

## **REPORT ON RESPONSIBLE MANAGEMENT OF THE VALUE CHAIN**

***Consolidated non-financial disclosure pursuant to legislative decree december 30, 2016, no. 254***

## METHODOLOGICAL NOTE

This section of the Annual Report 2018, entitled “Report on Responsible Management of the Value Chain” (hereinafter “the Report”), constitutes the “Consolidated Non-Financial Disclosure” of the Company pursuant to Legislative Decree no. 254/2016 and explores the Sustainable Management Model adopted by Pirelli, the governance tools to support maintenance and creation of values, relationships with Stakeholders and related connection with the development of financial, productive, intellectual, human, natural, social and relational capital, which was mentioned in the “Presentation of 2018 Pirelli Integrated Annual Report”.

The Report reflects the integrated Business model adopted by the Group, inspired by the United Nations Global Compact, the principles of Stakeholder Engagement set forth by the AA1000, and the Guidelines of ISO 26000. Reported information is prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards, published in 2016, *Comprehensive* option, following the process suggested by the APS1000 APS principles (*materiality, inclusivity and responsiveness*), and considering the *integrated reporting* principles contained in the International Integrated Reporting Council (IIRC).

The set of indicators covered by the Report covers is wider than the list of specific material issues indicated in the materiality matrix, and this in order to provide a more complete and transversal view on the Company’s performance, for the benefit of all Stakeholders.

The report shows the sustainability performance of the Group in 2018 compared to 2017 and 2016, with respect to the targets set for 2018 and with a view to the 2019 and/or long-term targets envisaged in the Sustainability Plan.

Following the change in the industrial scope that took place on 1 January 2018, which saw the entrance of the production site of Gravatai, Brazil, the historical values of the environmental indicators were recalculated in order to ensure comparability with 2018 data.

The Report is published annually (the previous Pirelli Annual Report was published in March 2018 with reference to the year 2017), is approved by the Group’s Board of Directors and covers the same scope of consolidation of the Group.

The main information systems that contribute to collect the data accounted in the Report 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).

In terms of internal control of the contents of the Report, the Company, through the *Group Compliance* function, has set up a structured system that includes:

- a dedicated Operating Procedure, in which the roles, responsibilities and procedures to be followed by the Group companies in order to ensure adequate management and reporting of non-financial information are defined;

- an internal control system aimed at providing an assurance about the correct collection and reporting of non-financial information, to which an additional assurance is added for those information considered to be of particular relevance since, for example, they fall within the Group Sustainability Plan targets;
- a verification, following a circulating activity, of all the non-financial data reported in the Report on Responsible Management of the Value Chain;
- the signing of a letter of certification by the Top Management concerning the data that are collected through the CSR-DM information system and the paragraphs of the financial statements of competence.

As regards external audits, the sustainability performance accounted in the Report is subject to limited audit by an independent firm (PricewaterhouseCoopers S.p.A.) in accordance with the criteria indicated in the *International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000)*, issued by the *International Auditing and Assurance Standards Board*. For further information, reference is made to the related Auditor's Report provided at the end of the Annual Report. As part of this limited audit activity, the data relating to GHG emissions were also specifically analysed, including for the purposes of the disclosure process to the Carbon Disclosure Project (CDP).

The Report is structured into four main areas:

- an introductory section related to the sustainable management model adopted by the Company, Governance and Compliance policies and activities, Stakeholder Engagement, long-term planning;
- an "Economic Dimension", in which the distribution of added value is detailed along with the management and performance relating to customers and suppliers;
- an "Environmental Dimension", which describes the management of environmental aspects and impacts throughout the entire product cycle;
- a "Social Dimension", which brings together the paragraphs dedicated to: governance of human rights, the internal community and the external community.

At the end of the Annual Report 2018, before the Independent Auditor's Report mentioned above, the following summary Tables are available:

- the GRI Content Index, which shows the full list of indicators accounted based on the GRI Standards, indicating the relative page in the Annual Report 2018;
- a table of correlation between indicators accounted based on the GRI Standards and the United Nations Global Compact Principles;

- a table of correlation between the performance/targets of the Group and the Sustainable Development Goals of the United Nations on which the aforementioned performance and Targets have an impact;
- a correlation table between the information contained in the Annual Report and the topics indicated by Legislative Decree no. 254/2016.

For any clarifications and further information on the content of the Report, reference is made to the “Contacts” page of the “Sustainability” section of the website [www.pirelli.com](http://www.pirelli.com).

## **MANAGEMENT MODEL**

The Pirelli Sustainability Model is inspired by the United Nations Global Compact, the principles of Stakeholder Engagement set forth by the AA1000 and the Guidelines of ISO 26000.

Responsible management by Pirelli runs through the entire value chain. Every operating unit integrates economic, social and environmental responsibility in its own activity, while cooperating constantly with the other units, implementing the Group strategic guidelines.

The main management systems adopted by Pirelli include ISO 9001, IATF 16949, ISO/IEC 17025 in the area of Quality Management, SA8000® for the management of Social Responsibility at its subsidiaries and along the supply chain, OHSAS 18001 for the management of Health and Safety in the workplace, ISO 14001 for environmental management, ISO 14064 for the quantification and reporting of greenhouse gas emissions (GHG), the ISO 14040 family rules for the methodology for calculating the environmental footprint of the product and the Organisation and, specifically, ISO-TS 14067 and ISO 14046 for the determination of the Carbon Footprint and Water Footprint. In February 2018, the Company also obtained independent certification (from SGS Italia S.p.A.) regarding the compliance of its Sustainable Purchasing Management model based on the ISO 20400 Standard, as well as the independent certification (by RINA Services S.p.A.) of its system of rules and controls aimed at preventing corruption according to ISO 37001.

Details on the coverage of these certifications and methodological reference tools have been given in the paragraphs “Our Customers”, “Our Suppliers”, “Environmental Dimension”, “Industrial Relations” and “Occupational Health, Safety and Hygiene” of this Report.

With reference to the Group’s Sustainability Governance, the Board of Directors of Pirelli & C. S.p.A., supported in its activities by the Audit, Risks, Sustainability and Corporate Governance Committee, approves the objectives and targets for sustainable management integrated in the Group Plan. The Board of Directors also approves Pirelli’s Annual Report, including the Consolidated Non-Financial Disclosure, which is in turn subject to the supervision of the Board of Statutory Auditors in accordance with Legislative Decree no. 254 of 30 December 2016.

The strategic evolution of Group Sustainability is entrusted to the *Sustainability Steering Committee*, a body appointed in 2004, chaired by the CEO and composed of the Company’s Top Management

representing all the organisational and functional responsibilities. The Committee ordinarily meets at least once a year.

The organisational structure is thus made up of Group Sustainability and Risk Governance Department which has oversight of the management at a Group level and proposes plans for sustainable development to the Sustainability Steering Committee. The Sustainability Department receives support from the Country Sustainability Managers for overseeing activities covering all subsidiaries of the Group. The role of the Country Sustainability Manager is currently held by Country CEOs, who are supported by their direct subordinates in the operational management of Country plans.

## SUSTAINABILITY PLANNING

The process of sustainable planning is characterised by specific operational steps aimed at continuous improvement in performance: evaluation of the context through benchmarks, dialogue with Stakeholders, needs raised by internal functions, identification of risks and opportunities for growth, definition of projects and targets, implementation, monitoring and reporting.

The long-term sustainability targets integrate the Industrial Plan and support the sustainable development thereof.

The Pirelli Sustainability Plan 2017-2020 with a selected target of 2025 was updated in 2017, in full alignment with the Company's evolution and the related "High Value" development strategy (for further information, refer to the Investor Relations section of the Pirelli website), replacing the previous 2013-2017 Plan with selected targets for 2020. In order to allow the appreciation of numerical trends in the long term, the reference base year for the environmental quantitative targets continues to be 2009 also in the new Plan.

The Plan has been developed in accordance with the "Value Driver" model drawn up by the UN PRI (United Nations Principles for Responsible Investment) and UN Global Compact and sets targets that combine growth, productivity, governance and risk management.

The targets and related performance (for extensive discussion of which reference is made to the related sections in this Report) foresee, among other things:

- growth in *Green Performance* tyres revenues with a 2020 target of >50% of total turnover and >65% of High Value products only;
- improvement of product performance by 2020:
  - car products (compared to 2009): average reduction in rolling resistance of 20%, and 14% for High Value products; 15% improvement in performance on wet surfaces and 15% improvement in noise reduction;

- motorcycle products (compared to 2009): average reduction in rolling resistance of 10%, improvement of 40% in performance on wet surfaces and 30% in durability;
- Velo products (compared to 2017 - the launch year of Pirelli Velo): braking performance +5% and performance on wet surfaces +10%;
- digital innovation of process and product;
- research and development of raw materials with low environmental impact: for specific product segments, by 2025 and compared to 2017, the doubling by weight of the used renewable materials and a 30% reduction of fossil-derived raw materials is expected;
- reduction by 2020 in the injury frequency index of 87% compared to 2009;
- reduction of 17% in CO<sub>2</sub>, specific emissions of 19% in specific energy consumption and 66% in specific water withdrawal by 2020 compared to the 2009 figure;
- zero waste to landfill;
- investment in employee training of at least an average of 7 man days;
- strengthening digital and cross-functional culture within the company;
- adoption of increasingly advanced models of management of the economic, social and environmental responsibility of the supply chain with particular attention to the upstream supply chain;
- implementation of the new Pirelli Policy on the sustainable management of the natural rubber supply chain.

The Pirelli Sustainability Plan is published in the “Sustainability” section of the Company’s website ([www.pirelli.com](http://www.pirelli.com)).

The Countries where the Group is present with commercial and industrial subsidiaries also have a Country Sustainability Plan with specific targets identified to align to the Group’s sustainability targets.

The targets of the Country Plans, transversal to management, include the constant monitoring of Compliance with the SA8000® Standard, the specific reduction in the injury frequency index, the specific reduction (weighted on the total finished product) in energy consumption and water withdrawal, the increase in waste recovery, monitoring of the sustainability of the supply chain, dissemination and local implementation of Group Policies and engagement with Stakeholders.

The performance of the Sustainability Plan of each Country is included in the Performance Management objectives of the related CEOs.

## **UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGS)**

The targets of the 2017-2020 Sustainability Plan with selected targets at 2025 contribute to the global effort to achieve the Sustainable Development Goals (SDGs) presented by the UN in September 2015 and designed to accompany the activities of sustainable companies up to 2030.

In particular, it is possible to note the strong connection between the targets mentioned in the previous paragraph and the following SDGs:

- 3 - Health and Well-being;
- 4 - Quality Education;
- 6 - Clean Water and Sanitation;
- 7 - Affordable and Clean Energy;
- 9 - Industry, Innovation and Infrastructure;
- 12 - Responsible Consumption and Production;
- 13 - Climate Action.

The Sustainable Objectives listed above are not the only ones in which the Company is engaged; in addition to the above, this Report describes initiatives and activities that refer to other SDGs:

- 1 - Zero Poverty, in the paragraph “Company Initiatives for the External Community”;
- 8 - Decent Work and Economic Growth, in the paragraphs dedicated to the Internal Community and in the paragraph “Our Suppliers”;
- 10 - Reduced Inequalities, in the paragraph “Diversity Management”;
- 11 - Sustainable Cities and Communities, in the paragraph “WBCSD” with reference to the project “SiMPLify project”;
- 17 - Partnerships for the Goals, in the paragraphs “Road Safety”, with reference to the partnerships with FIA and the UN, “Sustainability of the natural rubber supply chain”, with reference to the partnership with Kirana Megatara, and “WBCSD”, with reference to the project “SiMPLify project”.

It is noted that all the sub-paragraphs relating to “Company Initiatives for the External Community” indicate the main SDGs that the projects and initiatives described impact directly.

## **STAKEHOLDER ENGAGEMENT**

The role of Pirelli in an economic and social context is tied to its capacity to create value through a multi-stakeholder approach, i.e. by sustainable and lasting growth that can reconcile the interests and expectations of all those with whom the Company interacts and especially:

- customers, since the Pirelli way of doing business is based on customer satisfaction;
- employees, who make up the wealth of knowledge and driving force of the Group;
- shareholders, investors and the financial community;
- suppliers, with which it shares a responsible approach to business;
- competitors, because improved customer service and market position depend on fair competition;
- the environment, institutions, government and non-government bodies;
- the communities of the various Countries where the Group operates on a stable basis, while being aware of its global responsibilities as a Corporate Global Citizen.

To the Stakeholders mentioned, a paragraph is dedicated within this Report, to which reference is made for further qualitative and quantitative study.

The interactions that take place between Stakeholders are informed by the AA1000 Model adopted by the Company and are analysed in detail in order to manage relations with them effectively and create sustainable and shared value.

Dialogue, interaction and involvement are calibrated to meet the needs for consultation with the various types of Stakeholder and include meetings, interviews, surveys, joint analyses, roadshows and focus groups.

During 2018, particular relevance was given to the consultation of the relevant Stakeholders in order to publish the Manual of Implementation of the Pirelli Policy on the Sustainable Management of Natural Rubber, as well as the definition of a roadmap of activities for the three-year period 2019-2021. The draft version of the manual was prepared through consultations with local Stakeholders during the first half of 2018, and then shared with internationally relevant Stakeholders in view of the final discussion session held in Milan in October 2018, attended by international NGOs and Pirelli's main natural rubber suppliers, traders and farmers in the supply chain, automotive customers and international multilateral organisations. The Manual and Roadmap 2019-2021 were published on the Group website in December (for further information on the sustainable management of natural rubber, see the paragraph dedicated to this Report).

Also in the course of 2018, meetings were held for the relevant national and regional Stakeholders in the United States and the United Kingdom, in order to share the results and targets of the



sustainability plans of the subsidiaries and to listen to the expectations of the Stakeholders on the management of issues deemed relevant for the development of the Subsidiary in the medium to long term. Similarly, in 2017 meetings were held with the relevant Stakeholders in Russia and Argentina, and in 2016 in Romania, Mexico, Germany and Turkey. Among the issues discussed in the various countries are energy management, technical training and the availability of adequate skills in the population, road safety, the circular economy, human capital engagement, the environmental sustainability of cities, and water and waste management.

Local feedback received from Stakeholders contributed to the corporate evaluation of the priorities for action by influencing the development strategy set out in the Sustainability Plan.

## **MATERIALITY ANALYSIS AND MAPPING**

At the end of 2018, Pirelli initiated the process of updating the materiality matrix prepared in 2016.

The materiality matrix stems from thorough Stakeholder Engagement activities that led to comparing the expectations of key Stakeholders on a panel of sustainability issues with the importance that they have for the success of the business according to the experience and expectations of the Top Management.

Given the complexity and the international extent of corporate Stakeholders and the variety of their expectations, the panel of Stakeholders of the Company from which feedback was requested included:

- the biggest original equipment customers;
- more than 700 end customers belonging to the most representative markets;
- the most important dealers;
- numerous employees in the various countries where the Group is present;
- several Group suppliers;
- the leading financial analysts;
- national and supranational institutions and public administrations;
- international and local NGOs present in the various Countries in which Pirelli has production activities;
- universities that have collaborations with the Group.

Stakeholders have been involved through a request for prioritisation of action on a selection of ESG issues (Environmental, Social, Governance) relevant for the development of the Company. The

issues have been pre-selected considering the relative presence in the materiality matrix of Automobiles and Auto parts producers, the relevance of the same for the Auto Components sector according to primary research and sustainable finance entities, risks and opportunities arising from regulatory developments, from the expectations of communities, governmental and non-governmental institutions, and financial markets.

For this reason it is specified that all the ESG elements pre-identified through the aforementioned analysis are material and relevant for the development of Pirelli, with greater or lesser priority as evidenced by the position of the different elements within the matrix defined according to the results of the Stakeholder and Management interview process.

The topics submitted for evaluation by Stakeholders are the following:

- Occupational Health and Safety;
- Employees Well-being & Work-life Balance;
- Training and Development;
- Diversity and Equal Opportunities;
- Labour Relations Management;
- Community Engagement;
- Responsible Procurement;
- Human Rights;
- Customer Satisfaction;
- Product Quality and Safety;
- Product Environmental Sustainability (*Impacts of the product on the environment: energy efficiency, mileage, weight reduction etc.*);
- Renewable Materials<sup>9</sup>;
- Responsible Use of Natural Resources (energy and water efficiency, waste for recovery);
- Climate Change and Greenhouse Gas Emissions Management;
- End of Life Tyre Recovery and Recycling;

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<sup>9</sup> OECD defines "Renewable Natural Resources" as natural resources that, after exploitation, can return to their previous stock levels by natural processes of growth or replenishment.

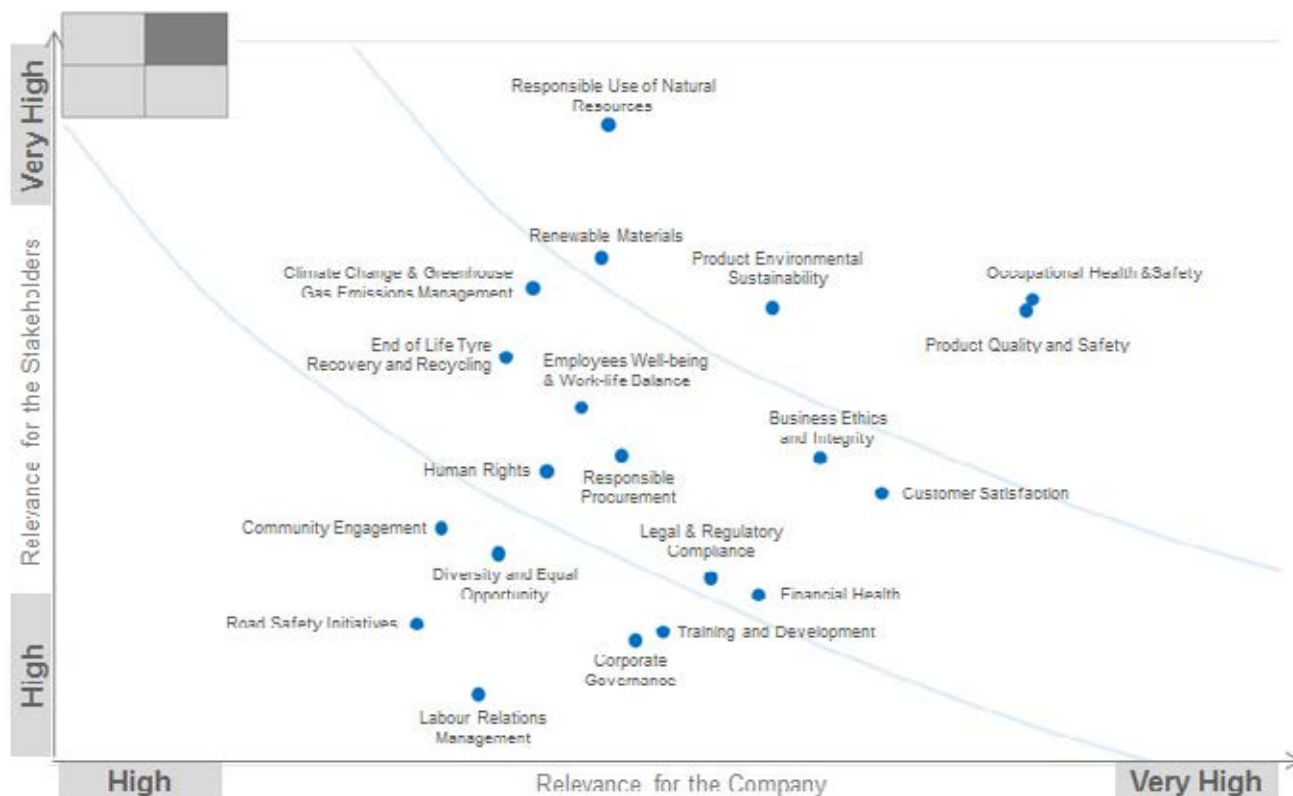
- Legal & Regulatory Compliance;
- Business Ethics and Integrity;
- Corporate Governance;
- Financial Health;
- Road Safety Initiatives.

The priorities expressed by Pirelli and Stakeholders on the above issues have been represented in a materiality matrix showing, on the vertical axis, the expectations of several external and internal Stakeholders, while on the horizontal one, the importance that the Management attributes to individual business success factors. The result of such consolidation was presented and approved at the Sustainability Steering Committee held in February 2019 and is outlined below.

Finally, it should be noted that the consolidation of the materiality matrix at Group level tends, by its very nature, to deviate significantly from the materiality matrix consolidated by the Group's Subsidiaries at country level. Elements of sustainability located in an area of minor materiality in the matrix at a Group level may be found to have major materiality for a number of Countries and specific Stakeholders who are more directly involved.

The reporting of material issues, related risks and opportunities to these topics and the methods for managing them are reported in this Report, in the paragraph "Operational Risks" (Directors' Report on Operations), as well as in the dedicated paragraphs below.

The expectations expressed by the Stakeholders involved in defining the materiality matrix are considered as priorities in the definition of the Group Sustainability strategies.



## MAIN POLICIES

The Sustainable Management Model throughout the value chain is reflected in the main Group Policies, published on Pirelli’s website in multiple languages and communicated to all employees in their local language.

In particular, the following Policies are recalled:

- the “Code of Ethics”;
- the “Code of Conduct”;
- the “Anti-Corruption” Programme;
- the “Global Antitrust and Fair Competition” Policy;
- the Group “Equal Opportunities Statement”;
- the “Health, Safety and Environment” Policy;
- the “Global Human Rights” Policy;
- the “Product Stewardship” Policy;

- the “Global Quality” Policy;
- the “Green Sourcing” Policy;
- the “Social Responsibility Policy on Occupational Health, Safety and Rights and Environment”;
- the “Global Tax” Policy;
- the “Institutional Relations - Corporate Lobbying” Policy;
- the “Global Personal Data Protection” Policy;
- the “Group Whistleblowing - Group Reporting Procedure”;
- the “Sustainable Natural Rubber Policy”;
- the “Pirelli Intellectual Property” (or IPR) Policy.

The contents of the aforementioned Policies and the related methods for implementation are addressed in the sections of this Report that deal with the related issues.

Next, a focus on the Compliance programmes “231”, “Anti-corruption”, “Privacy”, “Antitrust” and on the “Whistleblowing” policy.

### ***Programs of Compliance 231, Anti-corruption, Privacy and Antitrust***

With regard to the administrative liability of companies and bodies provided for by Legislative Decree no. 231/2001 (hereinafter also the “Decree”), Pirelli has adopted an Organization and Management Model (hereinafter also Model 231) structured in a General Section, which includes a review of the regulations contained in the Decree, of the crimes relevant to the Italian companies of the Group and the procedures for adopting and implementing the Model, and in a Special Section, which indicates the corporate processes and the corresponding sensitive activities for the Group’s Italian companies pursuant to the Decree, as well as the principles and internal control plans to supervise these activities.

Taking into account the legislative and jurisprudential innovations and the evolution of the organisational structure that took place in 2018, the Model has been updated. Similarly, during the year, training and communication activities on the current Organisational Model were completed for the entire population of the Group’s Italian companies.

The process of analysing and implementing the Group Anti-Corruption Programme continued in 2018 in the main Countries in which Pirelli operates. The Programme, available in twenty-two different languages on the Pirelli website, is the corporate benchmark for the prevention of corruptive

practices and represents a collection of principles and rules aimed at preventing or reducing the risk of corruption.

In the document, the Pirelli principles already set out in the Ethical Code and the Code of Conduct, including zero tolerance of “*corruption of public officials, or any other party, in any guise or form, or in any jurisdiction even in places where such activity is admissible in practice, tolerated, or not challenged in the courts*” are restated. Among the provisions of the Group Anti-Corruption programme are a prohibition in respect of recipients of the Code of Ethics from offering gifts and other utilities that might meet conditions of a breach of rules, or which are in conflict with the Code of Ethics, or may, if made public, constitute detriment even only to the image of Pirelli. Additionally, “*Pirelli defends and protects its corporate assets, and shall procure the means for preventing acts of embezzlement, theft, and fraud against the Group*” and “*condemns the pursuit of personal interest and/or that of third parties to the detriment of social interests*”.

Following the ISO 37001 Certification of the Anti-Corruption Management System of the companies Pirelli & C. S.p.A. and Pirelli Tyre S.p.A., a process has begun to certify the system of rules and controls implemented by foreign affiliates in order to prevent corruption. In particular, the anti-corruption systems of *entities* in Russia and Brazil. These anti-corruption systems inspire and refer to the Group’s “Anti-Corruption Compliance Programme”, also guaranteeing full compliance with the provisions laid down by local regulations.

In 2018 activities were also carried out which were aimed at analysing the profiles of corruption risk in the various Countries where the Company is present, assessing compliance with local laws in force, verifying the adequacy of corporate oversight updating the risk analysis where there is a change in the scope with the “entry” into Countries with “high risk” (on the basis of the Transparency index), defining training and awareness programmes where appropriate.

More specifically, the analysis of Risk Profiles is implemented by Pirelli considering:

- the perceived risk deriving from the assessment of the level of corruption perceived by the Management;
- the adequacy of guaranteed coverage in areas deemed potentially at risk of corruption.

The company monitors a process aimed at formalising the procedures, used by the individual *countries*, for the analysis of the relevant counterparties of Pirelli through an initial *due diligence* activity, aimed at collecting the information necessary to assess the existence of the requisites necessary to business relationships and an *enhanced due diligence* aimed at assessing the “integrity” and reliability of the counterparties.

During 2019, the extension of control activities on anti-corruption aspects will continue, as well as the implementation of specific training activities, with regard to some of the Pirelli Group’s most important countries, considered a priority for receiving such training due to the specific elements of the local regulations.

Referring to the contributions made to the External Community, Pirelli has for many years adopted internal procedures defining the roles and responsibilities of the function involved, and the operational process of planning, achieving monitoring and control of results of the initiatives supported. The Pirelli procedure specifies that initiatives may not be promoted for the benefit of beneficiaries in respect of whom there is direct or indirect evidence of failure to abide by the human rights, workers, the environment, or business ethics. The “Pirelli Values and Ethical Code” set forth in their turn that the Company *“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”*.

Concerning institutional relations of the Group, and especially activities of corporate lobbying, Pirelli has adopted a Corporate Lobbying Policy for ensuring this is done in abidance with principles ratified by the Ethical Code and the Group Anti-Corruption Programme and in line with International Corporate Governance Network principles and in all cases in compliance with laws and regulations current in countries where Pirelli operates.

In terms of prevention and control, the audits carried out by Internal Audit Department at Group subsidiaries include monitoring of crime risks, among which corruption and fraud figure.

In this regard, it should be noted that, with reference to 2018, on the basis of the reports received through the whistleblowing reporting channel, 3 cases of fraud were ascertained to the detriment of the company. There were no cases of public legal action against the company regarding corruption practices.

Additionally, during the course of 2018 the Functional Segregation model was also implemented (so-called *Segregation of Duties*), aimed at strengthening the system of internal controls and preventing the committing of fraud.

Also in 2018, Pirelli supported the activities of Transparency International, to which Pirelli subscribes as a supporter in the areas of projects in the matter of education aimed at promoting an active role of civic and moral education in strengthening civil society against crime and corruption, believing that it is only through proactive and firm actions of value promotion that a general improvement in the quality of life can be achieved.

With reference to the subject of personal data protection, during 2018, within the European companies of the Group, the activities for the adjustment to EU Regulation 2016/679 were completed through, in particular, the assignment of roles and responsibilities to the internal organisation of the company, the formalisation of internal regulations and the updating of documents required by law. Following the definitive approval by the President of the Federal Republic of Brazil of new legislation regarding the protection of personal data, a project was also started to bring the Brazilian companies of the Group into line with the new regulations.

In line with the provisions of its Global Antitrust and Fair Competition Policy, Pirelli operates in accordance with fair and proper competition for the purpose of development of the company and at

the same time, the market. In this context, Pirelli constantly updates the Group's Antitrust Programme in line with international *best practices*.

In 2018 Pirelli continued to implement the Antitrust Programme in the various Countries in which it operates: *online* training activities were carried out, as well as continuous business assistance activities to facilitate the management of antitrust issues in the daily conduct of business activities or relationships with other operators.

In 2018 Pirelli was not involved in any antitrust proceedings or investigations as participants in anti-competitive conduct.

### **Focus: Reporting Procedure - Whistleblowing Policy**

The Group Reporting Procedure, or Whistleblowing Policy, which supports the Group' internal compliance and control systems, was updated in 2017. Published on the Company website and internally accessible through intranet and company bulletin boards in the local language, the Policy is aimed at both employees and external Stakeholders.

The Policy governs the manner of reporting breaches, suspected breaches and inducement to breaches in the matter of law and regulations, principles ratified by the Ethical Code, including, obviously, equal opportunities, internal auditing principles, corporate policies, rules and procedures, and any other behaviour involving commission or omission of acts that might directly or indirectly lead to economic-equity detriment, or even one of image, for the Group and/or its companies.

