basis of the agreement made in 2012.

With regards to support for culture and art in general, in 2013 partnerships and collaborations continued between the Pirelli Group and the Pinacoteca di Brera, the Fondazione Cineteca Italiana, FAI, the Piccolo Teatro of Milan, the Franco Parenti Theatre, the MiTo Festival, the Italian Chamber Orchestra led by maestro Salvatore Accardo, the Lezioni di Storia initiative organised by Laterza Editore, and the Villa Arconati Festival.

Finally, it is worth mentioning the work generated by HangarBicocca in 2013: the staging of exhibitions and all events and initiatives involved 32 local businesses and generated 51,600 man days of work.

SUMMARY TABLES

This section is designed to enable readers to relate the issues addressed in the report to the international experience of the GRI - G4 and the UN Global Compact.

Note: the tables refer to the three volumes of the Annual Financial Report, not just to the present one. Because of this reason they will be duly fulfilled with the page numbers once the final graphic version of the aforementioned books will be available.

REPORTING ISSUES

Pirelli & C. S.p.A. Sustainability Report 2013 is prepared 'in accordance' with the Comprehensive option of the GRI G4 Sustainability Reporting Guidelines. There are no explicit omissions because all KPIs for each material aspect have been reported.

GENERAL STANDARD DISCLOSURES		
	Sections	Reporting elements
Strategy and Analysis	Creation of sustainable value - Sustainable Growth strategy: Industrial Plan 2013-2017 with Sustainability targets 2020	G4-1, G4-2
Organizational Profile	Creation of sustainable value – Sustainability governance – Our suppliers – Pirelli employees around the world – Industrial relations – External community	G4-3, G4-4, G4-5, G4-6, G4-7, G4-8, G4-9, G4-10, G4-11, G4-12, G4-13, G4-14, G4-15, G4-16
Identified material aspects and boundaries	Materiality analysis of sustainable growth elements	G4-17, G4-18, G4-19, G4-20, G4-21, G4-22, G4-23
Stakeholder engagement	Group whistleblowing procedure – Financial communication (Investors) – Information and training (Customers) – Road safety culture and international initiatives (Customers) – Training of suppliers on sustainability issues (Suppliers) – Diversity management – Employer branding, development and training – Group opinion survey – Internal communication: international outlook, engagement and sharing – Industrial relations – Occupational Health, Safety and Hygiene – External Community	G4-24, G4-25, G4-25, G4-26, G4-27
Report profile	A note on methodology – Assurance Statement – Summary Tables	G4-28, G4-29, G4-30, G4-31, G4-32, G4-33
Governance	Sustainability governance – Long-term governance tools – Group whistleblowing procedure – Diversity management	G4-34, G4-35, G4-36, G4-37, G4-38, G4-39, G4-40, G4-41, G4-42, G4-43, G4-44, G4-45, G4-46, G4-47, G4-48, G4-49, G4-50, G4-51, G4-52, G4-53, G4-54, G4-55
Ethics and integrity	Sustainability governance - Group whistleblowing procedure	G4-56, G4-57, G4-58

GRI G4 PERFORMANCE INDICATORS

SPECIFIC STANDARD DISCLOSURES			
Category	Material Aspects	Sections	Disclosures on Management Approach (DMAs) and GRI G4 KPIs
Economic	Economic Performance	Sales by geographical area – Risk Governance – Added Value - The Pirelli Group environmental strategy – Occupational retirement and health-care plans	G4 –DMA Aspect Economic Performance G4-EC1 G4-EC2 G4-EC3
		Loans and contributions received from the Public Administration	G4-EC4
	Market Presence	Diversity management	G4 – DMA Aspect Market presence G4-EC5 G4-EC6
	Indirect Economic Impacts	Added value	G4 – DMA Aspect Indirect Economic Impacts G4-EC7
		External community	G4-EC8
	Procurement Practices	Trend of purchases	G4 – DMA Aspect Procurement Practices G4-EC9
Environmental	Materials	The Pirelli Group environmental strategy - Trend of purchases – Research and development of raw materials	G4 - DMA Aspect Materials G4-EN1 G4-EN2

	Energy	The Pirelli Group environmental strategy - Energy management	G4 - DMA Aspect Energy G4-EN3 G4-EN4 G4-EN5 G4-EN6 G4-EN7
	Water	The Pirelli Group environmental strategy - Water management - Other emissions and environmental aspects	G4 - DMA Aspect Water
		The Pirelli Group environmental strategy - Water management	G4-EN8 G4-EN9 G4-EN10
	Biodiversity	Greenhouse gas emissions management - Biodiversity	G4 - DMA Aspect Biodiversity G4-EN11 G4-EN12 G4-EN13 G4-EN14
	Emissions	Greenhouse gas emissions management	G4 - DMA Aspect Emissions G4-EN15 G4-EN16 G4-EN17 G4-EN18 G4-EN19
		Other emissions and environmental aspects	G4-EN20
		Solvents - NOx Emissions – Other emissions and environmental aspects	G4-EN21
	Effluents and waste	Waste management – Water management	G4 – DMA Aspect Effluents and waste
		Water management	G4-EN22
		Waste management	G4-EN23
		Other emissions and environmental aspects	G4-EN24
		Waste management	G4-EN25
		Water management	G4-EN26

	Products and services	Product and use phase - The Pirelli Group environmental strategy	G4 – DMA Aspect product and services G4-EN27
	Packaging	Handling of packaging - End-of-life management of tyres	G4-EN28
	Compliance	Other emissions and environmental aspects	G4-EN29
	Transport	The Pirelli Group environmental strategy -	G4 - DMA Aspect Transport G4-EN30
	Overall	Expenses and investments	G4-EN31
	Supplier environmental Assessment	Our suppliers	G4 - DMA Aspect Supplier environmental Assessment G4-EN32 G4-EN33
	Environmental Grievance Mechanisms	Other emissions and environmental aspects	G4 -DMA Aspect Environmental Grievance Mechanisms G4-EN34
Labor practices	Employment	Pirelli employees around the world	G4 - DMA Aspect Employment G4-LA1
		Welfare and initiatives for the internal community	G4-LA2
		Diversity management - Welfare and initiatives for the internal community	G4-LA3
	Labor/Management Relations	Industrial relations	G4-LA4
	Occupational Health and Safety	Industrial relations - Occupational Health, Safety and Hygiene	G4 - DMA Aspect Occupational Health and Safety
		Industrial relations	G4-LA5 G4-LA8

		Occupational Health, Safety and Hygiene	G4-LA6 G4- LA7
	Training and education	Employer Branding, development and training – Safety training	G4 – DMA Aspect Training and education G4-LA9 G4-LA10 G4-LA11
	Diversity and Equal Opportunity	Pirelli employees around the world – Diversity management	G4 – DMA Aspect Diversity and Equal Opportunity G4-LA12
		Diversity management	G4 – DMA Aspect Equal Remuneration for Women and Men G4-LA13
	Supplier Assessment for Labor Practices	Our suppliers	G4 - DMA Aspect Supplier Assessment for Labor Practices G4-LA14 G4-LA15
	Labor Practices Grievance Mechanisms	Group opinion survey	G4 - DMA Aspect Labor Practices Grievance Mechanisms G4-LA16
Human Rights	Investment	Independent audits of social and environmental responsibility and business ethics – Our suppliers – Sustainability training	G4 - DMA Aspect Investment G4-HR1 G4-HR2
	Non-discrimination	Group whistleblowing procedure – Diversity management	G4 - DMA Aspect Non-discrimination G4-HR3

	Freedom of Association and Collective Bargaining	Human Rights governance - Independent audits of social and environmental responsibility and business ethics – Group whistleblowing procedure - Our Suppliers – Internal Community - Compliance with statutory and contractual obligations governing overtime, time off, association and negotiation, Equal Opportunities and Non-Discrimination, bans on child and forced labour.	G4 - DMA Aspect Freedom of Association and Collective Bargaining G4-HR4
	Child Labor	Human Rights governance - Independent audits of social and environmental responsibility and business ethics – Group whistleblowing procedure - Our Suppliers – Internal Community – Diversity management - Compliance with statutory and contractual obligations governing overtime, time off, association and negotiation, Equal Opportunities and Non-Discrimination, bans on child and forced labour.	G4 - DMA Aspect Child Labor G4-HR5
	Forced of Compulsory Labor	Human Rights governance - Independent audits of social and environmental responsibility and business ethics – Group whistleblowing procedure - Our Suppliers – Internal Community – Diversity management - Compliance with statutory and contractual obligations governing overtime, time off, association and negotiation, Equal Opportunities and Non-Discrimination, bans on child and forced labour.	G4 - DMA Aspect Forced of Compulsory Labor G4-HR6
	Security Practices	Training of suppliers on sustainability issues – Occupational Health, Safety and Hygiene	G4 - DMA Aspect Security Practices G4-HR7
	Indigenous Rights	Group whistleblowing procedure	G4 - DMA Aspect Indigenous Rights G4-HR8
	Assessment	Independent audits of social and environmental responsibility and business ethics - Compliance with statutory and contractual obligations governing overtime, time off, association and negotiation, Equal Opportunities and Non-Discrimination, bans on child and forced labour.	G4 - DMA Aspect Assessment G4-HR9