The Whistleblowing reporting channel is also expressly referred to by the Sustainability Clauses included in each supply order/contract as well as by the numerous Group Policies published on the Company's website.

Reports may be made also in an anonymous form and protection of utmost confidentiality is at all times restated, as too is zero tolerance in respect of acts of reprisal of any kind against whoever makes a report or is the subject of the report.

Reports may concern directors, auditors, management, employees of the Company and, in general, anyone operating in Italy or abroad for Pirelli or engaging in business relations with the Group, including partners, customers, suppliers, consultants, collaborators, auditing companies, institutions and public entities.

The e-mail box [ethics@pirelli.com](mailto:ethics@pirelli.com) is made available to anyone wishing to proceed with an alert, which is valid for all Group subsidiaries, as well as for the External Community, and is centrally managed by the Group Internal Audit function which, in the Pirelli organisation, has a functional reporting to the Audit, Risks, Sustainability and Corporate Governance Committee, made up of only independent directors, and to the Board of Statutory Auditors of Pirelli & C. S.p.A.



Internal Audit Department has the task of analysing all reports received, even involving corporate functions felt to be concerned for the activities necessary of verification, in addition to scheduling a specific action plans. In the event of a report being found to be grounded, adopting fitting disciplinary and/or legal actions is foreseen for the protection of the Company.

In respect of reports received in the years 2018, 2017 and 2016, below is a summary table and then a further study of reports from 2018<sup>10</sup>.

	2018	2017	2016
<b>Total reports</b>	70	34	38
Of which anonymous	22	7	7
Of which filed closed being absolutely generic.	2	1	5
Of which grounded	23	9	23
Countries of origin of the reports ascertained	Brazil, Italy, Romania, China, United States and UK	Brazil, Chile, Spain, United States and UK	Brazil, Italy, Argentina, Chile, Saudi Arabia, India
Matter alleged in the reports ascertained	Violation of the Code of Ethics and/or company procedures, fraud against the Company or third parties, claims by employees, discrimination.	Violation of the Code of Ethics and/or company procedures, fraud against the Company, claims by employees, discrimination.	Irregular conduct of employees, cases of poor service to customers and challenges with suppliers (a case of late payment and a case of non-payment of services not requested by the company).
Outcome of cases investigated	Review and integration of processes where deemed fitting, decisions by the functions concerned and the <i>Human Resources</i> Department.	Review and integration of processes where deemed fitting, decisions by the functions concerned and the <i>Human Resources</i> Department.	Review and process integration where deemed fitting, orders by the functions concerned and <i>Human Resources</i> Department, actions to satisfy customers and suppliers.

During the course of 2018 the Whistleblowing procedure was activated 70 times. In particular:

- the 70 reports were received from 7 different Countries (Brazil, Italy, China, Romania, Russia, the United States and the UK);

<sup>10</sup> The data reported are related only to the consolidated scope of the Consumer business. Furthermore, with regard to the 7 reports that were still in progress at the reporting date of the 2017 Annual Report, following the conclusion of the verification activities in 5 cases no objective evidence was found to consider the facts alleged to be true, while in 2 cases the partial veracity of the reports was confirmed and the company intervened with specific plans aimed at removing the causes and/or improving the internal control system.

- 90% of the reports (63 cases) were forwarded using the email address [ethics@pirelli.com](mailto:ethics@pirelli.com) provided, while 10% (7 cases) by sending a letter to management which dealt with informing Internal Audit Department as per corporate rules;
- 69% of the reports (48 cases) were signed whereas the remaining 31% (22 cases) were received in anonymous form;
- among the signed notifications, 14 were activated by external Stakeholders, of which 9 were related to breaches of the Code of Ethics and/or company procedures, 4 cases attributable to fraud to the detriment of the Company or third parties and 1 case relating to reports regarding the quality of the product. It is objectively impossible to confirm that there were, in absolute terms, no further reports from external Stakeholders received as a number of reports were, as specified, anonymous.

Of the 70 reports received during the 2018 year, at the beginning of 2019, 6 were found to be at the verification and in-depth investigation stage, whereas 64 were found to have been concluded. In respect of these latter, specific activities of verification involving, where necessary, the corporate functions concerned were conducted.

With regard to the 64 reports for which the verifications were completed, based on the analyses carried out and the documentation made available during the assessment, it emerged that:

- in 41 cases objective corroborating evidence was detected such as to hold the facts contended in the reports received to be true;
- in the remaining 23 cases the substantial truthfulness of the facts attributed was found, in particular, 3 cases concerned fraud against the Company or third parties, 2 cases connected to discriminatory attitudes, 3 cases relating to claims by employees and 15 cases concerning violations of the Code of Ethics and/or company procedures. The Company has activated for all cases, intervening with disciplinary sanctions (calls and/or dismissals) and with actions aimed at removing the causes of complaints and/or aimed at improving the internal control system.

Considering the continuous awareness-raising of the internal control and the systematic updating of internal procedures and rules, the increase in reports recorded in 2018, compared to previous years, can be attributed, on the one hand, to the Company's growing attention to this issue, and on the other to the constant strengthening of the knowledge of the Policy, in particular during the Internal Sustainability Audits. The data also confirms the substantial trust placed with the Company in the management of the reports.

The Internal Audit Department periodically reported the reports received and the progress of the analyses carried out to the competent corporate bodies of Pirelli & C. S.p.A.

## ECONOMIC DIMENSION

### SHARING OF ADDED VALUE

The Values and Ethical Code of Pirelli ratify the undertaking of the Company to operate to ensure responsible development over the long term, while being aware the bonds and interactions that apply between economic, social and environmental dimensions. This is to wed the creation of value, progress of the company, the attention given to Stakeholders and raising standards of living and quality of the environment.

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. Distribution of added value among Stakeholders allows the relations there are between Pirelli and its main Stakeholders to be expressed by focusing attention on the socio-economic system in which the Group operates.

#### Distribution of added value (in thousands of euro)

	2018		2017		2016	
<b>GROSS GLOBAL ADDED VALUE</b>	<b>2,177,745</b>		<b>2,079,628</b>		<b>2,002,436</b>	
Remuneration of personnel	(1,067,579)	49.0%	(1,034,647)	49.8%	(986,308)	49.3%
Remuneration of Public Administration	(52,964)	2.4%	(40,848)	2.0%	(75,256)	3.8%
Remuneration of borrowed capital	(196,311)	9.0%	(362,610)	17.4%	(427,190)	21.3%
Remuneration of risk capital	-	0.0%	-	0.0%	-	0.0%
Remuneration of the company	(857,079)	39.4%	(634,727)	30.5%	(506,571)	25.2%
<b>Contributions to the external community</b>	<b>(3,811)</b>	0.2%	<b>(6,796)</b>	0.3%	<b>(7,111)</b>	0.4%

The added value created in 2018 recorded an increase of 4.7% compared to 2017. This change is mainly due to the reduction in the remuneration of the borrowed capital. Trends in the items determining gross global added value as shown above, are set out in the Consolidated Financial Statements of this report, to which reference is made for further in-depth study.

#### Contributions to the external community

The impact of expenses for corporate initiatives in 2018 for the external community on the net result of the Group amounted to 0.9% (3.9% in 2017). The table below shows the expenses incurred in the last three years. The contraction recorded in 2018 derives mainly from the containment of costs of the Headquarter.

**Contributions to the external community (in thousands of euros)**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Training and research	823	877	806
Social-cultural initiatives	2,181	4,877	4,859
Sports and solidarity	807	1,042	1,446
<b>Total contributions to the external community</b>	<b>3,811</b>	<b>6,796</b>	<b>7,111</b>

For further study of the main initiatives supported by the grants indicated above and relating to the model of governance, please refer to the paragraphs in this report devoted to corporate contributions and initiatives for the benefit of the external community.

In line with what is set forth in the Code of Ethics, Pirelli “*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*”.

**LOANS AND CONTRIBUTIONS RECEIVED FROM THE PUBLIC ADMINISTRATION**

The main contributions received by the public administration in 2018 are shown below.

**Romania**

During 2009, the European Investment Bank (EIB) granted a loan for a total of €50 million to Pirelli Tyres Romania S.r.l., granted for the expansion of the Pirelli plant in Slatina, Romania, for the production of tyres for cars and light commercial vehicles. The first tranche of the loan, equal to €20 million, was repaid by Pirelli in May 2017, while in March and July 2018 Pirelli repaid the second and third tranches, for a total of €20 million. At the end of 2018, therefore, €10 million remain outstanding. For the sake of completeness, it should be noted that the aforementioned loan was flanked by a similar loan received in support of the construction of the same production site, disbursed in 2007 and fully repaid at the end of 2013. It should also be noted that S.C. Pirelli Tyres Romania S.r.l. received a non-repayable grant totalling €67.8 million from the Romanian state by way of incentive for local investment of which €13 million was in 2018.

**Italy**

During the financial year 2018 Pirelli Tyre S.p.A. received from the M.I.U.R. - Ministry of Education, University and Research - a subsidised loan of €5.3 million as an incentive for the development of an R&D project for the development of innovative materials in the tyre construction process. Furthermore, Pirelli Tyre S.p.A. obtained a non-repayable grant from the Lombardy Region totalling €2.5 million, as incentives for an R&D project on Smart Manufacturing issues, of which €0.8 million was collected during the year.

## **Mexico**

Since the 2018 financial year, Pirelli Neumaticos S.A. de C.V. (Mexico) has received grant contributions from the Government of the State of Guanajuato (Mexico) for investments and generation of employment for a total of €0.8 million. The company also received grant contributions from the Mexican Federal Government for investments and generation of employment related to the ProMexico project totalling €10 million, of which €1.2 million received during 2018 (the incentives were paid starting 2012).

## **RELATIONS WITH INVESTORS**

Pirelli considers financial communication to be of strategic importance as a fundamental tool for consolidating relations of trust with the financial community. In accordance with what is set out in the Values and Code of Ethics of the Group, Pirelli maintains a constant dialogue with shareholders, bondholders, analysts and both institutional and individual investors via the Investor Relations function and Group Top Management, promoting communication that is equal, transparent, timely and accurate.

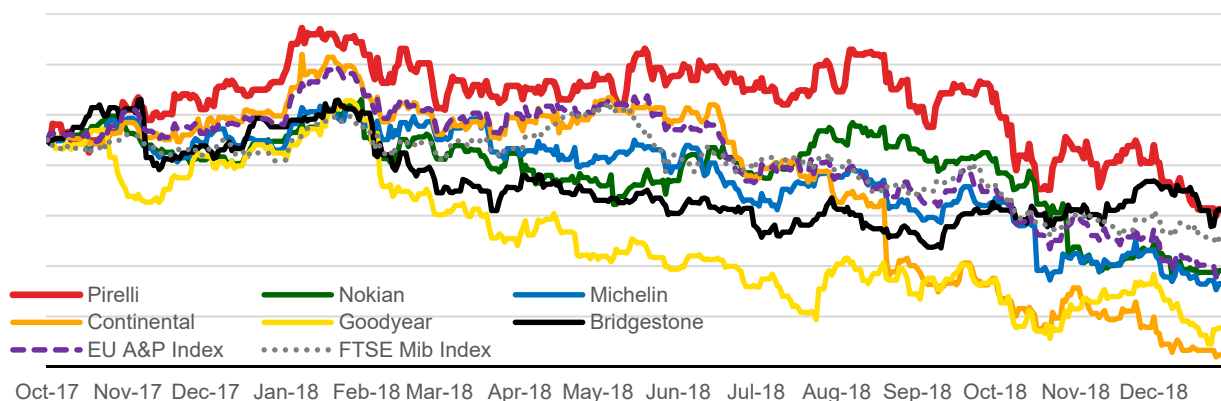
The Financial Communication activity intensified during 2018. There are numerous opportunities for meetings with leading institutional investors in Europe (Milan, London, Paris, Frankfurt, Helsinki and Copenhagen), in North America (New York, Boston, San Francisco, Los Angeles, Toronto) and in the Asia Pacific region (Tokyo, Hong Kong, Singapore). Moreover, particular importance was attributed to digital communication: in line with international Best Practices, the “Investors” section of Pirelli’s website is constantly updated with information on strategy, business model, market trends and positioning with respect to competitors.

The interest of the financial community towards Pirelli is proved by the broad coverage of the stock by 21 of the main national and international business banks and brokers and by the inclusion of the company in the FTSE MIB, Dow Jones 600 A&P indexes and in the FTSE Italian Brands index.

The evaluation (Target Price) and the analysts’ estimates (Consensus) are published on the company’s website and periodically updated.

In an environment characterised by high volatility, with uncertainties on economic growth and the trend in car and tyre demand, Pirelli outperformed the main indices and peers on the stock market, thanks to the High Value positioning and thanks to its unique and more resilient business model. Pirelli closes 2018 with a market value of €5.9 billion (average market capitalisation in December), -14% from the listing on 4 October 2017, clearly outperforming the Italian stock market index (FTSE Mib -20%), Auto & Parts (EU Stoxx 600 A&P -26%) and peers (Nokian -26%, Michelin -27%, Continental -43%, Goodyear -37%, Bridgestone -14%).

Below is a recap of the stock market performance from October 2017:



The commitment to the creation of sustainable value that characterises the Company’s responsible management and its economic, social and environmental performance, allow the inclusion of Pirelli in some of the most prestigious sustainability indexes in the world, including Dow Jones Sustainability Index World and Europe, Euronext Vigeo Eurozone 120, Sustainalytics, FTSE4Good, Ethibel Sustainability Index (ESI) Excellence Europe and ECPI.

With particular reference to the Dow Jones index, in September 2018, Pirelli was recognised as a world leader in Sustainability for the Auto & Components sector in the Dow Jones Sustainability Indexes World and Europe Indexes, with a score of 81 compared to a sector median of 32. The analysis, conducted by RobecoSAM, involved more than 2,000 companies belonging to 60 different industrial sectors.

It should also be noted that in January 2019 Pirelli was recognised as a global leader in the fight against climate change and included in the *Climate A List* of the CDP (Carbon Disclosure Project). In 2018 over 7,000 companies reported their greenhouse gas emissions through the CDP, a non-profit organisation supported by 650 institutional investors, who manage assets worth more than \$87 trillion.

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

## OUR CUSTOMERS

Pirelli is the only global tyre manufacturer entirely dedicated to the Consumer market, which includes tyres for cars, motorcycles and bicycles. The company is focused on the High Value market and is committed to developing innovative tyres and Specialties and Superspecialties for a broad product portfolio.

Sales channels include:

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

In the field of Original Equipment, Sport Utility Vehicles (SUVs) and light commercial vehicles, Pirelli can count on Europe in terms of a Premium customer market share of over 20%; in the Original Equipment, Prestige segment, which represents the highest of the range, Pirelli exceeds 50%.

As part of Replacement, there are two broad types of customers: Specialised Resellers and Distributors. Specialised Resellers 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. In 2018, Pirelli can count on about 15,900 Loyal Resellers globally, with a particular concentration in Europe, Asia-Pacific and South America (over 75% of the total points of sale). The degree of affiliation varies according to the market and the very presence of Pirelli, ranging from a softer loyalty (Fidelity Club), which has as main objective for Pirelli territorial coverage and for the dealer sales support; to franchise programmes, in which through the exclusive of the partnership there is strong focus on business development point of sale overall; up to the maximum degree of affiliation, represented by the presence of points of sale owned by Pirelli (327 points of sale worldwide).

Starting in 2016, and in line with Pirelli's "Prestige" strategy, a new *retail concept* called P ZERO WORLD™ was created, with the aim of offering top-class services aimed at satisfying the most demanding consumers. P ZERO WORLD™ offers its customers the full range of Pirelli products (Car, P ZERO™ Trophy R, Pirelli Collection, Color Edition, Moto and Velo) and a series of "customer oriented" services such as car valet and courtesy car, all immersed in an environment that allows you to fully experience Pirelli World, being able to touch the most important assets such as F1®, the Calendar and the continuous partnerships of Pirelli Design. The Network P ZERO WORLD™ by 2020 will identify around 200 shops among the best Pirelli customers, located in the main countries of the world. Within the 200 there will be about 8 Flagship Stores, 4 of which are already active (Los Angeles, Munich, Monte Carlo and Dubai).

"Distributors" are partners who are fundamental to guaranteeing continuity in the supply of tyres to other specialised and non-specialised resellers. They do so by offering local delivery and distribution services throughout the entire territory. With this in mind, Pirelli is activating several programmes of close cooperation with the most important market distributors worldwide.

### **High Value approach to future mobility**

Pirelli carefully monitors the evolution of the automotive market and more generally the evolution of mobility. Future mobility trends such as digitalisation, electrification, management of sharing vehicles

and driving automation, are gaining more and more momentum and will lead to an evolution of the mobility sector whose speed is unprecedented in the field.

The centrality of the Customer, historically fundamental value for Pirelli, follows the future trends and sees the Company enrich its product offer in line with its High Value development strategy. Pirelli's path in the field of sensors applied to the tyre continues successfully, with the aim of transforming the latter into an active element, capable of retrieving information from the road and transmitting it to the vehicle.

With the CYBER™ Car technology, presented at the Geneva International Motor Show in March 2018, information is collected that contributes to increasing the effectiveness and efficiency of car safety and control systems in various conditions of use.

In the world of bicycle tyres, Pirelli is present with two product lines: the line dedicated to road racing bikes: P ZERO™ Velo and CINTURATO™ Velo, and the Urban CYCL-e™ tyre line.

In addition to the traditional distribution channel and specialised retailers, Pirelli immediately oriented towards the digital channel, in line with the strong propensity to purchase online by end consumers. In addition to the presence on the main sales platforms of cycling products, Pirelli has created its own international e-Commerce channel, dedicated to bike tyres, to offer its range of products accompanied by exclusive editions *beyond the tyre*.

The centrality of the mobility of the future in the High Value strategy saw the introduction in 2017 of a specific figure in this sense in the company organisation, the Future Mobility Manager, which has the task, within the Sustainability & Risk function Governance, to monitor these trends in the sector and to coordinate their business activities accordingly.

### ***Customer focus***

Customer focus is a central element of the Group "Values" and "Ethical Code" and the Quality Policy and Product Stewardship Policy of Pirelli. These documents outline the company positioning and are therefore communicated to all employees in the local language and are available in many languages on the Pirelli website.

Among the essential elements of the Pirelli approach, the following are highlighted:

- consideration of the impact of its actions and behaviour on the customer;
- exploitation of every opportunity offered by doing business to satisfy the customer's needs;
- anticipation of customer needs;



- safety, reliability, high performance of products and services offered, in accordance with local regulations and more developed national and international standards applicable, as well as excellence of production systems and processes;
- information to customers and end users to guarantee an adequate understanding of the environmental impacts and safety features of Pirelli products, as well as of the safest ways of using the product.

Pirelli also adopted a clear procedure to grant a feedback to any customer claim, which involves immediate intervention with respect to the interlocutor.

### ***Transparency, information and customer training***

In the context of advertising communication, Pirelli has defined a traceable and transparent process for decisions relating to advertising campaigns and related media planning, both in the case of promotional activities managed centrally and locally with central supervision.

In terms of production of advertising campaigns and media planning, Pirelli uses specific 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 endorses the IAB (Interactive Advertising Bureau) and is associated with the UPA (Associated Advertising Users), among other things dedicating ongoing commitment to support the Advertising Code of Corporate Governance of the association. Through the UPA, Pirelli is 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 which they adopt. Consumer protection is also guaranteed by the choice of suppliers in the communication sector (creative agencies, media centres, production companies) that in turn belong to business and professional associations governed by ethical codes regarding communication.

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, including digital channels, and this is complemented by information distributed in hard copy format, as well as the range of offline and online training activities.

With 55 Car websites (in 29 languages) and 19 Moto websites (in 11 languages), Pirelli online represents a fundamental point of contact with the customer in the tyre purchase process. These product websites, located not only by language, but also for content, offer and promotional activities, have the objective of informing and guiding the consumer, in all countries where Pirelli markets its products, to the points of sale where to buy the tyres. In 2018, these websites attracted 7.7 million unique users, for a total of 10.1 million sessions and 34.5 million page views.

A further digital touchpoint that brings the consumer to the point of sale is represented by the Retail sites: present in 7 countries, have intercepted in 2018 1.5 million users (for a total of 5.2 million page views) and generated about 99,000 appointment bookings, over 33,700 calls to the dealer, about 6,160 contact requests via e-mail.

In 2018, Pirelli also continued to inform its customers with a digital newsletter, *Paddock News*, whose main objective is to provide an additional means of communication and contact with the trade, and which consists of an international edition, coordinated centrally from headquarters, and local-language edition for each market in which Pirelli operates. *Paddock News* features a gallery of new products and news from the Company and its Business Units: Car, Motorcycle, Motorsport and Velo. In terms of paper publications, the company magazine "*Pirelli World*" continues to play a key role.

Of particular relevance in terms of communication on product developments is participation in the main *Autoshow events*. At the Geneva Motor Show 2018 Pirelli presented the Cyber™ Car technology. Also in 2018 Pirelli took part in the most important *Consumer Prestige* events, such as the *Salon Privé* (England) and the *Pebble Beach Concours d'Elegance* (California) and realised three driving events called the P ZERO™ Experience in Italy, France and Abu Dhabi.

Since 2018 Pirelli has strengthened its commitment alongside the sports more in line with the prestige and high performance positioning that characterise the company and its products: this is the case of the partnership started with Luna Rossa, *challenger of records* of the upcoming America's Cup 2021, in addition to the close sponsorship relations with FC Internazionale Milano, the Italian Winter Sports Federation and the Alpine Ski World Championships, IIHF World Ice Hockey Championship and the very successful sponsorships in the world of engines: from WorldSBK to the best motorsport championships like Blancpain GT Series and in particular Formula 1®, of which Pirelli is the Global Tyre Partner until 2023.

In 2018 Pirelli took part in *Eurobike*, the main international cycle fair, where it presented the expansion of the Road Racing P ZERO™ Velo product range and entry into the City-Trekking segment with the CYCL-e™ line.

The training of customers on the product even in 2018 was intense in all markets, both at the points of sale and at the Pirelli sites with visits to the factory, Research & Development laboratories, and simulations of tyre performance. During the year there were about 18,000 participations of dealers, belonging to the 22 main markets, to classroom training courses on the Pirelli product, technology and sale of the tyre; some of the courses included visits to the Settimo Torinese (Italy) and Izmit (Turkey) plants as well as to the Vizzola circuit (Italy) and the Milan Research and Development Centre.

In 2018 the use of the new online training site TYRE-CAMPUS™ was consolidated, which now covers 24 markets in 16 different languages. To date, about 12,500 points of sale are registered to the new site for a total of over 14,500 active users. Training on the product is provided in an engaging and customisable way on the various types of distribution channel, with more paths linked to the individual product families.

In order to support the product trainers, Pirelli has developed a library of technical content was developed for classroom courses and the “TYRE CAMPUS™ Case” instrument, which aims to concretely demonstrate the characteristics of Pirelli tyres, the raw materials used for their manufacturing and the differences between the different tread. With these tools, Pirelli trainers around the world can have concrete and innovative support that allows customers to personally understand and verify the key characteristics and advanced technology of Pirelli products.

Pirelli also continues to certify all its dealers who complete the product training successfully. The certificate is indicated by a plaque at the point of sale. This way, consumers can recognise which dealers are the most specialised and qualified on the technical features and benefits of all the products of the Pirelli range.

### ***Listening and exchanging ideas with Customers as sources of continuous improvement***

Customer relationships are managed by Pirelli 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 Contact Centres, nearly 30 worldwide with more than 150 employees, performing business operations in IT support and order management (inbound), telemarketing and teleselling (outbound).

In 2018, all the major social media channels of Pirelli have seen a significant increase in the fan base. Pirelli’s presence on Facebook has reached over 2.5 million followers, with a growth of 14.5% over the previous year. Also on Twitter, the Pirelli accounts have seen an increase in followers, reaching more than 265,000 people, over 10% more than in 2017. A very important step forward was on Instagram, where Pirelli channels reach more than 566,000 followers, an increase, year-on-year, of 52%. Finally, there are about 18,000 followers of Pirelli on the main online video platform, YouTube, and over 348,000 followers on LinkedIn.

The success of the website [www.pirelli.com](http://www.pirelli.com), a Pirelli *digital magazine* launched at the end of 2015, has also been confirmed. In 2018, on the new digital communication platform, Pirelli published over 260 articles - on product, motorsport, culture and sustainability - gathering over 6.2 million visits, of which almost half were attracted through social networks and about 4.3 million unique users, an increase of 16.7% compared to 2017.

As for the Moto world, the Pirelli and Metzeler brands boast a structured and widespread presence on the main social networks, with a growing focus on Asian countries, and are promoters of innovative digital projects. The Pirelli brand, as well as on the Facebook channel (with more than 923,000 fans connected to the Global Page which includes 12 local pages) is on Instagram with over 117,000 followers and has dedicated profiles on Twitter and YouTube. Worthy of note is the mobile application DIABLO™ Super Biker, which has been downloaded by over half a million people in the

world and that will be completely renewed and improved in 2019 from the point of view of the usability and functionality offered to the motorcyclist. The METZELER brand, in addition to its international website and geo-localised in 18 countries worldwide, is present on Facebook with a Global Page that has more than 423,000 fans and includes 11 local pages in as many countries. As with the PIRELLI brand, METZELER has had active Instagram, Twitter and YouTube profiles for years. The CRM (Customer Relationship Management) project, in turn, has a priority position given the passion for the Pirelli product by the registered motorcyclist community: over 370,000 for Pirelli Moto and over 55,000 for Metzeler.

Pirelli Velo, in turn, speaks with its consumers also through a dedicated web magazine called *Velo World*, which is an inspirational source of information and stories about cycling and new trends. Immediately active in Instagram and Facebook, Pirelli Velo bases its communication on digital activation in line with the propensities of its target consumer.

Also in 2018 direct customer listening activities were carried out both through the Brand Tracking survey in Pirelli's Top Market (Italy, Germany, France, United Kingdom, Brazil, China, United States, and Russia) and through surveys to consumers with whom Pirelli has a direct and constant dialogue thanks to structured CRM activities. The ongoing changes made to this study over the years 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's purchase decision.

The "Brand Model" is the Pirelli scheme used to give unity to communication in terms of personality, tone used and application of the distinctive traits of the Pirelli Brand.

In terms of performance indicators, Pirelli considers *Top of Mind*, *Brand Awareness* and *Brand Consideration*. With reference to the *Key Target 18" Up* represented by Premium car owners which can mount tyres with rims equal or higher than 18 inches, the analysis carried out in 2018 saw Pirelli positioned in the *Top Three* of the main tyre brands: in first place for *Top of Mind*, *Brand Awareness* and *Brand Consideration* in the United Kingdom, in first place for *Top of Mind* and *Brand Awareness* and in the second place for *Brand Consideration* in Italy, first for *Top of Mind* and third for *Brand Consideration* in Germany and in second place for *Brand Awareness* and *Brand Consideration* in France.

Outside Europe, Pirelli is first for *Top of Mind* and *Brand Awareness* and second for *Brand Consideration* in Brazil, second for *Top of Mind* and *Brand Consideration* in China, second for *Brand Awareness* and for *Brand Consideration* in Russia and third for *Brand Consideration* in US.

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

Safety and respect for the environment are two values that distinguish the Pirelli product offering. Even in 2018 the company proved to be at the forefront of tyre development that could on the one hand provide ever-higher performance, and on the other respect the environmental sustainability, safety and comfort requirements required by the best car companies that choose Pirelli as the first

equipment for their creations, both by customers, who opt for Pirelli tyres at the time of choosing spare parts.

Of fundamental importance are the Pirelli Research & Development efforts, to which innovative solutions are needed to create new compounds, new processes and tread patterns that reduce rolling resistance, with a consequent direct impact on fuel consumption, improve wet grip, increase safety in any weather conditions and increase the acoustic comfort inside the cabin thanks to the Pirelli Noise Cancelling System (PNCS™) technology.

In 2018 Pirelli significantly increased the number of homologations obtained on electric and hybrid cars. This type of vehicle belongs to the segment with the highest growth rate in the coming years and requires specially developed tyres with precise characteristics, including:

- low rolling resistance, to increase the life of the car battery;
- low acoustic emissions, for greater driving comfort, in line with the silence of electric traction;
- greater resistance of the carcass to better support the weight increase of the car given by the batteries and, at the same time, guaranteeing better handling;
- greater resistance of the tread compound to support the higher torque generated by the electric motor, ensuring the necessary road holding.

And it is by respecting these targets that Pirelli has obtained more than 20 homologations on electric cars and about 30 on hybrid vehicles (Plug In Hybrid). Among the former we find Jaguar I-Pace and Mercedes EQC equipped with P-ZERO™, SCORPION VERDE™, SCORPION VERDE™ All Season and SCORPION™ Winter. Among the latter are the Audi A3, A8, Q5, Q7, Bentley Bentayga, Mercedes CLS, E Class and E Class Coupé, Porsche Panamera and Volvo V90, S90 and XC90, on which P-ZERO™, CINTURATO™ P7™, CINTURATO™ P7™ Blue, SCORPION VERDE™, SCORPION VERDE™ All Season e Winter SOTTOZERO™ 3.

2018 saw an important extension of the tread range already present in the Pirelli product portfolio. The SCORPION VERDE™ All Season has been enriched with new measures marked Three Peaks Mountain Snowflake, which guarantees exceptional performance even in winter, while the CINTURATO™ All Season Plus, launched in 2017, has expanded its range going to cover also measures dedicated to crossovers and SUVs.

CINTURATO™ All Season Plus is a product mainly dedicated to drivers in urban areas and is looking for an innovative and alternative mobility solution. It has a new tread compound that leads to an improvement in performance in both winter and summer conditions, with special attention to snow and wet, thanks to the presence of the Three Peaks Mountain Snowflake marking, increasing driving safety, any condition of the road surface along the way. The main measures and all the new measures introduced are characterised by the presence of Seal Inside, a Pirelli technology that allows you to continue driving without air loss even if a tyre has been punctured, covering almost 85% of possible causes. accidental loss of pressure.

Also in the field of high technology, 2018 saw double the approvals with the Pirelli PNCS™ system (Pirelli Noise Cancelling System), surpassing the 150 appointments in original equipment. This innovation is decisive for the reduction of the noise inside the passenger compartment generated by the rolling of the tyre as a result of the stress between the road surface and the tread pattern. The benefits have been recognised not only by car manufacturers such as Aston Martin, Audi, Bentley, BMW, Jaguar-Land Rover, Lamborghini, McLaren, Mercedes, Porsche and Volvo, but also by end customers who choose to mount Pirelli PNCS™ tyres as replacements, registering a volume increase of more than 100% in 2018 compared to the previous year.

Safety and performance of Pirelli products are finally certified by tests carried out by the most important automotive magazines, which highlight the strength of the company even in the most extreme winter conditions. In 2018, there were six podiums conquered by Pirelli ICE ZERO™ FR, the non-riveted product developed for rigid winters that offers excellent levels of grip and safety even on snow-covered and icy surfaces.

### **Quality and product certification**

**ISO 9001:** since 1970, the Group has had its own Quality Management System introduced gradually at all its Plants and, since 1993, Pirelli has obtained certification of its quality system under the ISO 9001 standard. The transition process of its Plants and the Headquarters to certification according to the new ISO 9001: 2015 ended in September 2018.

**IATF 16949:2016:** since 1999 the Group has obtained the certification of its Quality Management System according to the automotive scheme and subsequent evolutions. Following the evolution of ISO 9001:2015 and the new IATF 16949:2016 (Automotive Scheme became private), Pirelli achieved the Quality Management System certification in 100% of its eligible Plants as at 31 December 2018.

**ISO/IEC 17025:** Since 1993 the Materials and Experimentation Laboratory of the Pirelli Tyre S.p.A. and since 1996 the Experimentation Laboratory of Pirelli Pneus (Latin America) hold the Quality Management System, and have been accredited under the ISO/IEC 17025 standard. This system is maintained in accordance with the standard in force and the ability of the laboratories to perform accredited tests is evaluated annually. The labs participate in proficiency tests organised by the International Standard Organisation, by ETRTO or by international circuits organised by auto manufacturers. Specifically in regard to car tyres, the focus on quality is confirmed by Pirelli's supremacy in numerous product tests. It is also guaranteed by its collaboration on product development and experimentation with the most prestigious partners (auto manufacturers, specialised magazines, driving schools, etc.).

The Product Certifications, which allow the marketing of the same in the various markets in accordance with the regulations laid down by the different Countries and, for some markets, are managed directly by the Quality Function. The prevailing certifications, obtained in the Pirelli Group, concern the markets of Europe, NAFTA, South America, China, Gulf Countries, India, Taiwan,

Indonesia, South Korea, Japan and Australia, and involve all Pirelli factories. These Certifications periodically require factory audits by ministerial bodies of the countries concerned or bodies delegated by them, with the aim of verifying product compliance at the Pirelli production sites.

### **Compliance**

Also in 2018:

- 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 and/or paid relating to infringement of laws or regulations, including those 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;
- 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 violation of privacy and/or the loss of consumers' data;
- there were no bans or disputes on the sales of any Pirelli product.

## **OUR SUPPLIERS**

### ***Supply Chain Sustainable Management System***

The management model of the supply chain adopted by Pirelli fully complies with the provisions of the international guidelines for sustainable procurement ISO 20400, as certified at the beginning of 2018 by the third party (SGS Italia S.p.A.) following a thorough evaluation. The analysis embraced the entire purchasing function of Pirelli, confirming that the requirements of the ISO standard were fully met, both in terms of company policies and strategies, and regarding the management of the internal processes necessary to implement the sustainability requirements in the dynamics of procurement, both in terms of company policies and strategies and, at a more operational level in the direct management of the ethical performance of suppliers. The ISO 20400 document “Sustainable Procurement Guidance”, officially announced in April 2017, is an innovative tool that aims to promote sustainable purchasing practices within any public or private organisation, regardless of size or geographical location, including through the integration of the sustainability principles enshrined in the ISO 26000 social responsibility guidelines.

The Group’s relations with suppliers and external collaborators are based on loyalty, impartiality and respect for equal opportunities for all the subjects involved in the purchasing processes, as required by the Group Code of Ethics.

There are also many policies adopted by Pirelli, which highlights the full integration of the sustainable supply chain.

The sustainable management of the supply chain is also the subject of the Green Sourcing Policy as well as an integral part of the “Social Responsibility Policy on Occupational Health, Safety and Labour Rights, Environment”, of the “Global Health, Safety and Environment Policy”, of the “Global Human Rights Policy”, of the “Global Quality Policy”, of the “Product Stewardship Policy”, of the Group’s “Sustainable Natural Rubber Policy”. In all the documents cited, with reference to the specific social and environmental issues discussed, Pirelli undertakes to establish and maintain the procedures necessary to evaluate and select its suppliers on the basis of their level of social and environmental responsibility, as well as to request their suppliers implement a similar management model, in order to strengthen responsible management in the supply chain that extends beyond its direct supplier.

The Policies mentioned are available in many languages on the Pirelli website, Sustainability Section, to which reference is here made for full details.

The social, environmental and business ethics responsibilities of a Pirelli supplier are assessed together with the economic and product or service quality to be supplied, right from the selection as potential supplier stage.

Analysis of ESG performance (Environment, Social, Governance) continues through the qualification stage of the future supplier pre-analysed at the assessment phase, and then is “contract bound” though the Sustainability and business ethics clauses included in every contract/purchasing order.



After the supply agreement has been made, the sustainability performance of the supplier is audited by an independent third party.

The aforementioned Management Model and the related documentation are available on the institutional Pirelli website, in the “Suppliers Area” (Pirelli.com/suppliers), section devoted to the world of supply and accessible to current and potential Pirelli suppliers, as well as anyone with an interest in knowing the approach and procedures adopted by the Company in the areas of purchases of good and service around the world. The communication channel is aimed at the utmost clarity and sharing of Values, Guidelines, documentation and standards adopted by the Company in relations with suppliers, in terms of the web also in the individual Countries in which Pirelli operates.

### **ESG elements in the purchasing process**

Pirelli uses the same approach to assessing ESG performance throughout the entire process of interactions with a supplier, although in different ways among them, consistently with the intensity of the interactions characterising the specific procedural instances.

During a first phase of **selection** (or sourcing), and thus assessment of possible offers for good or services in the marketplace, a buyer who has been adequately trained is able to gain a first impression of possible abidance or otherwise by the requirements of the product and ESG by the potential supplier. This makes it possible to eliminate potential future suppliers that are clearly in possible violation of Pirelli expectations.

Pirelli asks suppliers who gain access to the **qualification** (or on-boarding) phase to use the portal available in local language. By accessing it, the supplier views and simultaneously accepts Pirelli’s requests in terms of economic, social, environment and business ethics responsibilities (in case of non-acceptance, the qualification process cannot initiate), to then proceed with the filling in of multiple questionnaires, the first of which concerns respect for fundamental Human and Labour Rights, considered key by the Company and such that the absence of just one of them will not allow the continuation of the qualification process. These questions require the potential supplier to attest that its company: checks workers’ ages before hiring them, and it ascertains that all of its employees satisfy the minimum legal working age; uses workers provided with a written labour contract and who work on a voluntary basis exclusively; abides by workers’ rights of freedom of association and participation in trade-union activities; pays wages that meet the minimum legal standards; manages disciplinary practices, if any, abiding by the law; abides by and applies legislative/contract provisions in the matter of work schedules, overtime and rest periods. The process continues with the request to include quality, environmental and health and safety certifications; to document their approach to responsible management by attaching their Policies and Codes; to provide data in respect of the rate of accidents at work; to attest to compliance with labour laws as set forth above and any litigation there may be. Information is also requested relating to loss prevention, key elements not only to prevent future cases of “business interruption”, but also closely related to the safety of workers employed at the supplier’s site.

For all potential new suppliers and/or facilities of raw material and high value added parts (*HVA Parts*), which by their nature can become development/long-term partners for the Company, and which are also attributed much of the spending of purchases, Pirelli conducts a third-party preliminary on-site audit from the qualification phase to verify the level of compliance of the potential supplier with respect to the principal national and international regulations on Work, Environment and business ethics. The non-acceptance of the audit and/or not entering into a reinstatement plan of any non-compliance shall block the qualification of the supplier.

In addition to the above, new raw materials and new auxiliary products are assessed before they are used by the Group's operating units with the aim of identifying any potential critical issue for workers' health and/or the environment. The assessments are carried out centrally, taking into account not only the requirements of the most restrictive European standards for the management of hazardous substances, but also the standards and knowledge currently available internationally (specific databases, etc.). Finally, the monitoring activity of producers and suppliers of raw materials used by the entire Group conforms to the provisions of the Regulation (EC) no. 1907/2006 (also known as "REACH Regulation") and to the provisions of Regulation (EU) 2017/821 on the so called "conflict minerals" (to which a paragraph is dedicated later in this Report).

With regard to the **contractual stage**, for the past decade the Sustainability and Business Ethics Clauses (including anti-corruption) have been included 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 particular, the clauses:

- require suppliers to be aware of the principles, commitments and values contained in Pirelli's sustainability documents, namely "The Values and Code of Ethics", the "Code of Conduct", the "Global Human Rights Policy", the "Health, Safety and Environment Policy", the "Anti-Corruption Programme" and the "Product Stewardship Policy", published and accessible on the web, which set out Pirelli's principles for managing its activities and its relations with third parties, contractual and otherwise;
- require that Suppliers confirm their commitment to:
  - not using or supporting the use of child labour and forced labour;
  - ensuring equal opportunity, freedom of association and promotion of the development of each individual;
  - opposing the use of corporal punishment, mental or physical coercion, or verbal abuse;
  - complying with the laws and industry standards concerning working hours and ensuring that wages are sufficient to cover the basic needs of personnel;

- 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;
  - assess and reduce the environmental impact of its 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;
  - 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, regular overseeing compliance with this obligation on the part of the same;
- specifying that Pirelli reserves the right to verify at any time through activities of audit, either directly or through third parties, that fulfilment of the duties taken on by a supplier has been achieved (see further details in the next paragraph).

The Sustainability Clauses have been translated into 21 languages so as to ensure maximum clarity and transparency vis-à-vis a supplier in the matter of the contract duties that they assume, not only in respect of the Firm itself, but also at their own site in relations with their own suppliers.

In terms of maximum guarantee, the Group suppliers have access to the **Whistleblowing** Reporting Procedure ([ethics@pirelli.com](mailto:ethics@pirelli.com)), expressly indicated in the clauses, with which to report in full confidentiality any violation or suspected violation they perceive in relations with Pirelli and with reference to the contents concerning: “Values and Code of Ethics”, “Code of Conduct”, Group policies on “Global Human Rights”, “Health, Safety and Environment”, “Anti-Corruption Programme” and “Product Stewardship”.

In 2018, among the signed reports, two were sent by Suppliers. It remains objectively impossible to confirm that the total number of reports from suppliers corresponds only to two because some complaints were anonymous, as specified in the paragraph “Focus: Group Reporting Procedure - Whistleblowing”, to which reference should be made for further information.

### **Monitoring of ESG performance**

Supplier performance is monitored by using the Vendor Rating system, aimed at defining the quality level of supplies, the quality of the commercial relationship, the technical-scientific collaboration and, through on-site audits by third parties, verifying performance in relation to human and labour rights, health and safety, environmental management and business ethics, followed by the periodic monitoring of the progress of the actions set down in any improvement plans signed with the supplier.

The Vendor Rating and monitoring of sustainability of suppliers cover all the goods and geographical purchasing areas and utilized as an integral part of commercial negotiations.

The results of the Audits are analyzed by the Purchasing Department and the Sustainability and Risk Governance Department, commented and discussed to identify eventual corrective actions or to improve performance along with suppliers.

At methodological level, the Purchasing Department and the Sustainability and Risk Governance Department of the Group define the Guidelines for the selection of suppliers to be audited, supporting the Purchasing Managers and Sustainability Managers that locally coordinate the auditing activities. Since 2009, in fact, Buyers and local Sustainability Managers are asked to identify a roster of suppliers who, on the basis of the findings of proper Risk Assessment, they feel to be worthwhile submitting to audit by a third party at the time of the Annual Audit Campaign. The risk assessment and thus the “criticality” of suppliers envisage an assessment based on the following guiding parameters:

- the supplier is bound to Pirelli by multi-year contracts;
- the replacement of the supplier and/or related product may be complex;
- the economic burden of the purchase is significant and for this reason it is considered necessary to verify in loco, via third party audit commissioned by Pirelli, the compliance of the supplier with Pirelli ESG expectations, signed by the supplier in the contract stage;
- the supplier operates in a Country at ESG risk;
- the supplier has not yet undergone an ESG audit by Pirelli or special criticalities have been detected in previous audits;
- there is information, a perception or doubt concerning possible violations by the supplier in the matter of social, environmental and/or business ethics responsibilities.

The external auditors carry out verification on the basis of a checklist of parameters of sustainability deriving from the Pirelli Ethical Code, the SA8000® standard (a benchmark tool officially adopted by the Group for managing social responsibility since 2004) and the “Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment” of the Pirelli Group (in its turn consistently with the areas of social, environmental and governance sustainability dictated by Global Compact of the United Nations), the “Social Responsibility for Health, Safety and Rights at Work, Environment” Policy, the Global Health, Safety and Environment Policy and the Global Human Rights Policy.

Third-party audits concern suppliers belonging to all product categories such as raw materials, machinery, logistics services, industrial services, general services and components. Each audit has an average duration of two days in the field and includes a factory visit, interviews with workers, management and trade union representatives.

External audits have been carried out since 2009 and continued in 2018, specifically:

Year	Audit Number
2009-2010	72
2010-2011	56
2012-2013	62
2014	78
2015	93
2016	64 <sup>11</sup>
2017	83 <sup>12</sup>
2018	85 <sup>13</sup>

In most cases the 2018 audits involved suppliers of Pirelli operating in Countries where the company is present at an industrial level, i.e.; Argentina, Brazil, China, Germany, Indonesia, Italy, Mexico, United Kingdom, Romania, Russia, United States, and Turkey. Or suppliers in Countries from which Pirelli buys raw materials, such as Guatemala, South Korea, China, Poland, Romania, Italy, Russia, Czech Republic, Malaysia, Thailand and Brazil.

On the basis of audit findings, where necessary and fitting and given also the specific actions to remedy suggested by the independent Auditor, the supplier signs off on a corrective plan aimed at preventing, mitigating or remedying any non-compliances detected. The plan foresees specific actions to be implemented by precise deadlines in addition to clear identification of the responsibilities for the action at the supplier company and the method of follow-up (documentary or new on-site audit) that will be followed by the auditor to verify resolution taking place of the non-compliances detected during the audit. The process of monitoring the implementation status of plans of righting of suppliers, especially, is a dual one: on the one hand the third-party auditor verifies the status of implementation of the corrective plan, and on the other the Group Internal Audit Department verifies the adequacy of management and alignment on the part of local functions dealing with this (Sustainability and Purchasing).

The results of the audits carried out during the 2018 annual campaign show:

- 42% of suppliers without non-compliance;
- a total number of non-conformities found on-site decreased by 17% compared to 2017.

<sup>11</sup> of which 9 on potential new suppliers of raw materials.

<sup>12</sup> of which 14 on potential new suppliers of raw materials.

<sup>13</sup> of which 16 on potential new suppliers of raw materials.

The non-conformities registered in 2018 are substantially linked to the processes of health and safety management, the use of overtime and the correct implementation of environmental management systems.

### ***Materiality of ESG impacts along the supply chain***

Considering the life cycle of the Pirelli Product (which is specified in the “Environmental Dimension” chapter of this report), the environmental impacts of the supply chain are found prevalently in the category of raw materials, in terms of direct emissions and impact on indirect emissions of Pirelli, as well as on the capacity of the material to affect the emission impact of the production process and on the energy efficiency of the Pirelli product. With reference to the water footprint along the life cycle of the Pirelli product, the impacts are prevalent in the natural rubber processing business. Upstream of the natural rubber supply chain is also the risk of deforestation and damage to biodiversity.

Social type impact (human and labour rights in particular) are evidenced on the other hand in all categories of purchases in respect of suppliers operating in Countries considered to be more greatly at risk as compared to others from the standpoint of compliance with domestic and international labour legislation.

Pirelli mitigates the risks mentioned through the Management Model adopted and up to now described, which is completed with the engagement activities of the suppliers referred to below.

### ***Sustainability of the natural rubber supply chain***

With global demand for natural rubber expected to increase, sustainable management of the related supply chain is essential to preserve forests, biodiversity and to enable sustainable development for local communities and economies.

The economic, social and environmental sustainability of the natural rubber supply chain is among the priorities of Pirelli, with the full awareness that the origins of its rubber supply chain impact in forestry terms.

The natural rubber supply chain - from upstream to downstream - includes producers/growers, traders, processing plants, distribution companies and manufacturing facilities. Pirelli is at the end of the chain, as a tyre manufacturer that does not own its own plantations or natural rubber processing plants. Pirelli intends to play an active role in the aforementioned context, contributing to the efforts that are globally dedicated to the sustainable management of natural rubber.

In October 2017, Pirelli issued its “Sustainable Natural Rubber Policy”, after a long process based on consultation with key Stakeholders and companies that have longstanding experience in terms of sustainable procurement of materials. The draft of the Policy was presented and discussed with key Stakeholders in a consultation session held in September 2017, attended by international NGOs,

Pirelli's main natural rubber suppliers, traders and farmers from the supply chain, automotive customers and multilateral international organisations.

As stated in the Policy, Pirelli undertakes to promote, develop and implement the sustainable and responsible procurement and use of natural rubber throughout its entire value chain. In particular, the Policy breaks down the positioning of the Company in terms of:

- defence of Human Rights and promotion of decent working conditions;
- promotion of the development of local communities and prevention of conflicts related to land ownership;
- protection of ecosystems, flora and fauna;
- no to deforestation, no to the exploitation of the peat land, no to the use of the fire, and adoption of the "High Conservation Value (HCV)" and "High Carbon Stock (HCS)" methodologies;
- efficient use of resources;
- ethics and anti-corruption;
- traceability and mapping of socio-environmental risks along the supply chain (so-called *risk-based* approach);
- clear indication of the governance model envisaged by the policy, and consideration of the risks identified in the definition of the purchasing strategies;
- encouragement of its suppliers and sub-suppliers to the adoption of solid certification systems, internationally recognised and verified by third parties, at all levels of the supply chain;
- promotion, support for the Company's active participation in cooperation initiatives at sector level and among Stakeholders that play a significant role in the value chain, in the belief that, in addition to the individual commitment of companies, a shared effort can accelerate and strengthen the path towards a sustainable development of the global natural rubber supply chain;
- activities aimed at the implementation of the policy;
- commitment to reporting on the results achieved;
- making available the Reporting Procedure for any violations of the Policy.

In December 2018 the Company released the *Implementation Manual* for the Pirelli Policy on Sustainable Natural Rubber. The aim of the manual is to facilitate the understanding of the principles,

commitments and values expressed in the Policy, as well as provide guidance for its implementation to the supply chain. As already happened for the preparation of the Policy in 2017, also the process of preparation of the Manual has foreseen the involvement and the consultation of the main Stakeholders concerned, both locally, with the main actors of the supply chain (processors, retailers, small plantation owners), and globally through a global Stakeholder dialogue event held at the Group Headquarters.

The Manual is the result of more than a year of multi-stakeholder consultation, begun in countries with natural rubber production with producers, dealers, small plantation owners, non-governmental organisations, trade union representatives and the rubber industry. The draft of the Manual was then tested “on the field” and finally submitted to the evaluation of the international Stakeholders in a consultation session held in September 2018 at the Pirelli Headquarters in Milan, and attended by international NGOs, the main suppliers of natural rubber of Pirelli, traders and farmers from the supply chain, automotive customers and international multilateral organisations. At the same time, Pirelli defined its Action Plan for the three-year period 2019-2021.

The Policy, the Implementation Manual and the 2019-2021 Action Plan are published on the Group website, in the Policy area within the Sustainability section.

In particular, during the course of 2019, Pirelli will activate training sessions on the Implementation Manual in all the countries from which the company buys natural rubber, in local language and for all its suppliers. Particular attention will be given to providing adequate tools so that training can in turn be extended by the suppliers themselves, going down to the level of the plantations.

In addition, in 2019 the supply chain mapping activity will continue also reaching the plantations of origin, with a “risk-based” approach in order to map the socio-environmental risks through partnerships with its suppliers and with the help of advanced mapping systems (digital and otherwise). The results of on-site audits carried out by third parties on the sites of suppliers (natural rubber processors), which covered almost the entire supply chain, will also be capitalised. These audits are aimed at assessing the level of sustainable performance at the transformation sites, and at understanding the capacity of Suppliers in terms of direct/indirect control of their supply chain, up to the identification of the supplying plantations.

During 2018 the partnership between Pirelli and Kirana Megatara, started in 2014, continued. Kirana Megatara, one of the largest natural rubber processor in Indonesia, is one of the leading suppliers of Pirelli worldwide.

The Project between Kirana and Pirelli aims to support local farmers through training in the most effective methods in order to improve the productivity of plantations and through scholarships for their children. Added to this, starting from 2018, is support for rubber tree replanting activities, in order to further strengthen the development of the plantations on the territories already dedicated to natural rubber while avoiding risks of deforestation.

Increasing the productivity of plantations is a key factor: it allows farmers to increase their income while decreasing the risk of deforestation resulting from the abandonment of unproductive



plantations. Training on production quality, including the provision of origin plants controlled by specialist agronomists and cultivation equipment, takes place constantly throughout the year at the farming communities involved in the project, 110 farmers in a stable and ongoing manner.

Each year, Pirelli and Kirana Megatara organise an event called the tapping competition, which sees the best “tappers” in the place take each other on in a friendly challenge on the best tapping methods in a day of celebration for the community, which is also an important opportunity for training and spreading awareness among farmers present regarding the best growing and tapping techniques in order to obtain an increasingly purer product, free from contamination and therefore characterised by its high level of quality, necessary to increase the earnings of families and simultaneously reduce the impacts of deforestation. In the evening, the three best tappers are then chosen who, thanks to their perfect tapping, are awarded prizes for themselves and their families. Even in 2018, 233 farmers and their families attended the event, which was held in the south of the island of Sumatra.

Also held in 2018 was the scholarship presentation ceremony by Pirelli and Kirana Megatara for the children of local producers. The ceremony was held in Muara Enim Regency in the south of the island of Sumatra and 65 scholarships were awarded, with the aim of trying to ensure an adequate education, in the belief that the future sustainability of the natural rubber business cannot ignore the adequate training and development of the coming generations, and their right to study.

#### *Together for the Sustainability of Natural Rubber - the GPSNR platform*

The Pirelli Policy on the sustainable management of natural rubber, in point VIII, states: *“Pirelli believes that the global challenge of natural rubber sustainability requires engagement, cooperation, dialogue and partnership among all involved actors. In addition to engaging with its suppliers, Pirelli fosters and supports active cooperation at industry level and among stakeholders playing a material role in the natural rubber value chain, with the conviction that in addition to corporations’ individual engagement, a shared effort can result in stronger and faster progress towards sustainable development of the global natural rubber supply chain. Pirelli cooperates with national and international governmental, non-governmental, industry-wide and academic initiatives to develop global sustainable natural rubber policies and principles.”*

In line with the stated approach, in 2017 and 2018 Pirelli played a proactive role in the creation of the *Global Platform for Sustainable Natural Rubber - GPSNR*, together with tyre manufacturers which are also part of the Tyre Industry Project Group, within the World Business Council for Sustainable Development. The development of the Platform benefited from the contribution, ideas and suggestions of the main categories of Stakeholders involved in the value chain, such as rubber producers, processors, automobile manufacturers, and of the fundamental contribution deriving from the experience of important international NGOs.

The Platform, launched in Singapore in October 2018 with the participation of the first “founding members”, including Pirelli, is independent, based on multi-stakeholder dialogue and aims to support the sustainable development of the natural rubber business globally, for the benefit of the entire

value chain through shared tools and initiatives based on respect for human and labour rights, prevention of land grabbing, respect for biodiversity and increased plant productivity, especially those of small owners.

The first General Assembly of GPSNR is scheduled for March 2019.

### ***The “Green Sourcing” Policy***

As at December 2012 Pirelli drew up and issued the “Green Sourcing” Policy with the aim of stimulating and incentivising an environmental conscience along the entire supply chain and encouraging choices that might reduce the impact on the environment of provisioning activity by Pirelli of goods and services. The Green Sourcing Policy implementation system was defined in 2013, both inside Pirelli and in supplier relationships. It is organised as follows:

- 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;
- Pirelli Green Purchasing Guidelines, a document intended for Pirelli suppliers as part of the Contract for supply and based on the Green Sourcing Manual containing the KPIs (Key Performance Indicators) for assessing the Green Performance of these 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 also defined for the Materials and Capex areas, where the design component (what is conceived in-house) is material to the Pirelli core business.

For the Opex and Logistic areas characterised by goods categories in respect of which the design component is not equally significant, Green Operating Guidelines have in any event been defined by referring to internationally recognised best practices.

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

- a 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 Academy for training purposes by the functions involved in the process of Green Sourcing.

In 2014, and on the basis of the Guidelines of the Green Sourcing Manual, the Pirelli Green Purchasing Guidelines were published on the website [www.pirelli.com](http://www.pirelli.com), so making them available both to Pirelli suppliers and to other Stakeholders. In China, Mexico, the United States, Russia and Italy, by-invitation seminars have been held at Pirelli offices on the Green Sourcing Guidelines for local suppliers so as to inform and receive direct feedback on the way they work.

Additionally, since 2015 Pirelli has been equipped with an IT platform to support the launch of a campaign to measure the Green Performance of Pirelli Suppliers through an electronic questionnaire to be filled out online, a campaign implemented from April 2016.

At the end of 2018, the Pirelli Green Sourcing Manual is being updated, while at the same time defining the framework for actions to reduce/eliminate “single-use plastic” within Pirelli and along the supply chain. This will allow it to proceed in 2019 with the subsequent updating of the Green Purchasing Guidelines.

### **Policy on Conflict Minerals**

The concept of Conflict Minerals was introduced by Section 1502 of the Dodd-Frank Act, a United States federal law, in 2010. By “conflict minerals” is meant gold, columbite-tantalite (coltan) cassiterite, wolframite and their derivatives like tantalum, tin and tungsten that come from (or are extracted in) the Democratic Republic of Congo and/or bordering Countries.

The objective of the rules in respect of Conflict Minerals (Conflict Mineral Rules) is to discourage the use of minerals whose sale might finance violent conflicts in Central Africa where grave violations of human rights have been recorded for many years. Under Conflict Mineral Rules, listed companies in the United States are required to perform reasonable due diligence in tracing the provenance of these materials and reporting the findings to the SEC and publishing them on their website, with the first report to be published by 31 May 2014 (relating to 2013) and subsequently updated each year.

In turn, the European Institutions in May 2017 approved the 2017/821 Regulation which “establishes duties in terms of due diligence in the supply chain for EU importers of tin, tantalum and tungsten, their minerals, and gold, originating in conflict zones or at high risk”. The new provisions will apply from January 2021.