	Supplier Human Rights Assessment	Risk Governance – Our suppliers – Training of suppliers on sustainability issues	G4 - DMA Aspect Human rights Assessment G4-HR10 (nuovo) G4-HR11 (nuovo)
	Human rights Grievance Mechanisms	Group whistleblowing procedure	G4 - DMA Aspect Human rights Grievance Mechanisms G4-HR12
Society	Local Communities	Stakeholder engagement – Biodiversity– External community	G4 - DMA Aspect Local communities G4-SO1 G4-SO2
	Anti-corruption	Risk Governance - Group whistleblowing procedure - Compliance	G4 - DMA Aspect Anti-corruption G4-SO3 G4-SO4 G4-SO5
	Public Policy	Added Value - Loans and contributions received from the Public Administration – External community	G4 - DMA Aspect Public Policy
		Added Value - Loans and contributions received from the Public Administration – External community	G4-SO6
	Anti-competitive Behavior	Added Value - Loans and contributions received from the Public Administration – External community	G4 - DMA Aspect Anti-competitive Behavior G4-SO7
	Compliance	Trasparenza	G4 - DMA Aspect Compliance G4-SO8

	Assessment for impacts on Society	Our suppliers	G4 - DMA Aspect Assessment for impacts on Society G4-SO9 G4-SO10
	Grievance Mechanisms for Impacts on Society	Group whistleblowing procedure	G4 - DMA Aspect Grievance Mechanisms for Impacts on Society G4-SO11
Product Responsibility	Customer health and safety	Information and training - Quality Certifications – Focus on Human health and the environment – Environmental Dimension – Product and use phase	G4 - DMA Aspect Customer health and safety G4-PR1 G4-PR2
	Product and service labeling	Information and training	G4 - DMA Aspect Product and service labeling G4-PR3
		Trasparenzy	G4-PR4
		Listening and exchanging ideas as sources for continual improvement	G4-PR5
	Marketing Communications	Trasparenzy	G4 - DMA Aspect Marketing Communications G4-PR6
		Trasparenzy	G4-PR7
	Customer Privacy	Trasparenzy	G4- DMA Aspect Customer Privacy G4-PR8
	Compliance	Trasparenzy	G4 - DMA Aspect Compliance G4-PR9



ASSURANCE STATEMENT

STATEMENT OF PIRELLI & C. S.p.A. 2013 SUSTAINABILITY REPORT

SGS Italia S.p.A. was commissioned to conduct an independent assurance of Pirelli & C. S.p.A. Sustainability Report 2013, prepared 'in accordance' with the *Comprehensive* option of the GRI G4 Sustainability Reporting Guidelines.

The Sustainability Report represents the Volume 3 of the Annual Financial Report of Pirelli & C. S.p.A. at December 31, 2013.

The information in the Sustainability Report is the exclusive responsibility of Pirelli & C. S.p.A. SGS Italia S.p.A. expressly disclaims any liability or co-responsibility in the preparation of any of the material included in this document or in the process of collection and treatment of the data therein.

The Group is responsible for identification of stakeholders and material issues and for defining objectives with respect to sustainability performance.

SGS Italia S.p.A. affirms its independence from Pirelli & C. S.p.A., being free from bias and conflict of interests with the Organization, its subsidiaries and stakeholders.

Responsibilities and Scope of Assurance

The responsibility of SGS Italia S.p.A. is to express an opinion concerning the qualitative and quantitative 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.

The scope of assurance agreed with Pirelli & C. S.p.A. includes the verification of following aspects:

- review of the Group approach to materiality analysis and stakeholder engagement processes and initiatives;
- evaluation, through a Type 1 and Type 2 assurance, of the application of the AA1000 AccountAbility Principles Standard (2008), and reliability of the information reported;
- completion of an high level assurance review of the information within "Human rights Governance" and "Our suppliers" sections, with reference to a new set of GRI G4 Key Performance Indicators related to supply chain processes and ESG impacts monitoring;
- evaluation of the Report against the Global Reporting Initiative Guidelines (GRI-G4) with reference to the 'in accordance' *Comprehensive* option;
- verification of greenhouse gases emissions (GHG) inventory carried out according to ISO 14064-1:2012 criteria.

SGS Italia was also commissioned to give a feedback on the adherence of the sustainability model adopted by Pirelli & C. with the requirements of the Guidance on Social Responsibility UNI ISO 26000.

Assurance methodology and limitations

The verification process started from materiality analysis and stakeholder engagement methodology validation activities and was performed through examination of records and documents, interviews with personnel and management and analysis of policies, procedures and practices adopted within the organization. The texts, graphs and tables included in the Report were verified by selecting, on a sample basis, qualitative and/or quantitative information to confirm the accuracy and reliability of the process for collecting and consolidating data.

Audit activities were carried out during February and March 2014 at Head Quarters in Milan (Italy) and at sites of the Group in Settimo Torinese (Italy), Yanzhou (China) and Alexandria (Egypt), and they referred to data and performance of the whole Group.