Pirelli expresses its position on the management of the issue in a paragraph dedicated to it in its Global Human Rights Policy, where it is stated that the Company *“requires that its suppliers conduct proper due diligence within their supply chain in order to certify that the products and materials supplied to Pirelli are “conflict free” throughout the whole supply chain. Pirelli reserves the right to terminate relations with suppliers in cases where there is clear evidence of supplying conflict minerals and however in case of any violation of Human Rights.”*

The Policy is published in multiple foreign languages in the Sustainability section of the [pirelli.com](http://www.pirelli.com) website.

In 2017 Pirelli also strengthened its management model, introducing the request for the following documentation among the qualification requirements of suppliers that can be associated with the possible use of conflict minerals:

- Conflict Minerals Reporting Template (CMRT);
- Conflict Minerals policy if present;
- description of the “Due Diligence” system to identify and trace the presence of 3T+G minerals.

The management model then extends to the contractual phase, through the inclusion of a Conflict Minerals clause that recalls the supplier’s commitment to providing the Conflict Minerals Reporting Template on an annual basis and to maintain the results achieved in terms of chain transparency, in addition to reporting the further progress pursued and expected.

To give an idea of the scale of the phenomenon for Pirelli, it is worthwhile stating that the impact is very limited: the volume of minerals (3T+G) used by Pirelli Tyre in one year in fact weighs less than a tonne, a quantity which is less than one millionth of the volume of raw materials used annually by the Firm and which is equally distributed among most of the tyres produced. To give an example, a tyre weighing 10 kg contains about 10 mg (milligrams) equivalent of tin, in the extremely low concentration of 1ppm (one part per million).

With a view to procurement covering only minerals that are “conflict free”, Pirelli has conducted a comprehensive investigation on its supply chain, in order to have full visibility up to the mines or foundries in order to identify the existence of any “conflict minerals”. The company asked its suppliers to fill in the CMRT (Conflict Minerals Reporting Template) form developed by the Responsible Minerals Initiative (RMI) as developed in the past by the Electronic Industry Citizenship Coalition (EICC) and the GeSI (Global e-Sustainability Initiative).

The suppliers polled cover 100% of the “conflict minerals” risk tied to Group products. More than 90% of suppliers polled have already given precise indications concerning the source of the materials in question and listing foundries as required by the procedure and there was no evidence of the presence of conflict minerals.

### ***Due diligence on new metals: Cobalt***

As is known, the Democratic Republic of the Congo (DRC) is the world’s largest producer of cobalt and holds more than 50% of the world’s reserves of this metal. Cobalt is used in Lithium batteries that are an integral part of electric vehicles, mobile phones and laptops. The demand for Cobalt is growing very rapidly and its extraction occurs both in a highly mechanised way and in a traditional way. Concerning this latter type of extraction, concerns have recently been raised about unsafe working conditions and child labour. In 2017, RMI launched a working group on the sustainable supply of cobalt, with particular regard to the risk of child labour in the DRC, with a supply chain

monitoring approach similar to the one already in place for 3T+G metals. The Cobalt Reporting Template (CRT) was recently published (21 December 2018) by RMI. Pirelli uses some Cobalt salts, a type of raw material commonly used in the production of tyres. With regard to 2019, Pirelli has therefore decided to join the “Cobalt Initiative” launched by RMI and to ask its suppliers to fill in the CRT.

### ***Engagement of suppliers***

Pirelli believes that activities involving suppliers are essential from the viewpoint of creating environmental and social value and that are inseparably tied to the creation of shared economic value. There are many activities operated by the Company to that effect.

### ***R&D Partnerships***

Pirelli has established several partnerships with strategic suppliers and universities for the development of innovative materials with low environmental impact (materials described in the paragraphs dedicated to environmental management of products of this Report). As part of the development of new nanofillers, for example, pursued since the early 2000s through research contracts with universities and collaborations with suppliers, Pirelli has begun to industrially introduce materials of mineral origin in partial replacement of precipitated silica and carbon black. Compared to the production processes of the replaced raw materials, the innovations mentioned have guaranteed a water saving, as well as a reduction of CO<sub>2</sub> emissions by more than 75%, saving respectively about 12,000 m<sup>3</sup> of water and 650 tonnes of CO<sub>2</sub>.

This innovation provides economic benefits related directly to the material for about €250,000 a year, although the real sustainable business driver is the performance that the product acquires, thus becoming more competitive.

### ***CDP Supply Chain***

For years, Pirelli has participated in Climate Change and Water programmes promoted by the Carbon Disclosure Project (CDP). Implementing its Green Sourcing Policy since 2014 Pirelli has in its turn decided to extend the request for CDP assessment to its own key suppliers at a Group level, identified in accordance with criteria of environmental and economic materiality. In 2018, the selection concerned the suppliers with the most impact on the Carbon Footprint of the Group in the Raw Materials, Logistics and Energy categories.

The CDP Supply Chain supports Pirelli in monitoring Scope 3 emissions from its supply chain and ensures adequate awareness of suppliers in matters relating to climate change so as to identify and activate all possible opportunities for reducing emissions of climate-altering gases. In 2018, the set

of emission reduction actions implemented by Pirelli suppliers made it possible to avoid overall the emission of approximately 79 million tonnes of CO<sub>2</sub> equivalent into the atmosphere, combined with estimated economic savings of US\$2.45 billion.

First company among tyre manufacturers to have globally introduced the CDP Supply Chain in its own supply chain, Pirelli aims to increase the response rate of suppliers of Raw Materials from 74% in 2018 to 90% in 2020.

#### *Training of suppliers on sustainability issues*

Since 2012, Pirelli has been providing training on environmental, social and business ethics issues to its suppliers, identifying each year the applicable pool of participants based on strategic issues, spending value and operations by suppliers in Countries considered at risk.

In 2018, training in e-learning format was provided to strategic suppliers of raw materials, general goods and services and factory components. The training activity aims to support suppliers in understanding the Pirelli sustainability model and the related social, environmental and business ethical requirements that must be respected in order to guarantee a sustainable business relationship with the Company.

Training in 2018 concerned the ISO 20400 Guidelines (international standard for sustainable purchases), and in particular:

- field of application;
- the fundamentals;
- the integration of sustainability into purchasing policies and strategies;
- the so-called “cost of ownership” of the product;
- the organisation of the Purchasing function with a view to transversality within the Company and therefore of greater effectiveness in the implementation of the sustainable management of the supply chain pertaining to the various management areas.

The training involved 249 suppliers between Argentina, Brazil, China, Germany, Indonesia, Italy, Mexico, United Kingdom, Romania, Russia, United States, Turkey, Venezuela, and was carried out in local language.

We have already mentioned, previously in this chapter, the commitment to training the natural rubber supply chain, an activity that will be central in 2019.

### Supplier Award

The Pirelli Supplier Award, which is assigned each year to suppliers of excellence, aims to constantly improve relations with parties from the standpoint of shared development.

The Supplier Award 2018 was held at the Pirelli headquarters in Bicocca, in the presence of the *Chief Purchasing Office* and Pirelli's *Chief Sustainability and Risk Governance Officer*, who gave awards to nine suppliers operating in Japan, Italy, the United States, Thailand, Indonesia, the Netherlands and Switzerland that have distinguished themselves for quality, innovation, speed, sustainable performance, global presence and level of service.

A specific award was granted to sustainable performance so as to acknowledge the importance that strategies of "responsibility" that really make a difference have, by bringing benefits to the entire value chain. In 2018 the award for Sustainability was awarded to a textile reinforcement supplier that in recent years has shown a strong and growing engagement on the procurement of sustainable materials, until producing *rayon* using only cellulose from plantations certified for sustainable agro-forestry management.

### Trend of purchases

The following tables show the value of purchases made by Pirelli Tyre and the percentage of the relative suppliers divided by geographical area. These figures show that the value of purchases is slightly higher in OECD area<sup>14</sup> with respect to non-OECD areas, as well as the number of suppliers.

76% of suppliers (up compared to 67% in 2017) operate locally with respect to the Pirelli Tyre subsidiaries supplied, according to a local for local supply logic and excluding raw material suppliers as they generally operate where Pirelli does not have its own facilities.

#### Value of purchases by geographic area

		2018	2017	2016
<b>OECD COUNTRIES</b>	<b>Europe</b>	50%	49%	52%
	<b>North America</b>	6%	4%	5%
	<b>Others</b>	4%	5%	4%
<b>NON-OECD COUNTRIES</b>	<b>Latin America</b>	15%	16%	15%
	<b>Asia</b>	15%	15%	14%
	<b>Africa</b>	0%	0%	0%
	<b>Others</b>	10%	11%	10%

<sup>14</sup> For the complete list of OECD Countries please refer to the official website <http://www.oecd.org/about/membersandpartners/>.

### Number of Suppliers by Geographic Area

		2018	2017	2016
<b>OECD COUNTRIES</b>	<b>Europe</b>	54%	56%	55%
	<b>North America</b>	5%	5%	5%
	<b>Others</b>	5%	4%	4%
<b>NON-OECD COUNTRIES</b>	<b>Latin America</b>	22%	26%	27%
	<b>Asia</b>	6%	5%	4%
	<b>Africa</b>	0%	0%	0%
	<b>Others</b>	8%	4%	5%

The following table shows the breakdown in percentage of the value of Pirelli Tyre purchases by type. With a weight equal to 46% of the total, the purchasing category which is decidedly more relevant and significant, as in previous years, regards raw materials.

### Value of purchases by type

	2018	2017	2016
<b>Raw Materials</b>	46%	46%	46%
<b>Consumable Materials</b>	5%	5%	5%
<b>Services</b>	36%	36%	38%
<b>Capital goods</b>	13%	13%	11%

With reference to the percentage of Pirelli Tyre suppliers by type and in the table below, it is noted that suppliers of consumables and services weigh about 90% of total number of suppliers, despite the weight on the total value of purchases is lower compared, for example, to that of raw material purchases which, on the other hand, show a substantial concentration on a few operators.

### Number of suppliers

	2018	2017	2016
<b>Raw Materials</b>	2%	3%	3%
<b>Consumable Materials</b>	29%	23%	25%
<b>Services</b>	61%	64%	62%
<b>Capital goods</b>	8%	10%	10%

The following table represents the percentage composition in the value of the mix of raw materials purchased by Pirelli Tyre in the three-year period 2016-2018. The volume of raw materials utilised



for the production of tyres in 2018 amounted to approximately 900,000 tonnes, of which approximately 4% derives from recycled materials, in line with the previous year.

**Mix of raw materials purchased (value)**

	2018	2017	2016
Natural Rubber	13%	15%	13%
Synthetic Rubber	27%	29%	28%
Carbon black	10%	9%	8%
Chemicals	23%	21%	22%
Textile	17%	16%	18%
Steel	10%	10%	11%

**Targets**

2019:

- Sustainability of the Natural Rubber supply chain: for 2019-2021 planning, including the details of the activities planned for 2019, please refer to the publication in the Sustainability section of the Pirelli website, Sustainability Policies / Sustainable Natural Rubber Policy area;
- Review of the audit process during the qualification phase of potential new suppliers and/or plants of raw materials and/or high value added goods, which will see the audit extended to the *business continuity* elements.

2020:

- CDP Supply Chain: increase in the response rate of suppliers of Raw Materials from 74% in 2018 to 90% in 2020.

## **ENVIRONMENTAL DIMENSION**

The Pirelli Group considers environmental protection as a fundamental value in the exercise and development of its activities.

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”.

The Pirelli Values and Ethical Code states that *“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 environmental management model adopted is detailed in the following Group Policies and specifically: “Health, Safety and Environment” Policy, “Product Stewardship” Policy, “Quality” Policy, “Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment”, “Green Sourcing” Policy, based on which Pirelli undertakes to:

- assess and reduce the environmental impact of its own products and services throughout their entire life cycle, as of products and services purchased;
- develop products and production processes that are safe and designed to minimize polluting emissions, waste generation, consumption of natural resources available and the causes of climate change, in order to preserve the environment, biodiversity and ecosystems;
- manage its environmental activities in full compliance with applicable laws and in compliance with the highest international standards;
- monitor and communicate to its Stakeholders the environmental performance associated with processes, products and services throughout the entire life cycle, promoting its culture of environmental protection;
- monitor the environmental impacts of its suppliers by requesting them to adopt the same business model along the related supply chain;
- support customers and end consumers in understanding the environmental impacts of its products, informing them of the safest use and disposal methods, facilitating recycling or re-use where possible;
- empower and train its workers in order to extend adequate culture of environmental capital conservation.

All the documents mentioned above are communicated to the Group's employees in the local language and published in multiple languages in the Sustainability section of the [pirelli.com](http://pirelli.com) website, available to the external community.

## **JOINING THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)**

In September 2018 Pirelli formally joined the Task Force on Climate-Related Financial Disclosures (TCFD) set up by the Financial Stability Board (FSB).

In supporting the initiative, Pirelli undertook to voluntarily communicating information on risks and opportunities related to climate change as indicated in the TCFD recommendations. Pirelli publishes this information publicly both in this report and through the CDP Climate Change programme.

In particular, the discussion of the four thematic areas identified by the TCFD recommendations is as follows:

- **Governance:** the issues relating to Climate Change fall within the activities whose Governance is described in the paragraph "Management Model" of this Report, and in the paragraph "Director responsible for sustainability matters" and "Audit, Risk, Sustainability and Corporate Governance Committee" of the "Report on the Corporate Governance and Share Ownership of Pirelli & C. S.p.A.", included in this report and to which reference should be made for further information.
- **Strategy:** with a view towards long-term management, Pirelli monitors the Carbon Footprint and Water Footprint of its entire organisation and is committed to the progressive reduction of the related impacts on resources, climate and ecosystems. As described in detail in the paragraph "The Pirelli Group Environmental Strategy" of this Report, the Group has adopted a control and monitoring system that allows the identification of the materiality of environmental impacts along the life cycle of the product on the basis of which the company defines the response strategy.
- **Risk management:** In the area of Risk Management and opportunities related to Climate Change, the Group's Climate Change Risk Assessment was updated in 2018. The analysis assessed and quantified the financial impacts (risks and opportunities) linked to Climate Change, with medium/long-term projections according to the IPCC<sup>15</sup> climate scenarios (RCP 4.5 and RCP 8.5) and the energy transition (IEA 450). For details, refer to the paragraph "Risks Related to Climate Change" in the "Directors' Report on Operations" in this document, and to what was published in the CDP Climate Change questionnaire.
- **Metrics and Objectives:** Pirelli reports the impacts and performance linked to climate change according to the metrics defined by the GRI Sustainability Reporting Standards (in particular, see the "GRI Content Index" table at the end of this Annual Report for the requests of the GRI

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<sup>15</sup> Intergovernmental Panel on Climate Change.

Standard 305 Disclosures: Emissions) and reports its environmental and product targets that are most closely linked to climate change, in the present chapter “Environmental Dimension”.

## THE PIRELLI GROUP ENVIRONMENTAL STRATEGY

Monitoring and management of environmental issues have always played a key role in the business strategy at Pirelli. With a view to long-term management, Pirelli monitors the Carbon Footprint and Water Footprint of its entire organisation and is committed to the progressive reduction of the related impacts on resources, climate and ecosystems.

The Group has adopted a control and monitoring system that allows the identification of the materiality of environmental impacts throughout the product life cycle. The infographic on the following pages shows the Pirelli approach to environmental management and the specific multi-year targets defined by the Sustainability Plan, whose performance is reported in the present report. The Pirelli Group’s Carbon and Water Footprint are updated to 2018.

As is readily apparent, the materiality of environmental impacts is concentrated in the use phase of the tyre. In terms of the Carbon Footprint, the use phase has a weight of about 91% of total impacts throughout the entire life cycle of the product, compared to a production phase that has a weight of only 2.8% of total impacts. As regards the impact of the Water Footprint, the use phase of the product is the most significant (44.6% of the total impacts), followed by the production phase of raw materials (43.5% of impacts).

The graph can be read either horizontally, following the stages of life of a tyre one by one, or vertically, thus being able to appreciate the objectives of reducing the impacts that the Company has defined for each of the different stages of life, which will be explored later in this chapter.

At the methodological level, the phases of the life cycle have been analysed following the Life Cycle Assessment methodology as defined by the ISO 14040 family of standards. This approach is capable of validating the results and the strategic decisions related to it, as objectively as possible, integrated with the indications of the “Product Category Rule<sup>16</sup>” for tyres developed by the Tyre Industry Project Group of the World Business Council for Sustainable Development. The reporting of the emission impacts also complies with the provisions of the GHG Protocol (Corporate Accounting and Reporting Standard) and the GRI Sustainability Reporting Standards. To determine the Carbon Footprint and the Water Footprint, Pirelli’s calculation model is respectively inspired by the ISO-TS 14067 technical specification and the ISO 14046 standard. All the impacts listed by the standards that are not mentioned, both *upstream* and *downstream* of Pirelli’s industrial activity are either not applicable or not significant. The values are shown as a percentage, as the objective of this infographic is to show the difference in materiality between the various life stages.

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<sup>16</sup> Set of rules, requirements and specific guidelines for the development of environmental declarations, for one or more product categories, defined according to ISO 14025.

The main environmental impacts are generated by various activities related to the different stages of the Life Cycle. In the case of raw materials procurement, the main impact derives from the related production and distribution. In the case of tyre production, the main impact is related to the consumption of electricity and natural gas: in particular the main pressure in terms of emissions into the atmosphere and water consumption is attributed to the production of the latter. In the case of the distribution of new tyres and their use by customers, the impact derives from the fuel consumption of vehicles (only the fuel consumption related to the power absorbed by the rolling resistance of the tyres is allocated to the customers). Finally, in the last phase of life considered, the impact derives from the processing of end-of-life products for recovery thereof as energy or recycled raw material. With reference to the Carbon Footprint, the infographic (see the “Driver” part) also includes a breakdown of emissions in the three Scope categories provided by the GHG Protocol.

The central part of the infographic shows the actual quantification, in percentage terms, of the Carbon Footprint and Water Footprint. These two aspects are summarised by four principal indicators: Primary Energy Demand (PED), Global Warming Potential (GWP), Water Depletion (WD) and Eutrophication Potential (EP). The values are calculated in GJ of energy, tonnes of CO<sub>2</sub> equivalent, cubic metres of water and kilograms of phosphate equivalents.

Primary Energy Demand refers to the quantity of renewable or non-renewable energy that is taken directly from the hydrosphere, the atmosphere or the geosphere.

The Global Warming Potential concerns the effect on the climate of anthropic activities and is calculated, as mentioned, in tonnes of CO<sub>2</sub> equivalent (the greenhouse effect potential of the gas considered is assessed in relation to CO<sub>2</sub>, considering a residence time in the atmosphere of 100 years).

The Water Depletion, based on the Swiss model for ecological scarcity, represents the volume of water used, compared to the availability of water resources locally, with the aim of giving greater weight to the volumes of water taken from areas characterised by a greater scarcity of this resource.

Eutrophication Potential is the enrichment of nutrients in a given ecosystem, whether aquatic or terrestrial: air pollution, emissions into water and agricultural fertilisers all contribute to eutrophication. The result in aquatic systems is accelerated growth of algae, which does not allow sunlight to penetrate the surface of the 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.

In terms of environmental materiality, the use phase of the tyre is overall the most prevalent. In terms of economic materiality, instead, the amount of company spending in the process phase is the most relevant, which results in the opportunity to reduce impacts through investments in energy efficiency.

In the lower part of the infographic, the actions and targets adopted by Pirelli are indicated in order to reduce the environmental impacts in the various phases of the life cycle.

STAGES OF LIFE CYCLE				
RAW MATERIALS	MANUFACTURING	DISTRIBUTION	USE	END-OF-LIFE
DRIVERS				
Suppliers	Pirelli	Suppliers	Customers	Waste Recovery Players
Raw materials production and transport: the impact is due to resources use by suppliers' plants.	Tyre manufacturing: at Pirelli's plants the impact comes mainly from electricity and natural gas consumption Tyre manufacturing: at Pirelli factories the impact mainly derives from the consumption of electricity and natural gas.	Production and use of fuel by trucks and ships of logistics suppliers, delivering Pirelli tires worldwide Consumption and related production of fuel used by trucks and ships of logistics providers, which deliver Pirelli tyres worldwide.	Consumption and related production of the fuel used by customers' vehicles in the portion allocated to rolling resistance Production and consumption of the fuel of customers' vehicles due to rolling resistance.	Tyre management at end-of-life: old tyres are prepared by specialized companies to be reused both as energy and as regenerated raw material End of Life tyre management: old tyres are prepared by specialized companies to be reused as energy or as regenerated raw material.
-> Scope 3	-> Scope 1 + 2 + 3	-> Scope 3	-> Scope 3	-> Scope 3
IMPACT: CARBON & WATER FOOTPRINT** (**Values expressed as % of the impacts in the stages of the life cycle)				
PED: Primary Energy Demand; GWP: Global Warming Potential; WD: Water Depletion; EP: Eutrophication Potential (Freshwater - Peq)				

MATERIALITY				
Economic: HIGH	Economic: HIGH	Economic: MEDIUM	Economic: HIGH	Economic: LOW
Environmental: MEDIUM	Environmental: MEDIUM	Environmental: LOW	Environmental: HIGH	Environmental: LOW
RESPONSE STRATEGY				
<p>→ RAW MATERIAL INNOVATION</p> <ul style="list-style-type: none"> <li>Progressive introduction of new materials from renewable sources</li> <li>Biomaterials, such as high performance silica from renewable sources, biofillers such as lignin and plasticisers/resins of plant origin</li> <li>Natural rubber: search for sustainable alternative sources</li> <li>Functionalised Polymers: research on innovative polymers that guarantee reduced environmental impact, improved driving safety and improved production efficiency</li> </ul> <p>→ GREEN PURCHASING GUIDELINES/GREEN SOURCING POLICY</p> <p>→ CDP SUPPLY CHAIN (2020 target: 90% response rate suppliers of Raw Materials)</p> <p>→ THIRD PARTY AUDITS ON CRITICAL SUPPLIERS</p>	<p>→ PROCESS EFFICIENCY</p> <p><u>Targets 2020 vs 2009:</u></p> <ul style="list-style-type: none"> <li>Specific water withdrawal -66%</li> <li>Specific energy consumption -19%</li> <li>Specific emissions of CO2 -17%</li> <li>Waste recovery &gt;95%</li> </ul> <p>→ ISO 14001 AT ALL PRODUCTION PLANTS</p> <p>→ SCRAP REDUCTION PROGRAMME</p>	<p>→ GREEN SOURCING POLICY</p> <ul style="list-style-type: none"> <li>Green Logistic Procedure</li> <li>Engagement to reduce Supply chain Carbon &amp; Water Footprint</li> </ul>	<p>→ PRODUCT INNOVATION</p> <p><u>Targets 2020 vs 2009:</u></p> <ul style="list-style-type: none"> <li>Rolling Resistance CAR -20% (-14% High Value Products*)</li> <li>Rolling Resistance MOTORCYCLE -10%</li> </ul> <p>→ GREEN PERFORMANCE REVENUES</p> <ul style="list-style-type: none"> <li>Car Products &gt;50% of total revenues by 2020 (&gt;65% High Value Products*)</li> </ul> <p>→ CYBER TECHNOLOGIES DEVELOPMENT</p> <ul style="list-style-type: none"> <li>OE Platforms: thanks to the interaction with the car, the information that the tyre provides can influence its behaviour, improving safety and performance.</li> <li>Cyber Fleet: modular solutions dedicated to fleet management.</li> </ul> <p><i>* High Value products are determined by rims equal or greater than 18 inches and, in addition, include all "Specialties" products (Run Flat, Self-Sealing, Noise Cancellation System).</i></p>	<p>→ PRESENCE ON THE MAIN INTERNATIONAL WORKING TABLES (WBCSD, ETRMA) to spread the culture of recovery</p> <p>→ REGENERATED RAW MATERIALS</p> <p>Research projects in order to improve the quality of regenerated materials, with the aim of increasing their percentage portion of the new compounds</p>

## RESEARCH AND DEVELOPMENT OF RAW MATERIALS

The Research and Development of innovative materials is essential in order to design and manufacture increasingly sustainable tyres that guarantee lower environmental impacts throughout their life cycle while ensuring greater driving safety.

The Pirelli Sustainability Plan includes, for specific product segments, the doubling in weight of the renewable materials used and a 30% reduction in fossil-derived raw materials by 2025 compared to 2017 values.

In this context, Pirelli's Research & Development focuses, for example, on:

- high-dispersion silica for wet grip, rolling resistance and durability;
- biomaterials, such as silica from renewable sources, biofillers such as lignin and plasticisers/resins of plant origin;
- textile reinforcements with fibres from renewable sources;
- nanofillers for more stable compounds, lighter structures and highly impermeable liners;
- new silica surfactants to guarantee performance stability and processability.

Pirelli has activated several Joint Development Agreements with leading suppliers for the study of new polymers that are able to further improve the characteristics of tyres for rolling resistance, low temperature performance, mileage and road grip.

The Joint Labs agreement (2017-2020) between Pirelli and the Politecnico of Milan, aimed at research and training in the tyre industry, covers nanotechnology, the development of new synthetic polymers, new bifunctional chemicals and new biopolymers.

In the field of biomaterials, in addition to the introduction of resins and plasticisers from natural origin, Pirelli has focused on silica deriving from the rice husk, namely the outer shell of rice grain. The husk is by weight 20% of the raw rice grain and it is the main waste of this crop, because, in many areas of the world, it is not used but burned in the open air. Thanks to a partnership with various producers, Pirelli is evaluating the diversified supply of high performance silica from processes that start precisely from rice husks used as feedstocks. The combustion of the carbon part of the husk also allows a reduction of more than 90% of the amount of CO<sub>2</sub> emitted per kilogram of silica, compared to the conventional process that instead exploits fossil energy sources.

Specific projects for the development of new materials from renewable sources, mainly focused on the use of waste feedstocks (for example new oils from waste biomass), are the subject of the framework agreement between Pirelli, CORIMAV (Consortium for Materials Research Advanced) and Bicocca University.

In the context of the new nano-fillers, Pirelli has started to introduce in production process materials of mineral origin in a partial substitution of precipitated silica and carbon black. The innovations mentioned provide a water saving and more than 75% of CO<sub>2</sub> emissions reduction compared to the production processes of raw materials replaced.

Research continues aimed at diversifying the potential supply sources of natural rubber, to reduce pressure on biodiversity in producer Countries and allow the Company to manage the potential scarcity of raw materials with greater flexibility.



Further information on Pirelli's Research & Development activities can be found in the "Directors' Report on Operations" of this Annual Report.

## **ENVIRONMENTAL IMPACT OF PIRELLI'S PRODUCTION SYSTEM**

### **ENVIRONMENTAL MANAGEMENT SYSTEM AND FACTORY'S PERFORMANCE MONITORING**

All the production facilities of Pirelli and the tyre testing field in Vizzola Ticino have Environmental Management Systems certified under International Standard ISO 14001. The International Standard ISO 14001 was adopted by Pirelli as a reference in 1997 and, since 2014, all the certificates have been issued with international accreditation ANAB (ANSI-ASQ National Accreditation Board: accrediting entity of the United States).

In 2018, the Pirelli production sites completed the transition path of their Environmental Management System from ISO 14001:2004 to the 2015 version.

The certification of the environmental management system according to the ISO 14001 Standard is part of Pirelli's Environmental Policy and, as such, is extended to new settlements that become part of the Group. 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 manufacturing 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 developed the CSR-DM (Corporate Social Responsibility Data Management), an IT system for managing Group Sustainability information, which is used to consolidate the environmental and social performance of all Group subsidiaries worldwide. Both systems support consolidation of the environmental performance accounted for in this report.

## **SCOPE OF REPORTING**

The performances reported in the following paragraphs concern the three-year period 2016-2017-2018 and cover the same scope of the Group's consolidation, including the impacts of all the units under operational control: from industrial realities to commercial and administrative sites.

Following the change in the industrial scope that took place on 1 January 2018, which saw the entry of the Brazilian production site of Gravataí into the Group, the historical values of the environmental indicators reported below for the years 2016 and 2017 have been recalculated in order to ensure clear comparability with 2018 data.

The amount of finished product used in the calculation of the specific indices indicated below, in 2018 was approximately 793,000 tonnes.

## **TREND IN ENVIRONMENTAL PERFORMANCE INDICES**

In terms of materiality of environmental impacts (Carbon and Water Footprint) of the tyre along the entire life cycle, the production phase accounts for 2.8% of total greenhouse gas emission impacts and for 11.9% of total water-related impacts.

The year 2018 saw a decrease in tonnes of finished products of around -2% compared to the previous year (value calculated on a like-for-like basis).

The 2018 environmental performance indicators, calculated on the tonnes of finished product, show a specific index of energy consumption in line with the previous year, and a general improvement of all the other specific indices reported: waste recovery, water withdrawal and greenhouse gases emission. The positive result of all the indicators is recorded for the indices referring to the operating income (compared to the Adjusted EBIT value).

It should be noted that the trend of the above indices is significantly impacted by the production focus adopted. Pirelli production is focused on *Premium* and *Prestige* tyres and its production processes are characterised by higher energy intensity, more stringent quality specifications, more complex processing and smaller production batches compared to the production processes of medium-low end tyres. In the context of the *Premium* and *Prestige* production cited, the environmental efficiency effort is complex and relevant, and the associated reduction in the indices is characterised by a strong environmental and economic value, in terms of consumption and avoided emissions, resources saved and avoided costs.

### ***Energy Management***

Pirelli monitors, manages and reports its energy consumption through three main 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, as measured in GJ per tonne of finished product;
- specific consumption, as measured in GJ per euro of Operating Income.

The Sustainability Plan provides for a reduction of -19% of specific energy consumption by 2020 compared to 2009 values.

In the course of 2018, the energy efficiency plan continued at all Group plants, already initiated in recent years and characterised by actions aimed at:

- improving energy management systems, through measurement consumption, smart grid and a daily focus on technical indicators;
- optimizing the procurement of energy resources, direct or indirect;
- improving the quality of energy transformation;
- improving the efficiency of distribution plants;
- improving the efficiency of production plants;
- recovering energy for secondary uses;
- applying targeted maintenance plans in order to reduce energy waste.

With regard to Life Cycle Assessment, the specific consumption of each plants is also mapped, whether dedicated to production or dedicated to the generation of energy carriers in order to: increase the standard reference indicators, compare similar families of machinery, evaluate in detail the energy content of the plants' different families of products and sub-products and implement actions to improve their energy performance.

In terms of compliance, every industrial facility completely fulfils the indications of law regarding energy consumption and management. The legislative situation affecting the Company includes the introduction of periodic audit mechanisms on energy management and use, as well as possible tariff incentives. In this regard, there were no critical elements or non-conformities.

The Energy Management System, certified according to the ISO 50001 standard has been adopted at the Breuberg plant (Germany). The adoption of the same certification on other Group sites is being evaluated.

Actions and investments for energy efficiency are alongside the assessment of environmental impacts to economic sustainability criteria normally applied to all Pirelli projects. 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.

During the course of 2018 the installation of LED (Light Emitting Diode) lighting systems continued at production sites to replace less efficient systems. To speed up the replacement plan, Pirelli also uses "Light Service" contracts, which guarantee both energy savings of more than 50% and the quality of light achieved. Great attention was paid to the efficiency in the transformation of thermal energy and the recovery of thermal waste for heating of premises. Excellent results were recorded for the reduction of compressed air and steam losses both on machinery and on the distribution lines, also following the energy audit activities already started and progressively extended to all the

Group factories. In addition, the electrical absorption measurements performed on individual equipment have made it possible to correlate the specific consumption to the production in greater detail, in order to optimise the operating conditions.

As regards the digitalisation of energy management, the production plants have been and will be equipped with smart systems (Green Button), which modulating the energy consumption based on the state of operation of the machinery, provide to disable the auxiliaries up to a stand-by regime with a minimum energy consumption at the minimum, but able to guarantee an immediate restart.

For systems dedicated to the generation of energy carriers, following connection under Smart Grid systems, which allow monitoring and management in automatic and in real time, a more rapid modulation of loads with excellent results in terms of efficiency has become feasible.

Energy efficiency in 2018 was slowed by several factors: the slowdown of the LATAM market; the deviation for some plants between the planned volumes and the final result, and the installation of energy-intensive systems dedicated to the abatement of Volatile Organic Compounds (VOCs).

These exogenous factors are joined by the acceleration of the production mix towards *Premium* and *Prestige* products, characterised by very high technological and performance content, and therefore more complex processes and smaller production batches compared to medium-low-range tyre production processes. It follows that such tyres, during production, require a higher specific energy consumption than that of a standard tyre.

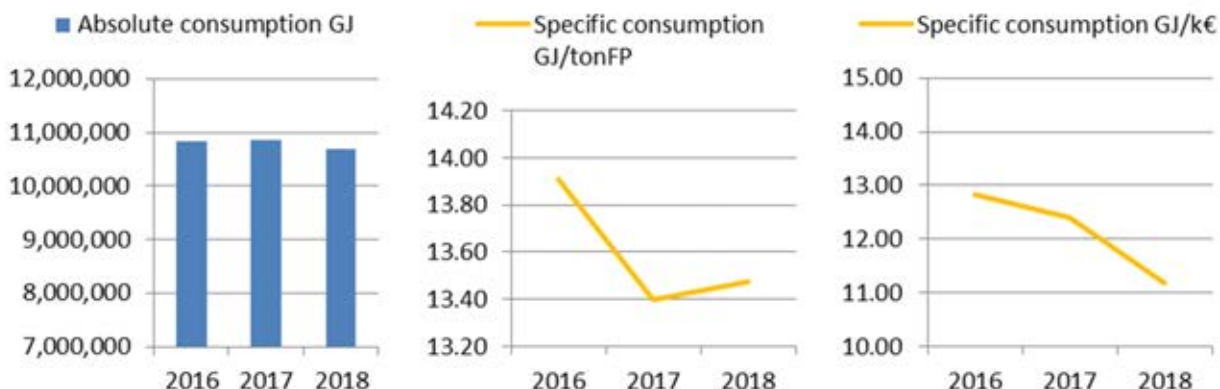
Management with a view to maximize the industrial efficiency, despite the penalising factors previously described, allowed a very slight increase in consumption in the industrial sector, of approximately 98,793 GJ. This value was calculated for each factory on the basis of the production volumes of the reporting year and the change in efficiencies achieved in 2018 from the previous year.

The Group's 2018 specific energy index therefore remained substantially unchanged (+0.6%) compared to 2017, while it recorded a reduction of -16% compared to 2009, the year on which the plan target is based, which aims at a reduction of -19% by 2020.

The absolute and specific consumption data reported in the following table were calculated by using direct measurements and were subsequently converted into GJ by using heating values from official IPCC sources.

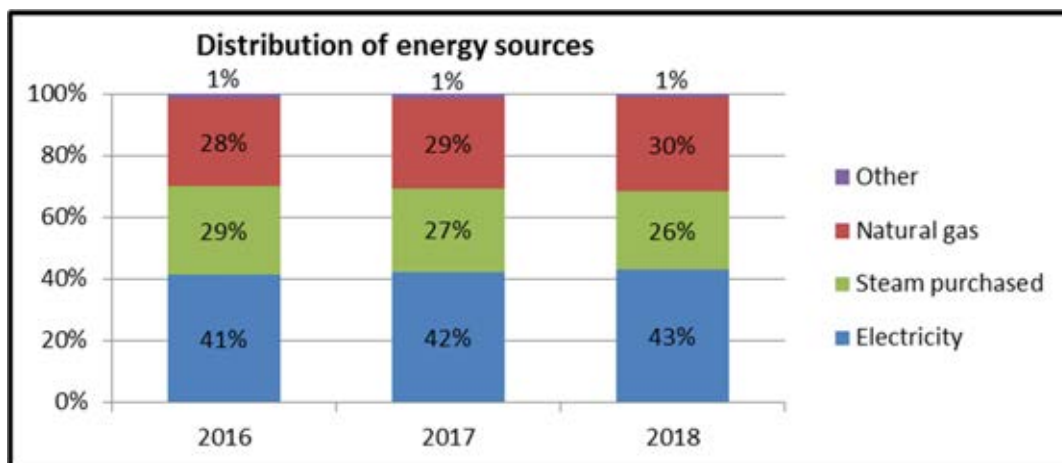
		2016	2017	2018
Absolute consumption	GJ	10,832,465	10,860,266	10,688,588
Specific consumption	GJ/tonFP	13.91	13.40	13.48
	GJ/k€	12.83	12.39	11.19

The same 2018 data, weighted in economic terms, show an improvement compared to the previous year.



The graph below highlights the “Distribution of energy sources” used in Pirelli production process: among the direct sources, all non-renewable, which account for 31% of the total, are natural gas and, to a lesser extent, other liquid fuels such as oil, LPG and diesel (classified as “other”); the remaining 69% is formed from indirect sources such as electrical energy and steam purchased.

Of the total electricity used by the Group, more than 41% derives from renewable sources (calculation on the IEA<sup>17</sup> database) while for steam, the share generated by renewable sources corresponds to around 14% of the total.



### Management of Greenhouse Gas Emissions and Carbon Action Plan

Pirelli monitors and reports its<sup>18</sup> emissions of greenhouse gases through the calculation of CO<sub>2</sub>-equivalent (CO<sub>2</sub>-eq) – unit of measurement used for the emissions reported here below –, which

<sup>17</sup> International Energy Agency.

<sup>18</sup> GHG inventory perimeter as indicated in paragraph “Scope of Reporting”.

takes into account the contribution of carbon dioxide, methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O). To quantify emissions, the energy consumption of all local units under operational control included in the scope of reporting are collected annually through the CSR-DM IT system.

Greenhouse gases are generated by the combustion of hydrocarbons at production sites, mainly used 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 former are defined as “direct emissions”, or Scope 1 emissions, as produced within the Company’s production sites, while the latter compose the so-called “indirect emissions”, or Scope 2 emissions, as they are generated in the plants that produce the energy and steam purchased and consumed by Pirelli. The Scope 2 emissions are reported in two separate ways: *location-based* and *market-based* (methodology introduced in 2015 with the guideline “GHG Protocol Scope 2 Guidance”).

With regard to “other indirect emissions” attributable to Pirelli *Value Chain* activities, or Scope 3 emissions, in addition to the information reported in this section, please refer to the paragraph “Our Suppliers”/“CDP Supply Chain” for further information about the specific activities of the Pirelli Suppliers. Instead, reference is made to the Group Footprint infographics for the representation of the impacts of Scope 3 of the various phases of the life cycle.

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

- IPCC: Guidelines for National Greenhouse Gas Inventories (2006)<sup>19</sup>;
- Within Scope 2 *location-based*:
  - National emission factors<sup>20</sup> taken from IEA: CO<sub>2</sub> Emissions from Fuel Combustion<sup>21</sup>;
- Within Scope 2 *market-based*:
  - Specific emission factors of suppliers where available;
  - Residual-mix emission factors<sup>22</sup> taken from RE-DISS AIB (EU)<sup>23</sup> and Green-e (US)<sup>24</sup>;
  - Emission factors used in the context of location-based if other sources of data are not available;

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<sup>19</sup> Emission factors expressed in CO<sub>2</sub> equivalent, obtained by considering the GWP (Global Warming Potential) coefficients based on 100 years of the IPCC Fifth Assessment Report, 2014 (AR5).

<sup>20</sup> Emission factors expressed in CO<sub>2</sub>/kWh.

<sup>21</sup> 2018 Publication with update to the 2016 figure.

<sup>22</sup> Emission factors expressed in CO<sub>2</sub>/kWh.

<sup>23</sup> 2018 Publication with update to the 2017 figure.

<sup>24</sup> 2018 Publication with update to the 2016 figure.

and are reported according to the models proposed by:

- GHG Protocol: Corporate Accounting and Reporting Standard;
- GHG Protocol Scope 2 Guidance.

Regarding Scope 2 emissions, the national average coefficients are defined with respect to the last year available on the above reports. It should be noted that the tyre production industry is not a carbon-intensive industry; in fact, it falls within the European Emission Trading Scheme only with reference to thermal power plants above 20 MW of installed capacity. 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 CO<sub>2</sub> (Scope 1) and indirect (Scope 2) by using three principal indicators:

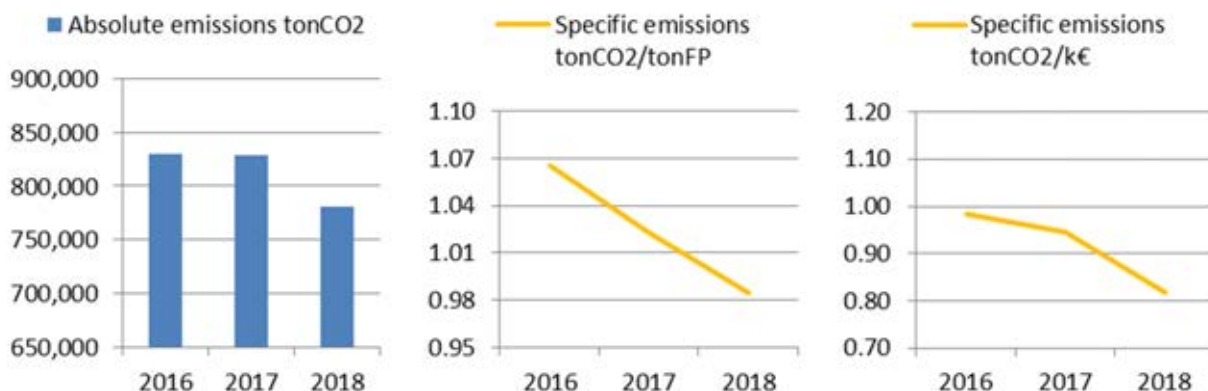
- absolute emissions, as measured in tonnes;
- specific emissions, as measured in tonnes per tonne of finished product;
- specific emissions, as measured in tonnes per euro of Operating Income.

The management, calculation and reporting model of Pirelli’s greenhouse gas emissions has been defined according to the ISO 14064 standard and the related data have been subjected to specific limited audit activity by an independent third party company according to ISAE 3000.

According to the Guidelines of the GHG Protocol Guide, the level of inventory uncertainty was evaluated as “Good”.

The Sustainability Plan envisages a reduction in specific emissions (on tonnes of finished product) of CO<sub>2</sub> equal to -17% by 2020 compared to 2009 values. At the time, the target was developed according to the methodology in force, i.e. Scope 1 and Scope 2 *location-based*.

The following tables show the performance of the last three-year period:



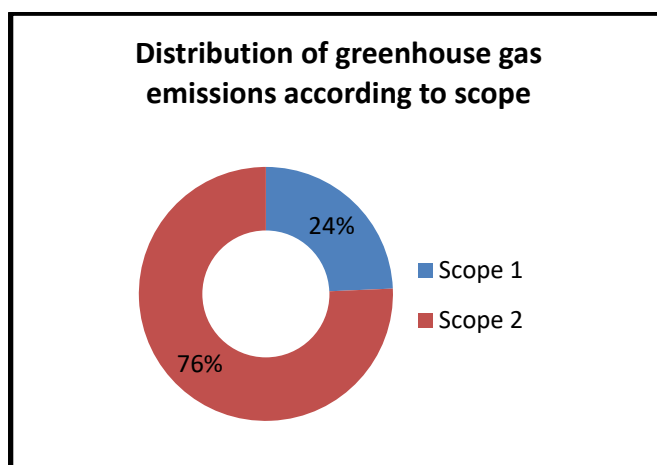
In 2018, Pirelli recorded a reduction in specific emissions (weighted on tonnes of finished product) of around -4% compared to 2017 and more than -13% compared to 2009, the year on which the 2020 target is based.

The portion of indirect emissions generated by the projects implemented in Silao (Mexico), Carlisle and Burton (UK), Settimo Torinese (Italy), Campinas and Gravataì (Brazil) - described below - was reported as prescribed by the Guidelines of the GHG Protocol, respectively for the procurement of electrical energy from renewable sources and steam from biomass.

The following table reports absolute and specific emissions distinguishing between location-based and market-based methodology for Scope 2:

GHG EMISSIONS ACCORDING TO SCOPE		2016	2017	2018
Absolute emissions (Scope 1 and Scope 2 <i>location-based</i> )	ton	829,794	829,035	780,998
Scope 1	ton	183,752	188,777	190,037
Scope 2 ( <i>location-based</i> )	ton	646,042	640,258	590,961
Scope 2 ( <i>market-based</i> )	ton	718,636	659,501	666,886
Specific emissions (Scope 1 and Scope 2 <i>location-based</i> )	Ton/tonFP	1.065	1.023	0.985
	ton/k€	0.98	0.95	0.82

The following infographic highlights the weight of direct emissions (Scope 1) and indirect emissions (Scope 2 *location-based*) of the total absolute emissions of Pirelli.



The improvement in 2018 performance related to greenhouse gas emissions is associated with the energy efficiency measures described in the previous paragraph and is closely linked to the “Carbon Action Plan” developed by Pirelli with the aim of increasingly resorting to renewable energy sources through specific projects. These include:

- the cogeneration plant for the production of electricity, steam and hot water, present at the plant in Settimo Torinese (Italy). There are two cogeneration modules, for a total of nearly 6 MW of



electricity: a 4.8 MW turbine unit powered by natural gas and a 1 MW internal combustion engine powered by vegetable oil, which ensures supply of thermal energy from renewable sources;

- the supply of steam generated by biomass plant, fuelled with waste wood from local supply chains, activated in Brazil for the Campinas and Gravataí plants. Thanks to this initiative, in the year 2018, the savings in terms of avoided CO<sub>2</sub> emissions exceeded 21,000 tonnes (Scope 2);
- the procurement of electrical energy from renewable sources at the plant in Silao (Mexico). In 2018 the agreement continued for the dedicated supply of electricity generated from wind sources, which in the year allowed the replacement of over 15 GWh of energy from fossil fuels, for a saving in terms of CO<sub>2</sub> emissions of over 7,000 tonnes (Scope 2);
- the procurement of electrical energy from renewable sources at the plants in Burton and Carlisle (UK). In the year 2018 the share of electricity certified from renewable sources exceeded 44 GWh, for an annual savings in terms of CO<sub>2</sub> emissions of more than 12,000 tonnes (Scope 2).

The table below shows the emissions relating to Pirelli’s carbon footprint (Scope 1, 2 and 3) distributed along the different phases of the *value chain*.

GHG EMISSIONS Group Footprint		2016	2017	2018
Raw Materials (Scope 3)	10 <sup>3</sup> ton	2,430.5	2,674.2	2,659.6
Manufacturing (Scope 1 + 2 + 3)	10 <sup>3</sup> ton	1,229.5	1,261.7	1,231.1
Distribution (Scope 3)	10 <sup>3</sup> ton	88.3	91.9	90.0
Customers (Scope 3)	10 <sup>3</sup> ton	39,894.9	41,863.6	40,187.2
End-of-Life (Scope 3)	10 <sup>3</sup> ton	2.4	2.6	2.5
Total	10 <sup>3</sup> ton	43,645.6	45,894.0	44,170.4

In 2018, Pirelli continued in the compensation project of CO<sub>2</sub> emissions produced the previous year by its fleet of company cars, through the purchase of carbon credits. Direct issuance of the Pirelli auto policy, which introduces an *Internal Carbon Price model* for the economic quantification of the impacts associated with car emissions, this initiative aims to promote the choice of vehicles with less impact on the environment and support environmental protection projects. The cars in the Italian company’s fleet in 2017 emitted 820 tonnes of CO<sub>2</sub>. In order to offset this impact on the climate, Pirelli purchased carbon credits through two sustainable forest management projects: an international one, implemented in Brazil, to finance activities under the REDD+ programme (*Reducing emissions from deforestation and forest degradation*) developed by the UNFCCC and an Italian agroforestry protection project implemented in collaboration with the Forestry Consortium of Pavia.

The activities financed with Pirelli’s contribution were carried out in 2018. The combination of the two projects has allowed the reduction of a share of about 130% of the emissions generated by company

cars in 2017, thus going well beyond what is required by the policy in view of increasing environmental responsibility.

### **Water Management**

Pirelli monitors the Water Footprint along the life cycle of the product (as extensively explained earlier in this chapter), and in terms of materiality, the production phase of the tyres is the third most influential, after the phases of use of the product and production of raw materials.

In the aforementioned environmental strategy of Pirelli, the efficient and responsible use of water in production processes and at workplaces is addressed comprehensively, with actions to improve water efficiency in production processes, from design of the machinery to Facility Management activities. Particular attention is paid to the local context of the use of this precious resource, with the use of specific analysis tools (such as the Global Water Tool of the World Business Council for Sustainable Development) and dedicated action plans.

The Sustainability Plan provides for a reduction target of specific withdrawal of water of -66% by 2020 compared to the 2009 value.

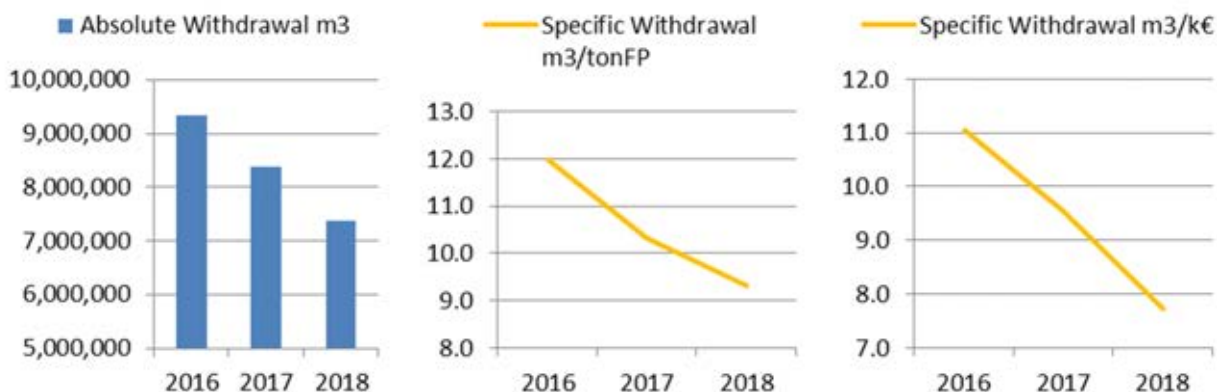
The 2018 recorded an absolute withdrawal equal to about 7.38 million cubic metres, with a reduction of specific withdrawal of around -10% compared to 2017, which allowed to reach in advance the 2020 target of -66% compared to 2009.

Thanks to the actions implemented, since 2009 Pirelli has saved about 80 million cubic metres of water: an amount almost equivalent to the absolute withdrawal of about ten years of the entire Group.

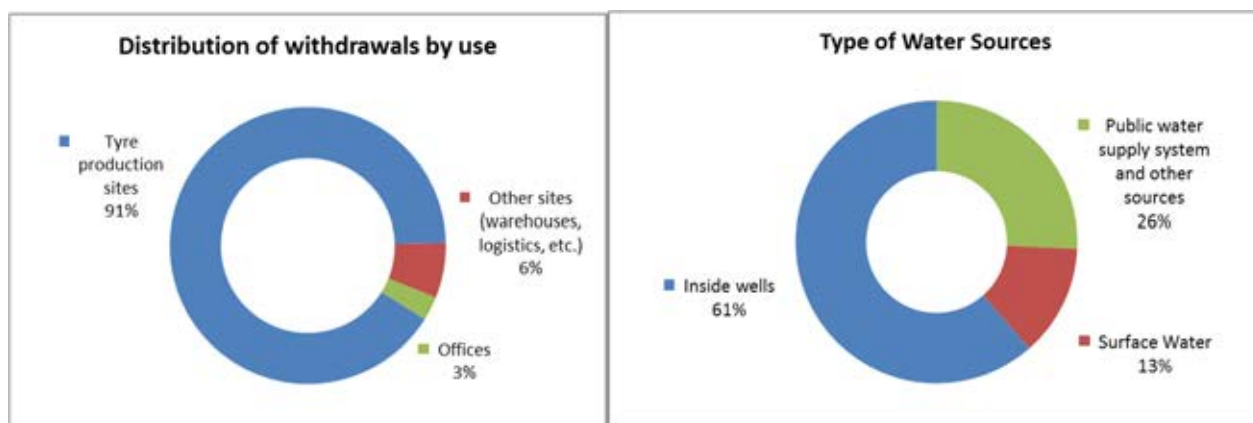
To provide an overall view of the performance in terms of water withdrawal year on year, the following tables report the indicators:

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

		2016	2017	2018
Absolute Withdrawal	m <sup>3</sup>	9,336,281	8,370,936	7,382,453
Specific Withdrawal	m <sup>3</sup> /tonFP	12.0	10.3	9.3
	m <sup>3</sup> /k€	11.1	9.6	7.7



All the figures reported in this paragraph have been collected by taking direct or indirect measurements, and are communicated by the local units. The following two graphs show the distribution of absolute withdrawals by type of use and the weight of water supply by type of source.



Type of Water Sources (m3)	
Public water supply system and other sources	1,900,000
Surface water	946,000
Internal wells	4,536,000
<b>Total</b>	<b>7,382,000</b>

61% of the water withdrawn is pumped from wells inside the facilities and authorized by the competent authorities. Furthermore, Pirelli obtains 13% of its requirements from surface water, while dedicating special care to guaranteeing that this withdrawal is marginal in relation to the volume of the affected water bodies (always less than 5%). The volume of water emitted from water bodies located in protected areas is completely marginal, being equal to 1,800 cubic metres. Lastly, about 196,000 cubic metres of water used, equivalent to approximately 3% of total withdrawal, are obtained from the waste water treatment of its production processes.

A total of about 5.7 million cubic metres of domestic and industrial waste water were discharged, with 60% of this into surface water bodies, but always in quantities that are marginal in relation to the volume of the receiving bodies (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 substantial compliance with locally applicable statutory limits. In particular, as regards the quality of industrial effluents of the production facilities, indicative average values are: 12 mg/l of BOD<sub>5</sub> (Biochemical Oxygen Demand), 38 mg/l of COD (Chemical Oxygen Demand) and 14 mg/l of Total Suspended Solids.

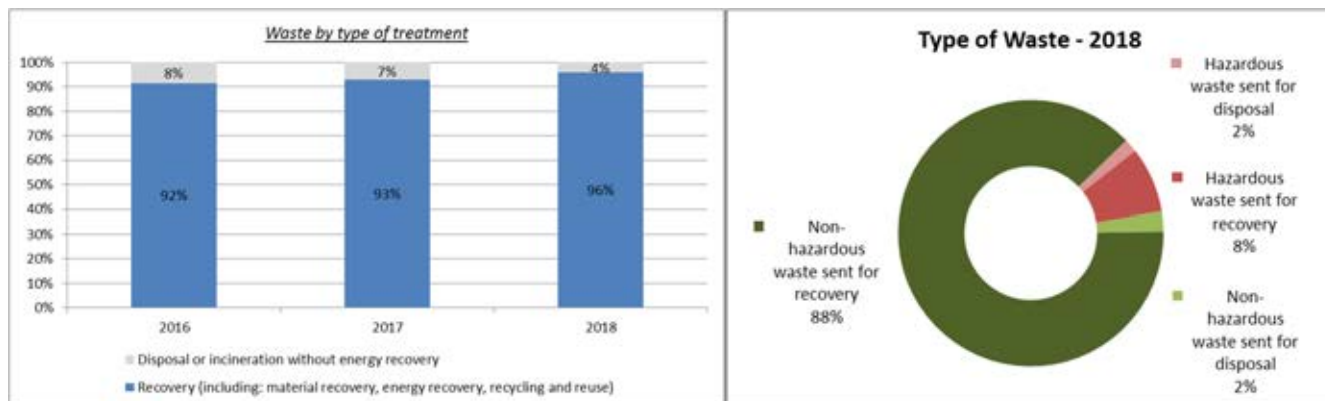
### **Waste Management**

The improvement of environmental performance connected with the management of waste is achieved through:

- innovation of production processes, with the aim of preventing the production of waste at the source, progressively reducing the processing of rejects and replacing current raw materials with new materials 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.

In 2018, 96% of waste sent for recovery was achieved, with an increase of three percentage points compared to the previous year and with an increase of 27% compared to 2009, base year of reference. This result made it possible to reach in advance the target set in the Sustainability Plan which envisages by 2020 that more than 95% of the waste produced will be sent for recovery, with the *Zero Waste to Landfill* vision.

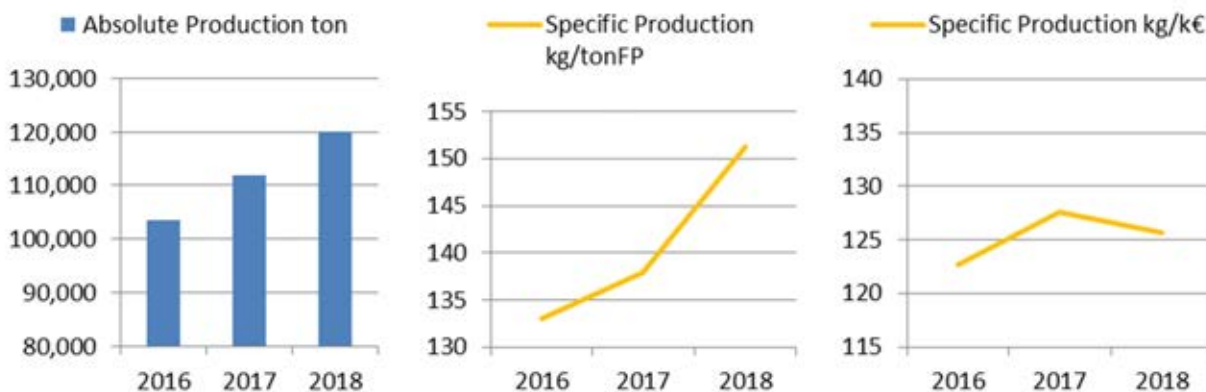
Specific waste production saw a stabilisation of the figure in 2018, which stood at 151 kg per tonne of finished product. Hazardous waste represents 10% of total production and is sent in its entirety to plants located in the same Country where it is produced.