The audit team was assembled based on their technical know-how, experience and the qualifications of each member in relation to the various dimensions assessed.

Financial data are drawn directly from the Annual Financial Report of Pirelli & C. S.p.A. at December 31, 2013, already certified by the auditing firm.

Statement of conclusion

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within Pirelli & C. S.p.A. 2013 Sustainability Report are accurate, reliable and provides a fair and balanced representation of Pirelli & C. S.p.A. sustainability activities, and in addition represents a key communication tool with Stakeholders.

With reference to the approach of the Group to materiality analysis and stakeholder engagement processes and initiatives, the Audit team provides the following opinion:

- the 2013 Materiality analysis, the Group Multi-Stakeholder Engagement activities carried out and the update of the new 2013-2017 Industrial Plan objectives, with 2020 Sustainability Targets, are tangible signs of the Group's commitment and integration of Sustainability issues into the activities of the Group. Furthermore, the constant dialogue with its stakeholders carried out represents a further step towards the continual goal to identify and prioritize economic, environmental and social aspects as well as the related impacts.

Concerning the new GRI G4, with regard to the fulfillment of the principles for defining report content and the principles for ensuring the quality of the information therein, and the level of adherence to the principles of AA1000 (Inclusivity, Materiality and Correspondence), the Audit Team provides the following opinion:

- the governance of human rights, developed by the Group, is strongly integrated into business strategy. The Group exercises the due diligence in adopting measures to ensure that the organization avoids active participation or passive acceptance in the violation of human rights, by implementing policies for the prevention and mitigation of any actual or potential impacts;
- The governance of human rights is perceived as a key strategic business priority and the respect of human rights is extensively applied also through a responsible management of the supply chain, which is considered an important component of Risk Governance. As a matter of fact, Pirelli has pursued particularly advanced monitoring processes of the sustainability performance including, also, an extensive verification - by requiring Suppliers to filling out the EICC ~~GeSI~~ form - in order to ascertain that there are no "conflict minerals" all along their supply chain;
- The third party audits on suppliers on sustainability issues, especially in countries at ESG risk, are a concrete example of the actions that have been carried out in accordance with the principles of the Group "Values and Ethical Code of Conduct, the Policy of the Group "Social Responsibility Policy for Occupational Health, Safety, Rights, and Environment", the Group Code of Conduct, the SA8000 prescriptions and the UN Global Compact Principles, to which the Group adheres since 2004.

In addition, the Pirelli Whistleblowing Procedure is the channel available to internal and external Stakeholders to report any acts or omissions adopted by any party within Pirelli, in its relations with Pirelli or on its behalf such that constitute or may constitute a violation or inducement to violate laws and/or regulations, the principles enshrined in the Pirelli Values and Ethical Code, principles of internal control, company policies, rules and procedures thus including violation, suspect violation and induction to violation related to Human Rights and ILO normative core aspects of child labour, forced labour, non-discrimination, freedom of association and collective bargaining right. Critically observing the contents of the whistleblowing reports received by the Company in 2013 and the results of the Audits performed by the Company directly or through third party, again in 2013 no violation of Human & Labour Rights was found.

With reference to the GRI-G4, the Audit Team confirm the completeness and accuracy of KPIs reported within the Sustainability Report, with particular reference to a new set of KPIs added in the new version of the guidelines.

The Audit Team positively remarks the accuracy of the Organization's work to report the data requested by the Energy and Emissions set of KPIs. With reference to the verification of greenhouse gases emissions (GHG), carried out according to ISO 14064-1:2012 criteria the Audit Team received detailed information on the quantification of emissions of greenhouse gases (GHG). It is recognized the effort that has made the Group to develop and prepare its inventory of greenhouse gas (GHG) emissions with reference to internationally recognized Standards. For this purpose, specific audit activities for the assessment of conformity with the requirements of the GHG inventory ISO 14064-1:2012 was also carried out and the verification had a successful response.

Furthermore, it is confirmed that the sustainability model adopted by Pirelli & C. is in line with the requirements of the Social Responsibility Guidelines UNI ISO 26000; the performed analysis considered all Specific Aspects, the Actions and the Expectations related to the Seven Core Subjects mentioned in Clause 6 of the Guidance, confirming that Pirelli has already in place mechanisms, initiatives and policies to comply, in a satisfactory way, to the above mentioned core subjects.

In relation to the above mentioned AA1000 principles, the information contained in the 2013 Sustainability Report is considered reliable and complete.

With reference to the new Guidelines GRI G4, the organization satisfies the principles for defining report content and the principles for ensuring the quality of reported information.

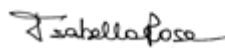
We confirm that the Report is aligned with the requirements of the GRI-G4 'in accordance' Comprehensive option.

Milan, 11th April, 2014

SGS ITALIA S.p.A.

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Systems & Services Certification
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