The graphs below detail waste production through three main indicators:

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

		2016	2017	2018
Absolute production	ton	103,600	111,800	120,100
Specific production	kg/tonFP	133	138	151
	kg/k€	123	128	126



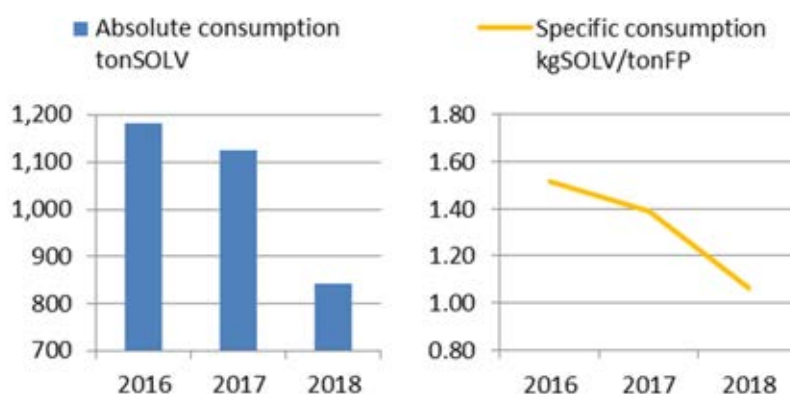
### Other Environmental Aspects

#### Solvents

Solvents are used as ingredients in processing, mainly to reactivate vulcanised rubber, during the fabrication and finishing of tyres. Pirelli is committed to the progressive reduction of these

substances, both by optimising their use, and by spreading solvent-free technologies for operations that may be performed even without their use. This resulted in a further reduction in the specific consumption of solvents of more than -24% at the end of 2018 compared to the previous year and of -68% compared to 2009, with emissions of related VOCs slightly lower than total consumption.

		2016	2017	2018
Absolute consumption	tonSOLV	1,181	1,125	841
Specific consumption	kgSOLV/tonFP	1.5	1.4	1.1



### Biodiversity

Pirelli pays the utmost attention to ensuring that corporate activities do not interfere with the biodiversity characteristic of the contexts in which the Company operates. Currently, the only Pirelli site located within a protected area of high biological diversity is the site of Vizzola Ticino (Italy). The site hosts the tyre test track, has an area of 0.37 square kilometres and is part of the Lombard area of the Parco del Ticino, MAB area<sup>25</sup> of UNESCO, characterised by the presence of 23 species included in the IUCN Red List (International Union for the Conservation of Nature) of which: 17 are classified as “of least concern (LC)”, 1 as “near threatened (NT)”, 3 as “vulnerable (V)”, 1 as “endangered (EN)” and one as “Critically Endangered (CR)”.

To ensure the utmost protection of the natural environment in which the Vizzola test track is located, Pirelli has implemented an ISO 14001 certified Environmental Management System in accordance with the Parco del Ticino. Environmental impact on biodiversity in the area are not significant, however, several interventions were carried out, both directly by the Company and by the Park Authority, to mitigate and improve the interactions of Pirelli’s activities with the natural environment, as stipulated in the agreement signed in 2001. In 2016, a campaign to monitor air quality was also

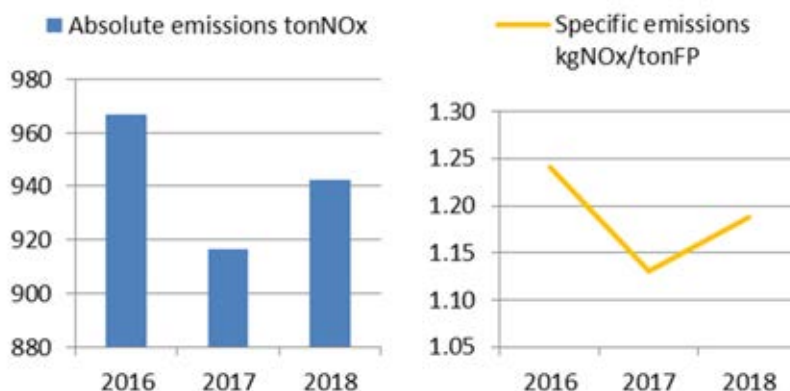
<sup>25</sup> Man and Biosphere is a group of 686 biosphere reserves in 122 countries in the world protected by UNESCO with the aim of promoting socio-economic development and conservation of ecosystems and biological diversity.

carried out, which highlighted the substantial negligence of the impacts of the activity compared to the context in which the test field is inserted.

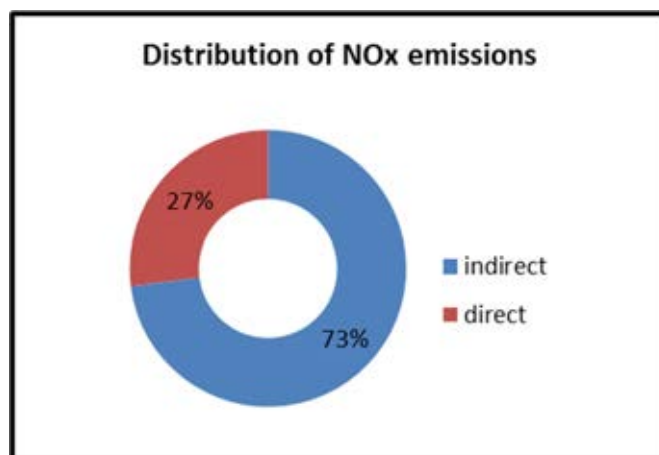
### NOx Emissions

NO<sub>x</sub> emissions derive directly from the energy-generating processes used. In 2018, the index based on the tonnes of finished product increased by 5% compared to the 2017 figure, mainly due to a slight change of the mix of the energy consumed as described above. The emissions were calculated by applying the emission factors indicated by the EEA (European Environment Agency) to the energy consumption data.

		2016	2017	2018
Absolute emissions	tonNO <sub>x</sub>	967	917	943
Specific emissions	kgNO <sub>x</sub> /tonFP	1.24	1.13	1.19



The following graph shows the 2018 weight of direct and indirect NO<sub>x</sub> emissions out of total NO<sub>x</sub> emissions.



#### *Other emissions and environmental aspects*

The production process does not directly use substances that are harmful to the ozone layer. These are instead 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 with Pirelli manufacturing activities.

In 2018, direct emissions of SO<sub>x</sub>, caused by the combustion of diesel and fuel oil, were estimated to be about 11 tonnes (EEA - European Environment Agency emissions standards).

The environmental management systems implemented at the production units have assured constant and prompt monitoring and intervention regarding potential emergency situations that may arise, as well as the reports received from Stakeholders. During 2018, a spill of about 1 cubic meter of hydrocarbons took place at the Campinas site (Brazil). This spill was promptly resolved in consultation with the competent authority. Furthermore, no complaints or significant sanctions related to environmental issues were recorded.

#### **Expenses and Investments**

In the three-year period 2016-2018, environmental expenditure related to the production process exceeded Euro 47 million, of which about 50% was allocated in 2018. About 76% of this amount concerned normal management and administration of factories, while the remaining 24% was dedicated to preventive measures and improvement in environmental management.

Lastly, it should be noted that, consistent with the materiality analysis at the beginning of this section of the Report, the most significant expenses that Pirelli dedicates to the environment are those relating to Product Research & Development: in 2018, the Company invested Euro 219 million in



research and innovation of its products, with a constant focus on safety performance and reduction of environmental impacts and, simultaneously, production efficiency.

In the operations area, for the assessment of some new investments, the potential impacts associated with GHG emissions are highlighted, evaluating internally a carbon price.

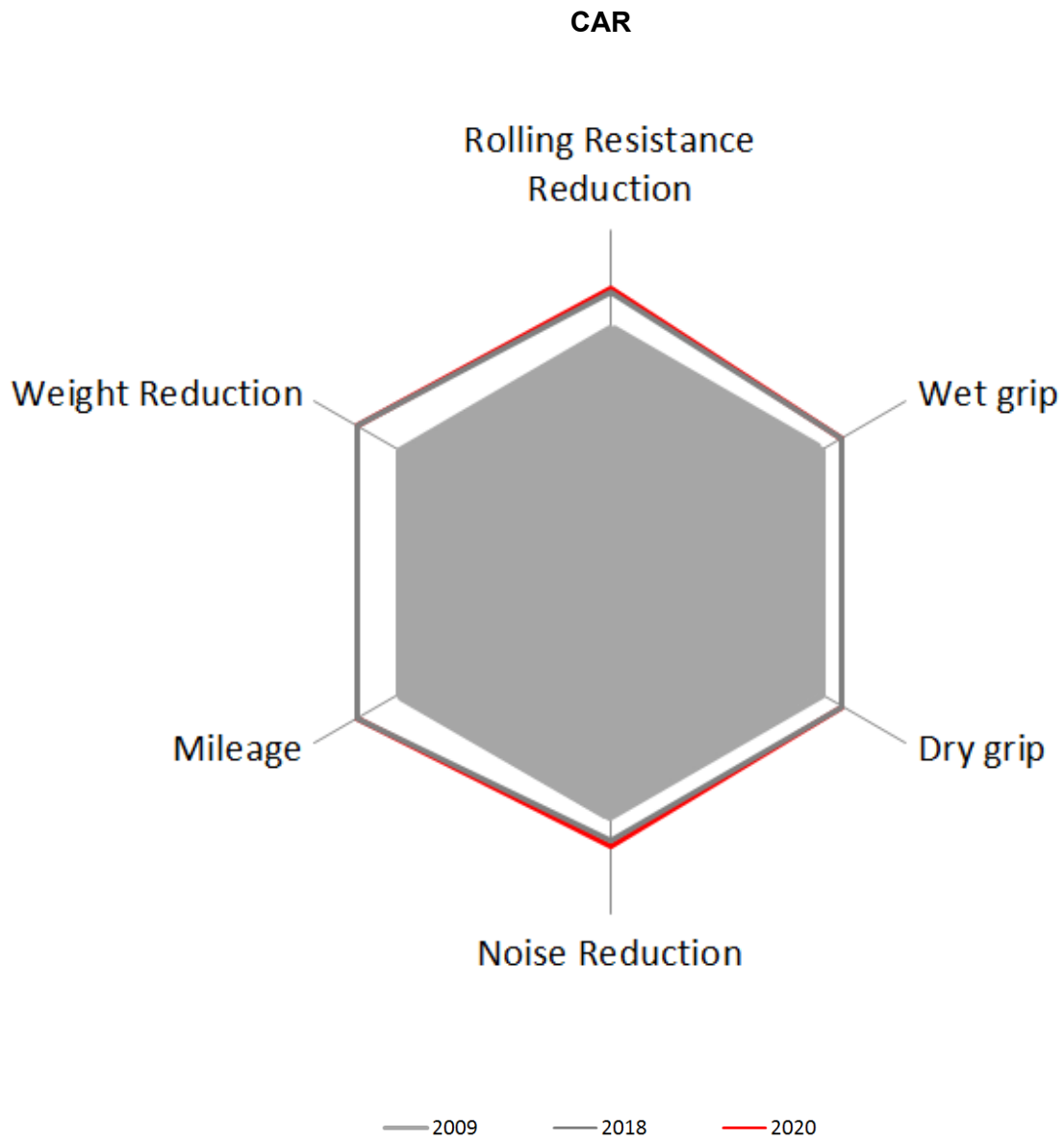
## **PRODUCT AND USE PHASE: GREEN PERFORMANCE TARGETS**

In line with its position in the *Premium* and *Prestige* segments, Pirelli develops and introduces increasingly sophisticated products on the market, responding to a macroeconomic scenario in constant and rapid evolution. The significant corporate investment in research and development on materials, compounds, structures and tread patterns allows Pirelli products to achieve extremely high performance in terms of braking in dry and wet conditions and, at the same time, improved environmental performance such as:

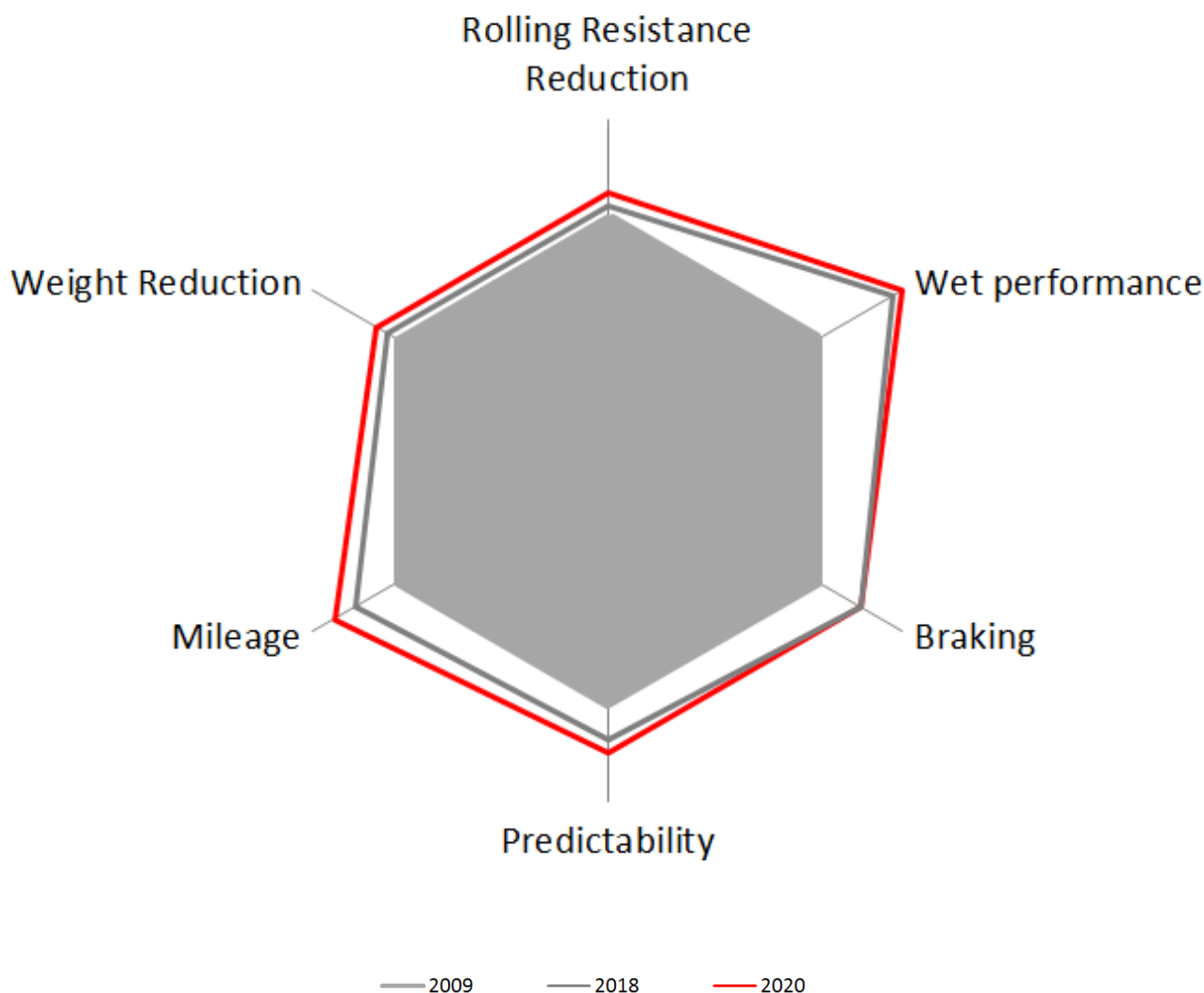
- less rolling resistance – lower CO<sub>2</sub> emissions;
- less noise – reduced noise pollution;
- increased mileage – lengthening of tyre life and reduced exploitation of resources;
- reduced weight – reduction in use of raw materials and lower impact on natural resources.

The targets to improve the environmental performances adopted by Pirelli for its products are objective, measurable and they consider the level of materiality of the impacts along the life cycle of the product with a perspective of the maximum effectiveness of the action. In particular, it was seen that the rolling resistance related to the use phase of the tyre constitutes the factor with most impact by far in environmental terms. In this regard, Pirelli has committed to reduce by 2020, compared to the 2009 average, the average weighted rolling resistance of its products by 20% with regard to CAR tyres and 10% for Motorcycle products, as shown in the graphs below.

At the end of 2018, the weighted average rolling resistance of CAR products decreased by 16.4% compared to the average for 2009.



### MOTORCYCLE



Green Performance<sup>26</sup> products include the CINTURATO™ P7™ Blue, with which solution Pirelli was the first manufacturer in the world present on the market with a tyre that, in some measurements, boasts the double A in the Eurolabel scale. This product is available, depending on the measurements, both in double A class and in B class of rolling resistance while always maintaining A class for wet grip. On average, the CINTURATO™ P7™ Blue guarantees 23% less rolling resistance than the Pirelli reference (rolling resistance class C), combined with lower fuel consumption and a reduction in the atmospheric emissions associated with it. A vehicle with CINTURATO™ P7™ Blue tyres that runs 15,000 km a year consumes 5.1% less fuel (equivalent to 52 litres), and reduces greenhouse gas emissions by 123.5 kilograms of CO<sub>2</sub> and has a braking distance on wet 9% lower than the Pirelli benchmark (class B of wet grip) in the same segment. Comparative TÜV SÜD tests showed that, at a speed of 80 km/h on a wet surface, the

<sup>26</sup> Green Performance products identify the tyres that Pirelli produces throughout the world and that fall under rolling resistance and wet skid resistance classes A, B, C according to the labelling parameters set by European regulations.

CINTURATO™ P7™ Blue reduces braking by 2.6 metres compared to a tyre classified B. The CINTURATO™ P7™ Blue was developed for medium-high cylinder cars, as a further evolution of the CINTURATO™ P7™, the renowned Pirelli Green Performance tyre released in 2009.

In 2017 Pirelli presented a new generation of the CINTURATO™ P7™ Blue characterised by a rolling resistance even lower than the previous one. As a result of this evolution, the CINTURATO™ P7™ Blue is the tyre with the world's largest number of sizes which boast double A labelling in Europe. At the origin of this improvement is the "Low Rolling Technology Package": a solution that combines new construction processes, innovative materials and product design in order to achieve lower rolling resistance without compromising wet grip performance.

The attention to the environmental impact demonstrated in the development of the "Low Rolling Technology Package", allowed Pirelli to receive from the Italian Industrial Research Association (AIRI) the "Oscar Masi" award for industrial innovation 2018, in the field of "Enabling technologies and innovative solutions for the sustainable city".

Also in the field of high performance cars, attention to the environment has become a discriminating element with the challenge of reducing rolling resistance while maintaining performance at the level expected for this segment. For example, the new all-electric Aston Martin model, Rapid E, will be equipped with Pirelli P ZERO™ tyres specifically developed to ensure low rolling resistance, essential to offer the maximum possible autonomy with only one recharge, and at the same time maximum performance in terms of torque management supplied by electric motors, in addition to high precision on the wet. The tyres on the Aston Martin Rapid E will also be equipped with the Pirelli Noise Cancelling System technology, a solution able to reduce the noise transmitted to the car and, therefore, to offer the driver superior comfort compared to the case of using traditional tyres.

As regards motorcycle tyres, we note the introduction on the market of the METZELER KAROO™ STREET line for the Enduro on/off segment, characterised by performance versatility able to combine off-road performance with on-road characteristics. The new product presents unique performance especially in the area of grip and traction in the wet, which traditionally is more delicate for tyres developed for different surfaces. The internal tests showed an improvement of around 5% in the wet braking area compared to the best competitor in the segment, in addition to a clearly improved subjective performance in terms of safety and controllability.

As far as bicycle tyres are concerned, in 2018 Pirelli expanded its product lines, adding the CINTURATO™ Velo and the Cycl-e™ range to the P ZERO™ Velo.

CINTURATO™ Velo is a reinforced clincher tyre, which can be used with and without inner tube, offering extreme reliability in all road conditions, even the most adverse. It is a product intended for very wide use: from road racing, to training, to cross-cycling, to short journeys.

A few weeks after the launch of CINTURATO™ Velo, Pirelli presented at the Eurobike 2018 the most prestigious European bicycle fair in the world, the Cycl-e™ range dedicated to traditional electric bicycles, in urban areas, trekking and tourism.

The range of Pirelli tyres for electric bicycles, after the first Cycl-e™ tyre (specified by the Swiss brand Stromer for its innovative ST-5), has been enriched with 5 new models that, thanks to the synergy between the compound, the tread and tyre structure, offer safety and driving pleasure in any commuting or cycle touring situation. The tyres of the Cycl-e™ line have been developed and manufactured using a mixture that contains the powder recovered from end-of-life tyres. Particular attention was then paid to maximising the use of natural rubber compounds, raw material from renewable sources.

Pirelli highest technology products do not stop at the tyres. Pirelli continues to develop CYBER™ technologies which, based on the introduction of sensors inside the tyre, will contribute in the future to making information available to increase the safety or performance of vehicles, including status monitoring, as the occasion arises, of the state of health of the tyre which, if maintained at the correct inflation pressure, can positively influence fuel consumption and vehicle emissions.

CYBER™ technologies are divided into products dedicated to original equipment (CYBER CAR™ and CYBER TYRE™) as well as platforms developed for fleet management (CYBER FLEET™).

In 2018, at the Geneva Motor Show, Pirelli presented CYBER CAR™, the new system for original equipment that, thanks to a sensor, makes the tyre and the car interact. The new technology, already being tested with the major car manufacturers, will be on the market for electric and traditional vehicles. CYBER CAR™ detects the operating parameters of the tyre and transmits them to the on-board intelligence that can thus adapt the ABS and stability control for safer and more efficient driving. The Perfect Fit Pirelli strategy, which aims to offer each customer tailor-made products and services, is thus enhanced with a new solution.

Pirelli has also completely renewed CYBER FLEET™, the system for monitoring and managing tyres in fleets, presenting in 2018, at the 67th edition of IAA Commercial Vehicles in Hannover, the new generation of solutions for fleets: CYBER FLEET™ Smart and CYBER FLEET™ Gate, both designed to optimise running costs, increase the safety and efficiency of road transport, reduce vehicle downtimes and CO<sub>2</sub> emissions. These new solutions come completely renovated compared to the product for the truck world that debuted in 2012. CYBER FLEET™ Smart and CYBER FLEET™ Gate, in fact, are based on Bluetooth communication technology, which has allowed the simplification and speeding up of tyre monitoring activities and does not require any hardware support on board the vehicle. Both solutions are connected to the Pirelli cloud, where tyre data are processed to provide estimates and predictions on fuel consumption, vehicle efficiency and maintenance operations required.

Among the Open Innovation initiatives, has to be noted the Joint Labs agreement between Pirelli and the Politecnico of Milan, established in 2011, aimed at research and training in the tyre sector, in particular through the development of innovative materials and technologies for sustainable and increasingly safe mobility. The new phase of the three-year agreement (2017-2020) focuses on two research macro-areas: the innovative materials design area and the product development area and CYBER™.

Throughout the years of partnership, the agreement has made it possible to achieve important results in terms of tyre performance, the relative level of safety and sustainability, thanks to the use of advanced materials. Research has focused mainly: on the production and functionalisation of carbonaceous fillers (from graphene, to nanotubes to carbon black); on the preparation of modified silicate fibres; on the study of alternative natural rubber sources up to the synthesis of innovative polymers and self-repairing materials. Attention has also been paid to the regulatory area of the mechanics where, since 2011, 12 research contracts have been activated in the CYBER TYRE™ and in the F1®, with the study of tyre-asphalt interaction. One area of particular interest was the study of low-noise tyres (Silent Tyre project). In fact, innovative test methodologies have been applied for the indoor measurement of the acoustic field generated by the rolling tyre.

## **MANAGEMENT OF END-OF-LIFE TYRES**

In terms of materiality, the end-of-life phase of the product has a low proportion of the total impact of the tyre on the environment, as already highlighted in the infographic related to the Group's Carbon and Water Footprint.

In the world, it is estimated that one billion tyres reach the end-of-life each year. On a global scale, 67% of end-of-life tyres (ELTs) are recovered (Source: WBCSD - "TIP - End-of-Life Tyres"), while in Europe and the United States the recovery stands at 94% (Source: ETRMA 2016 ELT Management figures 2016) and 81% (source: USTMA - 2017 US Scrap Tyre Management).

For years, Pirelli has been engaged in the management of ELTs. The Company actively collaborates with the main reference entities at national and international level, promoting the identification and development of solutions to enhance and promote the sustainable recovery of ELTs, shared with the various Stakeholders and based on the Circular Economy model.

In particular, Pirelli is active in the Tyre Industry Project (TIPG) of the World Business Council for Sustainable Development (WBCSD), in the ELT working group of ETRMA (European Tyres and Rubber Manufacturers' Association) and, at national and local level, it interacts directly with leading organisations active in the recovery and recycling of ELTs.

As a member of TIPG, Pirelli Tyre has collaborated on the publication of guidelines on the management of ELTs, taking a proactive approach to raising the awareness both within emerging Countries and those that do not yet have a system for ELTs recovery, in order to promote their recovery according to defined management models, which have already been launched successfully.

The tyre is a mixture of many valuable materials that at end-of-life allow two paths of recovery: recovery of material or energy. In the recovery of material, the reclaimed rubber is already reused by Pirelli in the compounds for new tyres, thus contributing to the reduction of the related environmental impact. In order to increase this recovery rate, research activities continue aimed at

improving the quality of recovered materials in terms of affinity with the other ingredients present in the compounds.

## **SOCIAL DIMENSION**

### **HUMAN RIGHTS GOVERNANCE**

Pirelli bases its activities on compliance with the universally established Human Rights, as fundamental and indispensable values of its culture and business strategy, working to manage and reduce potential risks of violations and in order to avoid causing – or contributing to causing – adverse impacts to these rights in the international, multi-racial, socially and economically diverse context in which it operates.

The Company promotes respect for Human Rights and adherence to international standards applicable at its Partners and Stakeholders and aligns its governance to the Global Compact of the United Nations, to the ISO 26000 Guidelines, to the dictates of the SA8000® Standard and underlying international standards, and the recommendations contained in the Guiding Principles Business and Human Rights of the United Nations, implementing the Protect, Respect and Remedy Framework.

The human rights management processes are handled by the Pirelli Sustainability & Risk Governance Department, which acts in concert with the affected and responsible functions, central and in the various Countries, with reference to both the Internal and External Community.

The undertaking by Pirelli in favour of human rights is dealt with extensively in the Group “Global Human Rights” Policy, which describes the management model adopted by the Company in respect of core Rights and Values such as occupational health and safety, non-discrimination, freedom of association, refusal of forced labour, guarantee of decent work conditions in economic and sustainable terms and in terms of working hours, protection of rights and values of local communities, refusal of any form of corruption and protection of privacy. Further references to respect for human rights can also be found in other company documents: “Values and the Code of Ethics”, the “Social Responsibility Policy on Occupational Health, Safety and Rights and Environment”, the “Global Health, Safety and Environment” Policy, the “Privacy” Policy, the “Equal Opportunities Statement” and the “Policy on the Sustainable Management of Natural Rubber”. All the documents were communicated to employees in the local language and published on the Pirelli website in multiple languages.

To identify, assess, prevent and mitigate the risks of violation of Human Rights, the Company:

- ensures awareness among its workers through information and training starting from the course for new hires (in this regard, reference is made to the paragraph “Focus: Training on Sustainability and Corporate Governance”);
- manages its supply chain responsibly and specifically includes respect for human rights in the selection parameters of its suppliers, the contractual clauses and verifications carried out by third-party audits. Pirelli also requires its suppliers to implement a similar business model on their supply chain, including adequate due diligence aimed at certifying that the products and materials provided to Pirelli are “conflict free” throughout the supply chain. With specific reference to the natural rubber context, Pirelli promotes decent working conditions, development of local communities and prevention of conflicts related to land ownership (for



an in-depth study on the sustainable management of Natural Rubber, and other materials, please refer to the paragraph “Our Suppliers” in this Report);

- is open to cooperation with government and non-government, sectoral and academic entities in relation to the development of global policies and principles aimed at protecting human rights;
- before investing in a specific market, conducts ad hoc assessments of any political, financial, environmental and social risks, including those related to the respect of human and labour rights. The internal and external context is monitored in those Countries where the Company 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;
- makes available to its Stakeholders a channel dedicated to the reporting, even anonymous, of any situations that constitute or may constitute a risk of violation of Human Rights (in this regard and with reference to the reports received in the last three years, please refer to the paragraph “Focus: reporting procedure - Whistleblowing Policy” in this Report).

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

In 2017, Pirelli carried out an analysis of the risk of violation of human rights on its own premises, in the related supply chain and in the local environment external to Pirelli, asking the main Stakeholders to fill out a specially prepared survey. With regard to the perception of internal risk at the Pirelli offices and in the relative supply chain, the survey was submitted to the function managers and to the Sustainability Managers of the Group’s operational offices, while regarding the perception of risk in the external context of Pirelli the survey was submitted to both the aforementioned Pirelli functions and to the applicable local Non-Governmental Organisations.

The survey asked for an indication of the perceived risk value on a scale from 0 to 3 (0 = no risk, 1 = low risk, 2 = medium risk and 3 = high risk) relative to 35 internationally recognised human rights, deriving from the Universal Convention of the Human Rights of the United Nations and the ILO Declaration on the Fundamental Principles and Rights of Labour.

The consolidation of the feedback received from the Pirelli operations centres, with reference to the internal risk at the Pirelli offices and in the relative supply chain, did not reveal any significant perceived risks (on average, a perception of less than 1).

The consolidation of the feedback received from the Non-Governmental Organisations, with reference to the risk perceived in the local context external to Pirelli, showed, on average, risks between 0.08 and 1.85, with greater recurrence of the Right to equal pay for the same work, the Right to a decent salary, the Right to a safe working environment and Freedom from discrimination.

The management of human and labour rights in the Internal Community at Pirelli is outlined in the paragraph on “Compliance with statutory and contractual obligations in terms of overtime, leave,

association and bargaining, equal opportunities and non-discrimination, prohibition of child and forced labour”, to which reference is made for related details.

INTERNAL COMMUNITY

**PIRELLI EMPLOYEES AROUND THE WORLD**

The Pirelli workforce as at 31 December 2018 - expressed in *Full Time Equivalent* and including agency workers - stood at 31,489 resources (vs. 30,189 in 2017 and 29,787 in 2016), recording a net growth of 1,300 employees compared to the previous year.

**BREAKDOWN OF WORKFORCE BY CATEGORY**

	EXECUTIVES	CADRE	WHITE COLLARS	BLUE COLLARS	TOTAL
<b>2018</b>	288	1,945	4,643	24,612	31,489
<b>2017</b>	283	1,856	4,630	23,420	30,189
<b>2016</b>	279	1,814	4,561	23,134	29,787

*These data include agency workers, corresponding to 0.2% of total workforce in 2016 and to 0.1% in 2017 and 2018.*

**PERCENTAGE OF EMPLOYEES BY CATEGORY, GENDER AND AGE**

2018															
	Executives			Cadre			White collars			Blue collars			Total		
	M	F	tot	M	F	tot	M	F	tot	M	F	tot	M	F	tot
<b>&lt;30</b>	0%	0%	0%	3%	4%	3%	24%	33%	27%	28%	27%	28%	26%	27%	26%
<b>30 - 50</b>	48%	66%	50%	65%	74%	67%	60%	53%	58%	59%	66%	60%	59%	62%	60%
<b>&gt;50</b>	52%	34%	50%	33%	23%	30%	16%	15%	15%	12%	7%	12%	14%	11%	14%
2017															
	Executives			Cadre			White collars			Blue collars			Total		
	M	F	tot	M	F	tot	M	F	tot	M	F	tot	M	F	tot
<b>&lt;30</b>	0%	0%	0%	3%	3%	3%	24%	32%	27%	30%	31%	31%	28%	29%	28%
<b>30 - 50</b>	50%	66%	51%	66%	77%	68%	61%	54%	59%	57%	61%	58%	58%	60%	58%
<b>&gt;50</b>	50%	34%	49%	31%	19%	28%	15%	14%	15%	12%	8%	12%	14%	11%	14%
2016															
	Executives			Cadre			White collars			Blue collars			Total		
	M	F	tot	M	F	tot	M	F	tot	M	F	tot	M	F	tot
<b>&lt;30</b>	0%	0%	0%	3%	3%	3%	24%	33%	27%	31%	29%	31%	28%	28%	28%
<b>30 - 50</b>	52%	59%	53%	67%	77%	69%	60%	53%	57%	56%	62%	57%	57%	60%	58%
<b>&gt;50</b>	48%	41%	47%	30%	20%	28%	16%	15%	15%	13%	8%	12%	14%	12%	14%

*2017 data cover 99.8% of employees; 2016 data cover 96.5% of employees.*

**BREAKDOWN OF WORKFORCE BY GEOGRAPHICAL AREA\* AND GENDER**

	2018			2017			2016		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<b>EUROPE</b>	13,077	2,432	15,509	12,670	2,338	15,008	12,416	2,341	14,757
<b>NORTH AMERICA</b>	2,497	503	3,000	2,120	499	2,619	1,744	334	2,078
<b>SOUTH AMERICA</b>	7,577	693	8,270	7,168	671	7,839	6,870	627	7,498
<b>MEA</b>	539	56	595	517	44	561	529	52	581
<b>ASIA PACIFIC</b>	3,247	868	4,115	3,339	823	4,162	3,913	961	4,874
<b>TOTAL</b>	<b>26,937</b>	<b>4,552</b>	<b>31,489</b>	<b>25,814</b>	<b>4,375</b>	<b>30,189</b>	<b>25,472</b>	<b>4,315</b>	<b>29,787</b>

**BREAKDOWN OF WORKFORCE BY GEOGRAPHICAL AREA\* AND CONTRACT**

2018				
	Permanent	Temporary	Agency	Total
EUROPE	14,864	617	29	15,509
NORTH AMERICA	2,987	0	13	3,000
SOUTH AMERICA	8,099	171	0	8,270
MEA	583	12	0	595
ASIA PACIFIC	4,109	6	0	4,115
<b>TOTAL</b>	<b>30,642</b>	<b>805</b>	<b>42</b>	<b>31,489</b>
2017				
	Permanent	Temporary	Agency	Total
EUROPE	13,999	990	20	15,008
NORTH AMERICA	2,599	0	20	2,619
SOUTH AMERICA	7,469	370	1	7,839
MEA	560	1	0	561
ASIA PACIFIC	4,138	24	0	4,162
<b>TOTAL</b>	<b>28,764</b>	<b>1,384</b>	<b>41</b>	<b>30,189</b>
2016				
	Permanent	Temporary	Agency	Total
EUROPE	13,577	1,153	27	14,757
NORTH AMERICA	2,055	0	23	2,078
SOUTH AMERICA	7,225	257	16	7,498
MEA	574	7	0	581
ASIA PACIFIC	4,867	7	0	4,874
<b>TOTAL</b>	<b>28,298</b>	<b>1,424</b>	<b>66</b>	<b>29,787</b>

\*: **Europe:** Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Rep., United Kingdom, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Hungary. **North America:** Canada, Mexico, United States. **South America:** Argentina, Brazil, Chile, Colombia. **MEA:** South Africa, Turkey. **Asia Pacific:** Australia, China, Japan, Singapore, Taiwan.

**EMPLOYEES WITH PART TIME CONTRACT BY GENDER**

2018			2017			2016		
Male	Female	TOTAL	Male	Female	TOTAL	Male	Female	TOTAL
137	183	320	174	186	360	202	172	374

**Employee flows by geographic area, gender and age**

The following data refer to incoming/outgoing employees. The entry and exit rates are calculated by comparing the number of entries and exits of each category to the total number of employees belonging to that category as of 31 December. The disposals and acquisitions of companies or business units, and changes in work schedules from full-time to part-time are not considered.

**2018 EMPLOYEE FLOWS BY GEOGRAPHICAL AREA\*, GENDER AND AGE: ABSOLUTE VALUES AND RATES**

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
<b>EUROPE</b>	1,492	1,052	137	2,271	411	<b>2,682</b>	866	884	449	1,899	301	<b>2,200</b>
	44%	12%	4%	17%	17%	<b>17%</b>	25%	10%	13%	15%	12%	<b>14%</b>
<b>NORTH AMERICA</b>	1,221	598	29	1,648	200	<b>1,848</b>	969	473	20	1,255	207	<b>1,462</b>
	76%	47%	27%	66%	40%	<b>62%</b>	60%	37%	19%	50%	42%	<b>49%</b>
<b>SOUTH AMERICA</b>	565	1,249	196	1,810	200	<b>2,010</b>	414	900	231	1,360	185	<b>1,545</b>
	32%	22%	24%	24%	29%	<b>24%</b>	24%	16%	28%	18%	27%	<b>19%</b>
<b>MEA</b>	93	53	2	139	9	<b>148</b>	68	33	8	107	2	<b>109</b>
	102%	11%	12%	26%	17%	<b>25%</b>	75%	7%	47%	20%	4%	<b>18%</b>
<b>ASIA PACIFIC</b>	339	296	8	477	166	<b>643</b>	328	318	6	550	102	<b>652</b>
	24%	11%	9%	15%	19%	<b>16%</b>	23%	12%	7%	17%	12%	<b>16%</b>
<b>TOTAL</b>	3,710	3,248	372	6,345	986	<b>7,331</b>	2,645	2,608	714	5,171	797	<b>5,968</b>
	45%	17%	9%	24%	22%	<b>23%</b>	32%	14%	16%	19%	18%	<b>19%</b>

**2017 EMPLOYEE FLOWS BY GEOGRAPHICAL AREA\*, GENDER AND AGE: ABSOLUTE VALUES AND RATES**

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
<b>EUROPE</b>	1,196	822	126	1,773	371	<b>2,144</b>	580	822	428	1,433	397	<b>1,830</b>
	37%	10%	4%	14%	16%	<b>14%</b>	18%	10%	13%	11%	17%	<b>12%</b>
<b>NORTH AMERICA</b>	934	420	17	1,044	327	<b>1,371</b>	555	243	11	655	154	<b>809</b>
	63%	41%	20%	49%	14%	<b>52%</b>	37%	23%	13%	31%	31%	<b>31%</b>
<b>SOUTH AMERICA</b>	702	836	28	1,369	197	<b>1,566</b>	397	680	122	1,053	146	<b>1,199</b>
	38%	16%	4%	19%	29%	<b>20%</b>	22%	13%	17%	15%	22%	<b>15%</b>
<b>MEA</b>	80	26	0	103	3	<b>106</b>	61	32	3	92	4	<b>96</b>
	84%	6%	0%	20%	7%	<b>19%</b>	64%	7%	18%	18%	9%	<b>17%</b>
<b>ASIA PACIFIC</b>	296	164	5	391	74	<b>465</b>	497	628	11	931	205	<b>1,136</b>
	17%	7%	7%	12%	9%	<b>11%</b>	28%	27%	15%	28%	25%	<b>27%</b>
<b>TOTAL</b>	3,208	2,268	176	4,680	972	<b>5,652</b>	2,090	2,405	575	4,164	906	<b>5,070</b>
	38%	13%	4%	18%	22%	<b>19%</b>	25%	14%	14%	16%	21%	<b>17%</b>

These data cover 99.8% of employees.

**2016 EMPLOYEE FLOWS BY GEOGRAPHICAL AREA\*, GENDER AND AGE: ABSOLUTE VALUES AND RATES**

	INCOMING						OUTGOING					
	<30	30 - 50	>50	M	F	Total	<30	30 - 50	>50	M	F	Total
<b>EUROPE</b>	1,095	688	58	1,543	297	<b>1,840</b>	618	670	346	1,296	337	<b>1,633</b>
	36%	8%	2%	12%	13%	<b>12%</b>	20%	8%	11%	10%	14%	<b>11%</b>
<b>NORTH AMERICA</b>	829	283	5	939	178	<b>1,117</b>	563	191	2	630	126	<b>756</b>
	69%	36%	8%	54%	53%	<b>54%</b>	47%	24%	3%	36%	38%	<b>36%</b>
<b>SOUTH AMERICA</b>	630	546	14	1,102	88	<b>1,190</b>	476	774	110	1,208	152	<b>1,360</b>
	33%	11%	2%	16%	14%	<b>16%</b>	25%	16%	15%	18%	24%	<b>18%</b>
<b>MEA</b>	102	43	4	121	28	<b>149</b>	66	31	5	99	3	<b>102</b>
	87%	10%	19%	23%	54%	<b>26%</b>	56%	7%	24%	19%	6%	<b>18%</b>
<b>ASIA PACIFIC</b>	211	98	0	255	54	<b>309</b>	169	116	3	213	75	<b>288</b>
	11%	5%	0%	7%	6%	<b>6%</b>	9%	6%	5%	5%	8%	<b>6%</b>
<b>TOTAL</b>	2,867	1,658	81	3,960	645	<b>4,605</b>	1,891	1,782	466	3,446	692	<b>4,139</b>
	35%	10%	2%	16%	15%	<b>15%</b>	23%	11%	12%	14%	16%	<b>14%</b>

These data cover 96.5% of employees.

\*: **Europe:** Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Poland, Czech Rep., United Kingdom, Romania, Russia, Slovakia, Spain, Sweden, Switzerland, Hungary. **North America** Canada, Mexico, United States. **South America:** Argentina, Brazil, Chile, Colombia. **MEA:** South Africa, Turkey, India, Dubai, Saudi Arabia. **Asia Pacific:** Australia, China, Japan, Singapore, Taiwan.

During the year, the Company operated internationally to rebalance the employment level aligning it to the needs of volume related to high market volatility, obtaining a positive occupational balance compared to 2017.

Among the countries in which Pirelli operates, those internationally defined as “mature” markets (including Italy) have witnessed the strengthening of HQ structures mainly in the areas dedicated to research and development activities; instead, the internationally defined as “emerging” markets (Romania, Russia, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, Egypt, Turkey, China) recorded an increase in the workforce mainly in Romania and Mexico, due to an alignment of the organisation and production processes with market needs.

As for Brazil, in addition, the reorganisation process of the production structure continued and led to a downsizing of the workforce especially in the plants of Campinas and Bahia following the crisis situation of the country and the related negative impact in the Tyre sector.

Pirelli does not employ anyone under the age of 15. There are 41 young people aged between 15 and 18 (16 in Brazil, 14 in Germany, 3 in the UK, 8 in Switzerland), each for training and integration plans, in harmony with local laws.

## **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. Pirelli’s commitment to compliance with equal opportunities and the enhancement of diversity in the workplace is expressed in the main Group Sustainability documents: the “Ethical Code” approved by the Board of Directors, the “Social Responsibility Policy for Occupational Health, Safety and Rights, Environment” and the “Equal Opportunities Statement”.

The training course on Diversity has been part of the Group’s training offering for years.

Internationality and multiculturalism are the characteristic elements of the Group: Pirelli operates in over 160 countries on five continents and 89.6% of employees (as at 31 December 2018) worked outside of Italy.

Awareness of the cultural differences that create the identity of the Company entails displaying the utmost confidence in management of local origin: 79% of Senior Managers work in their country of origin, where Senior Managers are those reporting directly to the Executive Vice Chairman and CEO as at 31 December 2018. In order to develop the innovative and managerial potential inherent in multiculturalism and in dealings with different professional environments, the Company promotes the growth of its managers through international mobility: 53% of active Senior Managers in 2018 have in fact experienced at least one inter-company assignment during their professional experience within the Pirelli Group.



Compared to the total number of employees, in 2018 about 66 new inter-group expatriates were recorded, compared with about 54 postings in 2017 and 80 in 2016. Approximately one third of the new postings were destined for the main industrial countries, such as China and Germany.

At year-end 2018, the expatriate population totalled about 190 persons (vs. 195 in 2017 and 227 in 2016), belonging to 19 nationalities and who moved to 24 different Countries on five continents, of which 12% women. 49% of the total expatriate population is made up of employees of foreign nationality.

Pirelli monitors the level of acceptance and appreciation of diversity perceived by employees within their own reality. The survey is conducted as part of the annual “My Voice” climate survey, conducted in the local language at Group level (see the dedicated paragraph “Listening: Group opinion survey”). The results of the survey, conducted in June 2018, were particularly positive with regard to the perception of respect and management of Diversity, which confirms a distinctive feature of Pirelli’s corporate culture, which is also dealt with within the educational offer addressed to employees throughout the Group.

A functional tool for the management of equal opportunities and the prevention of risk of breach thereof is the Group Whistleblowing Procedure, through which employees, suppliers and the External Community can anonymously report any suspected violation. In 2018, 2 reports were ascertained for cases connected to discriminatory attitudes, on which the Company intervened, intervening in one case with a disciplinary sanction, and in the other with specific actions aimed at removing the causes of complaints and aimed at improving the internal control system. For further information on the reports received, please refer to the paragraph “Focus: Reporting procedure – Whistleblowing Policy”.

For the composition of the corporate bodies by gender and Diversity Policies reference is made to the “Report on the Corporate Governance and Share Ownership of Pirelli & C. S.p.A.”, within the present Annual Report, paragraphs “Sustainability and Diversity Policies”, “Board of Directors - Composition”, “Board of Statutory Auditors - Composition”.

With regard to the subdivision of the workforce by gender, with reference to the three-year period 2016-2018, the data show a substantial stability, with a percentage of women in the total population, which stands at 14.5%. The percentage of female executives remains substantially unchanged, while the percentage of women in relation to managerial positions (executives + cadres) rose from 20.6% in 2016 to 21.6% in 2017 and 22% in 2018, mainly due to the growth recorded within the population of cadres, an important element since the category constitutes a growth area and a landing place for executive positions.

**WORKFORCE BY GENDER AND BY CATEGORY - WOMEN'S INCIDENCE**

YEAR	EXECUTIVES	CADRES	EXEC+CADRES (= Tot Manager)	WHITE COLLARS	BLUE COLLARS	TOTAL
2018	10.1%	23.8%	22.0%	34.2%	10.0%	14.5%
2017	10.3%	23.3%	21.6%	33.6%	10.1%	14.5%
2016	10.0%	22.3%	20.6%	33.8%	10.1%	14.5%

Analysing the breakdown by gender in terms of employment contract, the table below shows that also in 2018, a substantial balance was maintained between men and women.

**WORKFORCE BY GENDER AND BY CONTRACT**

	2018			2017			2016		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
<b>PERMANENT</b>	97.5%	96.4%	97.3%	95.2%	95.7%	95.3%	94.8%	96.3%	95.0%
<b>TEMPORARY</b>	2.4%	3.5%	2.6%	4.7%	4.1%	4.6%	5.0%	3.5%	4.8%
<b>AGENCY</b>	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%

In 2018 the number of parental leaves used by Pirelli employees corresponds to 288 for women and 721 for men.

With reference to the post-maternity/paternity return rate, the Pirelli figure for the total workforce in all the countries where the company is present shows that, in 2018, one year after the maternity and paternity event (which occurred in 2017), 66% of women and 91% of men are still employed at the Company. The reduction in the rate of female return compared to the previous year is mainly due to the increase in maternity events in countries where the rate of return to work is historically lower. It should also be noted that the difference in the data between genders should be considered natural in light of the different socio-cultural contexts in which female workers are inserted.

In the context of gender diversity, Pirelli pays special attention to remuneration equality, constantly monitoring this issue. The countries considered significant in the analysis at the end of 2018 were Brazil, China, Germany, Italy, Romania, Mexico, Argentina, USA, Russia, France, Spain, UK and Turkey, representing over 3/4 of the total workforce subject to the remuneration policy (executives, cadres and employees). At a methodological level, it should be noted that the pay gaps between men and women were calculated for each Country and at the same weight of positions held, on the base of the "grade" (i.e. the weight attributed to each position on the basis of various factors). This valuation method allows objectivity and accuracy of the survey and evaluation: in fact, it should be noted that data calculated and/or reported only at Group level would be unable to pay due attention to the structural differences of the local markets and the logic of remuneration markets with special features not comparable with each other.

The average of pay gaps between men and women white collars recorded in these countries is equivalent to 8% in favour of women, compared with 3% in 2017 and 2% in 2016 also in favour of women; for the cadre category it is equal to 3% in favour of men, compared with 1% in 2017 and 2016 also in favour of men. A few examples:

- Italy, which has an difference between average remuneration for men and average remuneration for women of around 2% in favour of women for the category of employees (compared to 3% in 2017 in favour of women and 1% in 2016 in favour of women) and 2% in favour of men for the category of cadres (compared to 1% in 2017 and 2% in 2016, both in favour of women);
- Romania, where for the category of employees there is 4% in favour of men (compared to the equal pay of 2017 and 1% in favour of men in 2016) and for the category of cadre there is a 4% in women's favour;
- Brazil, where for the category of employees there is a 1% in favour of women (compared to 1% for men in 2017 and substantial retribution in 2016) and for the category of cadres there is equal pay (compared to 1% for men in 2017 and substantial equal pay in 2016);
- Germany, which showed an average pay gap between men and women of around 2% in favour of men for the category of employees (1% in 2017 and 3% in 2016) and 7% also in favour of men for the category of cadres (compared to 6% in 2017 and in 2016).

With reference to the population of managers, of which women represent 10%, there is an average pay gap of 3% for women (in 2017 it was 11% and in 2016 it was 8% again in favour of women).

With regard to the workers' population, all industrial countries with a significant number of observations were analysed: Brazil, China, Germany, Italy, Mexico, Romania, Russia, Spain, Switzerland, Sweden, Turkey, Argentina, USA and UK. For each country the pay gap between men and women has been calculated. The average, weighted by the number of employees, showed substantial retributive equity.

In particular:

- China presents a difference between average men's salary and average female pay around 9% for men, in line with 2017 and due to the organisational roles currently on average for the male population;
- Brazil has a pay gap of 6% in favour of women;
- in Italy there is a 4% in favour of men, in line with 2017;
- in Romania there is substantial pay equity compared to 2% in 2017 in favour of women.

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 and women or related to other diversity factors.

Pirelli’s inclusive culture towards different skills, as explained in the Pirelli policy on equal opportunities, is implemented by all the Group’s affiliates. Under applicable local laws, approximately 1.4% of total employees in 2018 (in line with 2017 and an increase from the figure of 1.1% in 2016) have some form of disability, net of the following considerations: 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; it is therefore likely that the actual percentage of disabled persons working at Pirelli could be higher than the above figure.

With reference to the “age” factor of the company population, as can be seen from the table below, it is homogeneous between genders.

<b>AVERAGE EMPLOYEE AGE BY CATEGORY AND GENDER</b>					
<b>2018</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	49	44	37	36	37
<b>Male</b>	50	45	38	37	38
<b>Total</b>	50	45	38	37	38
<b>2017</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	48	43	37	36	37
<b>Male</b>	50	45	38	37	37
<b>Total</b>	50	44	38	37	37
<b>2016</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	48	43	37	36	37
<b>Male</b>	50	45	38	37	38
<b>Total</b>	50	44	38	37	38

*These data include agency workers, corresponding to 0.2% of total workforce in 2016 and to 0.1% in 2017 and 2018.*

Instead, the following table represents the average seniority of service per professional category and gender: also in 2018, there were no significant differences between men and women.

<b>AVERAGE EMPLOYEE SENIORITY OF SERVICE BY CATEGORY AND GENDER</b>					
<b>2018</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	13	13	8	6	8
<b>Male</b>	16	15	9	9	9
<b>Total</b>	15	14	9	9	9
<b>2017</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	13	13	9	7	8
<b>Male</b>	15	15	9	9	9
<b>Total</b>	15	15	9	9	9
<b>2016</b>					
	<b>Executives</b>	<b>Cadres</b>	<b>White collars</b>	<b>Blue collars</b>	<b>Group Average</b>
<b>Female</b>	13	13	8	7	8
<b>Male</b>	15	14	9	9	9
<b>Total</b>	14	14	9	9	9

2017 data cover 99.8% of employees; 2016 data cover 96.5% of employees.

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

- the use, as far as possible, of candidate lists with a significant presence of women in recruitment processes;
- provision of training to promote cultural change connected with the promotion of diversity, with specific modules dedicated to “Diversity Management,” beginning with courses for new hires (e.g. Plunga);
- introduction of initiatives aimed at respecting cultural and religious diversity (e.g. different and clearly marked diets in canteens, typical cuisine from cultures other than that of the host country etc.);
- “multilingual” book stores at the factories;
- welcome kits for those joining Pirelli at a facility in a country other than their home country;
- welfare and work-life balance initiatives (in regard, refer to the paragraph “Welfare and initiatives in favour of the Internal Community” in this report);

- The presence of the course “Integrating Perspectives” within the School of Management training offering, aimed at providing participants with tools to train their ability to successfully interact in a global and heterogeneous environment, understanding and integrating diversity and maximising collective results.

## **REMUNERATION AND SUSTAINABILITY**

The remuneration 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.

The purpose is twofold: on the one hand to attract, retain and motivate employees, while on the other to reward and promote conduct that is as far as possible consistent with the corporate culture and values. Compensation policies and processes for Group management (intended as the overall executives) are managed by the central Human Resources and Organisation department, while for non-executive personnel they are handled on an individual Country basis. Once again in 2018, 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.

Management in general is the owner of the Annual Incentive Plan (MBO) linked to the achievement of annual economic and financial objectives of the Group and/or Business Unit and/or Region and/or function.

In 2014, some changes and improvements were made to the annual incentive system (MBO) which is no longer related to the Triennial Incentive Plan (LTI) but includes a form of deferred payment to the following year of a part (25%) of the annual incentive accrued subject to accrual of the MBO of the following year. Payment of an additional amount equal to a variable percentage of the entire MBO accrued during the previous year will be paid in line with the degree that the MBO is achieved in the following year.

At the end of 2018, the sustainability objectives that will be part of the 2019 MBO are being defined.

The return to the stock market at the beginning of October 2017 meant that the Company’s medium-long term objectives should be reviewed for the three-year period 2018-2020. Consequently by resolution of the Board of Directors of 28 July 2017, the 2016-2018 Long Term Incentive LTI was terminated early at the end of 2017 (a year before the natural expiry). The Board of Directors also approved the payment in 2018 in one instalment on the basis of reporting the newly measured goals - even in terms of percentage opportunities for each individual participant - on the values for the two-year period (2016-2017).

At the beginning of 2018, a new three-year incentive plan (LTI 2018-2020) was launched and extended to the majority of Executives of the Group, in line with the variable remuneration mechanisms adopted at international level, totally self-financed as the related expenses are included

in the economic data of the Industrial Plan. The Plan, in line with international best practices, includes a Sustainability objective common to all Group Management.

The General Remuneration Policy, approved by the Board of Directors of Pirelli, establishes the principles and guidelines to which Pirelli adheres in order to determine and monitor the application of the remuneration practices relating to the Directors vested with particular delegations/offices, to the Managing Directors, to Executives with strategic responsibilities, to Senior Managers and to other Group Executives.

Specifically, the Guidelines of the remuneration for the abovementioned management figures will also cover:

- fixed and variable remuneration, both short and medium-long term (it is noted in this regard that Pirelli currently has no existing forms of remuneration through equity);
- compensation in case of dismissal;
- resignation and termination of employment;
- clawback clauses for Top Management;
- introduction of the aforementioned sustainability objective common to all Group Management.

For updates and details on the Remuneration Policy and related sustainability indicators, refer to the Governance section of the Pirelli website, “Remuneration” sub-section.

## **EMPLOYER BRANDING**

In addition to disseminating the company principles, Employer Branding is also a valuable tool to give visibility to job opportunities aimed at recent graduates and profiles with experience, not only in the Italian market but globally. Considering 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, numerous events, projects and meetings were organised in 2018, where the Company promoted its own Employer Branding initiatives. These activities are carried out also thanks to the network of contacts and partnerships with some important universities in the various countries.

In Italy, Pirelli actively collaborates with Polytechnic University of Milan, Polytechnic University of Turin, Bocconi University, UCSC Catholic University and University of Turin. The latter Universities are located close to the Pirelli offices in Italy and the Company has always considered them to be a benchmark for economic and engineering education of young people. With these institutions, Pirelli organises Careers Days, round tables, Job Fairs and company presentations.

Among the channels of Employer Branding used by Pirelli, the web plays an important role: on the *pirelli.com* website, the Company provides a channel dedicated to those wishing to propose their candidacy for specific open positions, as well as giving ample information on the company history, management models adopted, objectives and results achieved; targeted channels - including LinkedIn and the University portals - are also chosen by Pirelli to publish their job offers.

## **DEVELOPMENT**

### ***Performance Management***

Through the Performance Management (PM) process, Pirelli defines, observes and evaluates the contribution of each employee in terms of results and behaviours. This is a fundamental opportunity for the development and orientation of each one in compliance with a set of predefined and critical indicators for the success of people and therefore of the Company.

A key element of the process is the transparent and open dialogue between the boss and the employee, from the phase of sharing individual objectives to that of evaluating the results achieved and the behaviours expressed.

In 2018 Pirelli introduced a new Performance Management process supported by a completely renewed and *user-friendly* IT platform accessible from all company devices. These are the main new features:

- the process and the platform are open all year, so as to better support the continuity of dialogue between boss and employee and alignment on priority and focus of the performance;
- an assessment model based on two dimensions: the what (results) and the how (key behaviours);
- the introduction of a set of six *key behaviours* equal for the entire company population and considered key to the achievement of the company's strategic objectives, namely- *Accountability, Knowledge sharing, Forward thinking, Agility, Cross-functionality, Drive for results.*

The introduction of the new model has been accompanied by training sessions aimed at all employees and other sessions for managers will be provided at the beginning of 2019 in view of the feedback meetings between boss and employee.

The Performance Management process involves all staff worldwide (executives, cadres and employees) and in 2018 saw a redemption rate (that is, 2017 assessment sheets completed compared to the total number of sheets opened) equal to 98.5%, of which the redemption rate for women was 97.7%, while that for men was 98.8%.



The percentages of completion by level are shown below:

Executives	Cadres	White collars
100%	98.5%	98.3%

In support of the quality of the Performance assessments, within the Pirelli process includes the so-called *Calibration Meetings*, i.e. meetings organised by the managers of the individual functions, Business Unit and country, with their first reporting and with the Human Resources managers of reference, during which the evaluations of the persons belonging to a specific organisational unit are put into common use with the aim of ensuring a shared and balanced distribution of the assessments, to guarantee a process that is as coherent, homogeneous and objective as possible.

### **Talent Development**

The Talent Development process aims to ensure business continuity by supporting the identification and development of people with the potential to cover the positions of greater complexity, those who already hold strategic positions and so-called *critical know-how* (that is, people with key skills that are difficult to replace).

In 2018, an analysis and redesign of the entire Talent Development process was carried out globally. A pilot study was conducted on a sample of talents, aimed at defining the tools to be used when fully operational from 2019. In 2018 the talent development process identified in 2017 continued.

In this mapping Pirelli confirms itself as a company with a strong predisposition to grow talent from within: the average corporate seniority of the talent pool is, in fact, over 12 years. The pipeline of talents has a strong international and multicultural connotation, as their origin includes as many as 17 different nationalities.

In 2018 the global *succession mapping* process at the Region and Headquarter levels was finally activated in a structured way.

### **TRAINING**

All Pirelli affiliates have adopted the Training@Pirelli training model, organised, structured and equipped system to respond to “Group” needs as well as any needs that may emerge locally at any time from the various affiliates.

The Pirelli training offering is based on one hand on the strategic priorities of the organisation and the different functions, and on the other on the needs that arise each year from the Performance Management process.

Also in 2018, Pirelli was called in various international locations to illustrate its Training Model, recognized as benchmark of quality and robustness, already awarded in 2015 with the *Silver Award* by the *Global Council of Corporate Universities*, in the category “*Best Corporate University embodying the identity, the culture and the brand of the Organisation in its stakeholders*”, award dedicated to the most important *Corporate Universities* worldwide.

The three “pillars” on which Training@Pirelli is based are the *Professional Academy*, the *School of Management* and the *Local Education*. The first two are designed centrally and provided centrally and/or locally, while Local Education is managed and implemented in the individual countries to meet the specific local needs.

### ***Professional Academies***

The Pirelli Professional Academies cater to the entire corporate population with the aim of providing continuous technical-professional training, encourage cross-functional collaboration, ensure the exchange of expertise and know-how among countries and support the implementation of tools and procedures within the organisation.

There are ten Academies: Product Academy, Manufacturing Academy, Commercial Academy, Quality Academy, Supply Chain Academy, Purchasing Academy, Finance and Administration Academy, Planning & Control Academy, Human Resources Academy and Digital Academy. Sustainable Management elements are throughout the Academies, with focus for example on product life cycle (LCA – Life Cycle Assessment), environmental efficiency of the process, health and safety, sustainable management of the supply chain, risk management, diversity management. The new digitalisation processes are also increasingly recurring and transversal to the Academy training model.

The faculty of the Academy is mainly composed of internal trainers, experts from the specific functions who, based on the training needs and logistical needs, provide training at central, regional and local level, or through webinar sessions. The Academy model involves a significant figure from the function guiding each Academy, supported by one or more professionals from the same function and from the Group Training function, which ensures consistency in the methods of approach, delivery and evaluation of learning in addition to ensuring collaboration with the local training teams.

Every year, the Professional Academies meet both the Top Management and the local training representatives, with the objective of strategic alignment and sharing of the results achieved. In 2018, the Professional Academies offered 231 courses globally.

Among the programmes provided to support the *digital transformation*, the training course for two new professional roles created within all the plants of the group, namely the smart manufacturing officers and the smart manufacturing champions, is highlighted.

### **School of Management**

The School of Management (SOM) is the training structure dedicated to the development of the management culture within Pirelli. Its target are the populations of Executives, Talents, Middle Management/Senior Professionals and Recent Graduates/Juniors.

The focus of management training is calibrated and outlined every year based on the business challenges that the Company is required to face. The managerial skills training model was revisited in 2018 in order to make the training offer consistent with the six Key Behaviours identified in the global performance management system, to which a paragraph is dedicated in this report. In addition to the classroom training activities, the School of Management also offers constantly updated online tools through the “Train your Brain” section, available to all managers on the LearningLab international platform.

More than 8,000 training days were provided within the School of Management during 2018. The participation in the Warming Up training course, dedicated to the new graduates of the entire group, involved about 500 young colleagues in training activities at various Pirelli offices.

### **Local education**

The training provided at the local level responds to the specific training needs of the Pirelli affiliates operating in the different countries, and is addressed to the entire company population.

The seminars cover areas of expertise ranging from the improvement of interpersonal skills to stress management, from the development of IT, language and regulatory skills at seminars on issues of welfare and diversity at the Company.

Local training is an important tool for covering content related to the implementation of new regulations or agreements. This is the case, among others, of the online training campaign aimed in 2018 at the staff of all Pirelli offices in Europe, concerning the provisions concerning the Protection of Personal Data (“GDPR”).

Similarly, 2018 saw the launch of an intense training campaign for all Italian employees on health and safety issues, in compliance with the State-Regions Agreement of December 2011 for the training of workers pursuant to Article 37, subsection 2 of Legislative Decree no. 81 of 9 April 2008. And always expanding the local training in Italy, courses particularly well-regarded and well-attended in 2018 were:

- “Basics of employee management”, dedicated to supporting colleagues who have recently become managers in the new role;

- “Parents at work”, an opportunity for exchange in support of colleagues in the new parental role.

### ***Focus: Training on Sustainability and Corporate Governance***

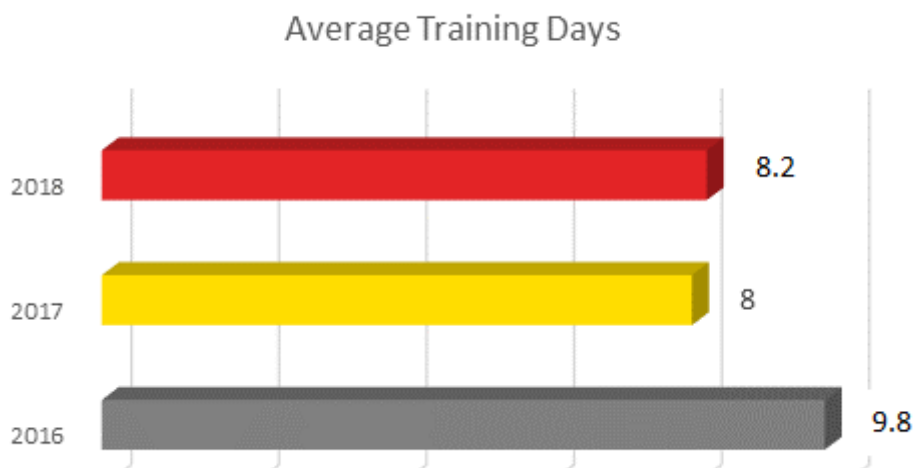
Also in 2018, training continued on the Pirelli Sustainable Management Model, with update on the state of the Company’s Sustainability Plan.

In addition, there is institutional training in the International Course “PLunga”, which presents the Group’s Sustainable Management strategy to all new employees, starting from the multi-stakeholder approach contextualized in the integrated economic, environmental and social management. Training on the Pirelli Model also draws the attention of new recruits to Group Sustainability Policies and related commitments, expressed through the “Code of Ethics”, the “Code of Conduct”, the “Equal Opportunities Statement”, the “Social Responsibility Policy for Occupational Health, Safety and Rights and Environment”, the “Health, Safety and Environment” Policy, “Global Human Rights” Policy, in addition to the requirements of the SA8000® Standard. The foregoing is also the subject of continuous training for all Group Sustainability Managers and Purchasing Managers.

As occurs every year, in 2018 Pirelli also dedicated a professional training session dedicated to the Group’s Sustainability Managers. The “Pirelli Sustainability Manager Workshop 2018” was held in November using a webinar format. The event involved the active participation of the Top Management of the Company, with strong cross-functional alignment with a view to achieving the Group targets as well as demonstrating the fundamental teamwork that enables the Company to create lasting and shared value. The virtual session of 2018 was mainly dedicated to providing an update with respect to the targets of the Sustainability Plan in progress, and focused on the deepening of specific issues, including the sustainable management of the natural rubber supply chain.

### ***Pirelli training performance***

In 2018 the total training provided amounted to 8.2 days of average training per capita, in line with the performances recorded in the previous year and with the target set in the Group’s strategic plans ( $\geq 7$  days of average training per capita).



Following is the subdivision of 8.2 average training days by gender and by organisational level:

GROUP	WOMEN		MEN
8.2	7.8		8.4
	EXECUTIVES	CADRES AND WHITE COLLARS	BLUE COLLARS
	2.6	4.6	9.2

*Data at Group level and by category calculated with average headcount for 2018; data by gender calculated with actual headcount as at 31/12/2018.*

The high level of training is confirmed for both genders, with a figure of 0.6 for men to be correlated with the clear prevalence of the male gender in the working population.

In turn, the investments made for the different segments of the company population (blue-collar workers, cadres and white-collar workers, executives) are in line with those of the past years and balanced in proportion to the overall training strategies: the strong focus on quality, efficiency and on digitalisation in factories, in addition to the usual attention to health and safety issues, in fact determine large investments in the working population.

Furthermore, 96.2% of employees (considering the average workforce of the year) participated in at least one training activity during the year.

Therefore, the total 2018 training investment, net of exceptional increases over the years (due, for example, to the activities of start-up factories or with significant numbers of hiring employees such as Mexico and Romania, to specific campaigns of “re-skilling” in the face of technological changes in some factories, etc.) remains substantially in line with that of previous years.

On a global level, the Professional Academies cover the most significant portion (62%) of the training activities on the total, and this relates to, among other things, the training and continuous updating of technical skills related to innovation processes which are strategic for the company. In addition,

the Health, Safety and Environment issues maintained a significant share also in 2018, confirming its relative weight equal to 8% of the total training provided at Group level.

Consistent with the great *digital transformation* processes undertaken by the company, the training processes will also be progressively involved in the digitalisation of content related to both basic and innovation skills, so as to allow a more widespread, fast and engaging use from 2019 will therefore increase the investment in *online* training, currently very low in favour of the clear prevalence of on-the-job training and especially classroom training.

## **LISTENING: GROUP OPINION SURVEY**

In the years 2013-2016 Pirelli consolidated the “My Voice” climate survey as a tool for actively listening to its employees around the world, on the basis of which it set up group and local improvement plans.

In order to guarantee adequate time for defining and implementing specific action plans by Country/Function/Business Unit, meeting the needs emerging from the 2016 survey, the My Voice process has been redesigned in 2017 with respect to the frequency of completion of the survey (passed from annual to a listening period that will occur every year and a half), and in the structure of the questionnaire itself.

In June 2018, the fifth Global My Voice survey was administered to all Pirelli employees worldwide through an online questionnaire, which could also be done on mobile devices. A questionnaire which was shorter (38 questions in 2018 compared to 64 in previous surveys) and easier to fill out encouraged the maintenance of a participation rate of over 80% in this fifth edition, at 81% (82% for the Staff and 80% for the blue-collar workers).

The management of the questionnaire was attributed to a third party, observing the anonymity of the respondents. Pirelli then received the results in aggregate form. The 2018 edition of MY VOICE was structured on the Sustainable Engagement Model, highlighting to what extent the working environment is engaging for workers, and whether the engagement of people is sustainable over time.

More specifically, the Sustainable Engagement model is based on three dimensions such as energy, engagement and qualification, and is based on the thesis that a work environment that enables individual performance, providing the resources necessary for people to do your job well, which promotes individual well-being and the ability to “go further” in your work, which strengthens the alignment of people with the objectives of the Company, and therefore is an environment that creates the conditions for an engagement sustainable over time. The higher the Sustainable Engagement, the more likely it is that people’s engagement will be lasting.

In 2018 the overall result of the Global Pirelli Employees’ Sustainable Engagement stood at 75%: on a scale of 1 to 5, the answers to the 6 questions regarding Sustainable Engagement were therefore positive for 3 out of 4 colleagues in the world.

The 2018 survey confirmed Pirelli as a company attentive to the inclusion of diversity, so much so that it is well above the market benchmarks on this issue.

Also the sense of belonging and the pride of working for Pirelli are confirmed among the highest indices, together with the sense of responsibility (accountability) of their results. Also in the context of professional development, Pirelli is above the average of manufacturing companies.

The survey then highlighted the areas to be monitored to ensure lasting engagement over time, linked to the level of information on company results, to “how much” the working environment allows expression of their ideas on innovation, to the sense of personnel actualisation and their “energy level”. These results will constitute the guidelines for action plans that will be drawn up at the group level and at individual subsidiaries to continue the constant improvement path.

The results of My Voice 2018 are not comparable with those of the previous survey, as they are based on different measurement models (“Sustainable Engagement” in 2018 as against the Trust Index in the previous surveys). An exercise conducted on a qualitative level and globally on 21 of the 38 questions similar to those present in the previous questionnaire, however, showed a positive improvement trend for 18 out of 21 questions.

During the last quarter of 2018 and in January 2019 the results were returned to employees, both globally and locally, in offices and factories. In 2019 the definition, collection and monitoring of the specific improvement plans by Country/Function is envisaged until the next survey, scheduled for 2020.

## **WELFARE AND INITIATIVES FOR THE INTERNAL COMMUNITY**

At organisational level, Pirelli for years, has had the figure of the “Group Welfare Manager”, who is entrusted with the supervision of welfare activities, jointly with the many central and local functions concerned, including Health and Safety at Work, Industrial Relations, Sustainability and Equal Opportunity Managers of the Group.

The welfare initiatives that Pirelli offers to its employees vary from country to country, in accordance with the specific regulatory, social and cultural environments in which the affiliates operate. In any case, they implement the shared guidelines at Group level, so that all the offices of the world are progressively committed to locally adopting activities, tools and welfare processes aimed at creating collaborative environments and ensuring adequate support for the needs of a personal life.

Welfare activities activated at Pirelli affiliates around the world are attributable to four macro areas of action:

- lifestyle (e.g. health care, information and awareness-raising campaigns);
- family support (e.g. scholarships, summer camps for employees’ children, inter-company crèche);

- free time (e.g. open days, sporting and cultural activities);
- working life and working environments (e.g. flexible working hours, facility, individual development training, cultural growth and group celebrations).

All Group affiliates have the opportunity to share local best practices through a special section dedicated to welfare on the corporate Intranet. As an example, some of the welfare activities activated at Headquarters and at the various local affiliates will be presented below.

Historically, Pirelli provides infirmaries at all the production units, where health workers and specialist doctors are available to all employees during working hours. These facilities provide advice on extra-work health problems, as well as first aid and periodic health surveillance activities. The specialised services performed in Pirelli's outpatient and nursing facilities around the world amounted to over 280,000 in 2018 alone (of which around 22,000 were provided at the historic headquarters in Milan Bicocca).

In the course of 2018 "Pirelli Smart Way" went into operation, a project that gives the opportunity to all the staff of Milano Bicocca to use "smart working", or to provide their work partly outside the offices, following agreement with their manager and in compliance with the rules defined by the Company. The Smart Workers at Bicocca in 2018 carried out a total of 12,226 days of Smart Working, taking advantage of the opportunity offered by the company to manage their work activities with greater autonomy, responsibility and flexibility, saving time and commuting costs, and simultaneously balancing company needs with personal needs. In 2018 it was decided to launch the "Pirelli Smart Way" in an experimental phase within the Contact Centre in the Italian Market. The training activities conducted during the month of December 2018 will allow colleagues in this area who have asked to access the Smart Working project from January 2019.

Similar Smart Working Projects are active at various Group locations: at Pirelli USA (New York, Rome, Southfield, Los Angeles and the sales force in the field), at the headquarters in São Paulo, Brazil, Paris and Craiova (Romania).

To support the work-life balance and in particular family support, in Italy in 2018, the "Bambini in Bicocca" (Children at Bicocca) project continued, guaranteeing babysitting and kids club service for employees' children of school age (5-10 years) during school holidays. Just in 2018 about 160 children were hosted within the project.

Similarly, in many of the group's venues, recreational events are organised periodically dedicated to the families of employees and also open to the local community; think of the Mexican initiative "Mama Pirelli" or the now traditional German working day dedicated to diversity.

Multiple campaigns to prevent and raise awareness of a healthy lifestyle, including the "Nutrition workshop" conducted in Romania or the Brazilian project "Faz Bem" similar to the "#sentirmibene" campaign launched in Italy at the end of 2014 and which is organised every year in a programme of conferences and initiatives aimed at promoting healthy lifestyles.



Moments of inclusiveness and sharing characterise the “Open Days”, which take place at numerous affiliates in the world: these are days dedicated to employees’ families, with educational workshops, visits to departments, games and music.

The well-being of workers also comes from a working environment that is psycho-socially adequate and stimulating, where they feel valued and in which psychosocial risks and work-related stress are effectively prevented and countered. To this end, as part of the Company’s global programme called “Excellence in Safety”, Pirelli performs in-depth analyses and acts on key areas and issues such as improvement of the organisational structure, clarity of tasks and roles, empowerment of workers, improvement of communication in the organisation, sharing of objectives and motivation with respect to a common strategy, as key elements for the prevention and mitigation of occupational stress.

With regard to the Italian context, among the welfare initiatives we highlight People Care+, the conversion programme of the Result Award in welfare services for the employees of the Italian offices receiving the Result Award. The programme was made possible thanks to recent Italian legislation which provides for tax relief with a 10% substitute tax on the sums paid as a performance bonus, against the improvement of the company performance indicators defined in the company supplementary contract. Thanks to the supplement paid by the company equal to 12% of the amount converted and thanks to an intense awareness and communication campaign, 2018 (the first pilot year of the initiative) saw an adherence above the average of the applicable benchmark.

## **INDUSTRIAL RELATIONS**

The Industrial Relations policy adopted by the Group is based on respect for constructive dialogue, fairness and roles. 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 local level, these activities are supported by the central departments, which coordinate the activities and ensure that the aforementioned principles are observed throughout the Group.

Industrial Relations also have an active role in the Group’s commitment in terms of health and safety, with active participation on the part of the union and workers. In fact, 77% of the Group’s employees are covered by representative bodies that periodically, with the Company, monitor and address, the current issues and awareness and intervention plans/programmes aimed the improvement of the activities carried out to safeguard the health and safety of employees.

In compliance with the principle of constructive and timely dialogue with employees, in all cases of corporate reorganisation and restructuring, workers and their representatives are informed in advance, with deadlines that vary from Country to Country in full compliance with local legislation, current collective agreements and trade union agreements.

In 2018, the Industrial Relations activities achieved important negotiating results. Multiple collective agreements were renewed, without any conflict, in Brazil, Argentina, Mexico, Germany, Romania and Turkey.

During the year, the Company has also operated internationally to rebalance the level of employment, aligning it with the volume requirements linked to the market, however reporting a positive employment balance for the Group at the end of 2018 compared to 2017.

Pirelli increased its workforce in Romania, Mexico, while in Italy the central functions related to Digital and to product research, development and innovation were further strengthened.

### ***European Works Council (EWC)***

The Pirelli European Works Council (EWC), formed in 1998, holds its ordinary meeting once a year 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 provides for the possibility of holding other extraordinary meetings to fulfil the information requirements of delegates, in light of transnational events concerning significant changes to the corporate structure: opening, restructuring or closing of premises, important and widespread changes in work organisation. EWC delegates are provided with the IT tools they need to perform their duties and a connection to the corporate Intranet system, for the real-time communication of official Company press releases.

### ***Compliance with statutory and contractual obligations governing overtime, leave, association and negotiation, equal opportunities and non-discrimination, bans on child and forced labour***

Governance to protect Human Rights and Labour is the subject of Pirelli's Code of Ethics and specific Policies adopted by the Company, in particular the "Social Responsibility Policy for Health, Safety and Rights at Work, Environment", the "Global Human Rights" Policy and the "Health, Safety and Environment" Policy. All the aforementioned Policies are public and have been communicated in the local language to employees. Moreover, from 2004 Pirelli has adopted by the requirements of Standard SA8000® as a reference tool for managing Social Responsibility at its Affiliates and along the supply chain.

The Management of Diversity and Equal Opportunities, and responsible management of the supply chain in the field of human rights and labour are the subject of specific paragraphs in this Report, to which reference should be made for further details.

The Pirelli approach 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 situation in each country. The use of all holiday days, as a right of every worker, does not have any restrictions and the period is generally agreed between employee and company.

In addition to the trade union dialogue and coordination between the Headquarters and local functions, Pirelli verifies the application of the provisions on the respect of human and labour rights to its affiliates through periodic audits performed by the Internal Audit Department, in compliance with a three-year auditing plan to cover all the Company’s sites. Normally every audit is carried out by two auditors and takes around three weeks on-site. The Internal Audit Team received training on the environmental, social, labour and business ethics elements of an audit from central function directors to enable them to carry out an effective, clear and structured audit, granting Pirelli effective control over all aspects of sustainability. Based on the results of these audits, an action plan is agreed between the local managers and central management, with precise implementation dates and responsibilities and follow-up verification.

The auditors carry out verifications on the basis of a checklist of sustainability parameters deriving from the SA8000® Standard and the Pirelli Policies mentioned above. All managers from the affiliates involved in the audits are adequately trained and informed on the audit purpose and procedures by the applicable central functions, in particular Sustainability, Purchasing, Health and Safety and Industrial Relations.

**Focus: Internal audits**

Year	Countries
2014	Italy, United Kingdom and China
2015	Mexico, Russia (Voronezh plant) and United Kingdom
2016	Germany, Russia (Kirov plant) and United Kingdom (follow-up)
2017	Argentina, Brazil (Campinas and Feira de Santana plants), Mexico, Romania and USA
2018	France, China (Yanzhou plant)

The non-conformities emerged as a result of the audits performed in 2018 were subject of the action plans agreed between the local managers and central management, and will be subject to follow-ups in 2019 by the Internal Audit Department. 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 collective bargaining, and non-discrimination.

### ***Labour and social security lawsuits***

In 2018, as in previous years, the level of work and social security litigation at Group level remained low. The level of litigation remains high in Brazil, as in previous years, to the point of representing more than 80% 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 other multinational companies operating there. Labour lawsuits are generally initiated when an employment contract is terminated, and they usually involve the interpretation of regulatory and contractual issues that have long been controversial. The Company has made a major commitment to prevent and resolve these conflicts – to the extent possible – including through settlement procedures.

### ***Unionisation levels and industrial action***

It is impossible to measure the precise percentage of union membership at Group companies, since this information is not legitimately available in all countries where Pirelli has a presence.

However, it is estimated that more than 40% of Pirelli employees are members of a trade union. As to the percentage of workers covered by collective agreement, in 2018 it stood at 77% (vs. 76% in 2016). This figure is associated with the historical, regulatory and cultural differences between each country. Collective agreements to be renewed in 2018 were renewed without any conflict and strikes.

### ***Supplementary pension plans, supplementary health plans and other social benefits***

The Group has defined contribution and defined benefit funds, with a substantial prevalence of the former kind over the latter. To date, the only defined benefit plans are:

- in the United Kingdom, where the fund relating to the tyre business has been closed to new employees since 2001 for the introduction of a defined contribution scheme (and closed to future accumulations for all active employees as at 1 April 2010), while the funds related to the cable business sold in 2005 were closed to future accumulations in the same year;
- in the United States, where the fund was closed in 2001 (since 2003, it has not been tied to salary increases) for the introduction of a contribution scheme (and only applies to retired employees);
- in Germany, where the fund was closed to new hires from 1982.

Other defined benefit plans exist in Holland and Sweden, but they represent a relatively insignificant liability for the Group.

The Group also maintains various supplemental Company medical benefit plans at its affiliates 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 the economic-equity measurement of the above benefits, reference is made to the Consolidated Financial Statements, notes “Employee Benefit Obligations” and “Personnel Costs”.

The social benefits recognised by Pirelli in favour of employees (including life insurance, invalidity/disability insurance and additional parental leave) are generally recognised for all employees, regardless of the type of permanent, fixed-time or part-time contract, in compliance with company policies and local union agreements.

## **OCCUPATIONAL HEALTH, SAFETY AND HYGIENE**

### ***Management model and system***

Pirelli’s approach to responsible management of occupational health, safety and hygiene is based on the principles and commitments expressed in “The Values and Ethical Code” of the Group, in the “Health, Safety and Environment Policy” in the “Global Human Rights Policy” and in the “Quality Policy”, in accordance with the Sustainability Model envisaged by the Global Compact of the United Nations, with the “Declaration of the International Labour Organization on fundamental Principles and rights at Work” and with the “Universal Declaration of Human Rights” of the United Nations. The reference tool since 2004 is also the SA8000® standard. In particular, the “Health, Safety and Environment Policy” makes Pirelli’s commitment to:

- manage its activities regarding health and safety protection at work in compliance with the laws and all the commitments entered into, as well as according to the most qualified management international standards;
- pursue objectives of “no harm to people”, by implementing actions for early identification, assessment and prevention of risks for health and safety at work aimed at a continuous reduction in the number and severity of injuries and occupational illnesses, activating health surveillance plans in order to protect workers from specific risks associated with their business duties;
- develop and implement emergency management programmes to prevent and avoid harm to persons;
- define, monitor and communicate to its Stakeholders specific objectives of continuous improvement of health and safety at work;
- empower, train and motivate its employees to work safely involving all levels of the organisation in an ongoing programme of training and information, aimed at promoting a culture of safety at work;

- promote information and awareness-raising on health and safety issues;
- provide its employees with ongoing and concrete support aimed at facilitating the work-life balance;
- manage its supply chain responsibly by including issues of health and safety at work in the supplier selection criteria, the contractual clauses and the audit criteria, also requiring suppliers to implement a similar management model in their supply chain (for an outline on responsible management of the supply chain, reference is made to the paragraph “Our Suppliers”);
- make available to all its Stakeholders a channel (the “Whistleblowing Policy” published on Pirelli’s website) dedicated to reporting, even anonymously, of any situations that constitute or may constitute a risk for the protection of the health, safety and well-being of people (reference is made to the Paragraph “Focus: Reporting Procedure - Whistleblowing Policy” of this Report for an outline of reports received in the last three years, none of which regarding health and safety).

All the Documents mentioned above are communicated to Group employees in their local languages and are published in the Sustainability section of the Pirelli website, which should be consulted for full display of the content.

Pirelli adopts an occupational health and safety management system structured and certified according to OHSAS 18001:2007. All certificates are issued with ANAB international accreditation (ANSI-ASQ National Accreditation Board - US accrediting body). The occupational safety management system was developed in compliance with procedures and guidelines elaborated centrally in order to consolidate a “common parlance” that guarantees sharing, alignment and effective management in the Group. Following the certification obtained by the Jiaozuo plants in China and Rome in the United States, at the end of 2018 all the production plants were certified according to the OHSAS 18001:2007 Standards.

In 2018, the 10th edition of the *Pirelli Health, Safety and Environment Global Meeting* was held. The annual meeting took place at the Pirelli production site in Merlo, Argentina. The purpose of this meeting, which brings together all managers responsible for Health and Safety in the Group, is to pool the best practices applied by the various Pirelli sites in the world, with a view to promoting continuous improvement.

At local level, in each individual production unit, periodic meetings are held with workers’ representatives (Health & Safety Committee), with the aim of illustrating, on the basis of the Management System, the activities carried out and those planned and to provide the results of workplace risk assessments.

**Focus: health and safety objectives**

Target year	Description of Objective	Update 2018
2020	Reduction in the Accident Frequency Index by 87% compared to 2009 figure.	<i>Frequency Index 2018: 0.29, in line with that of 2017, with a reduction of 81% compared to 2009</i>
2014-2020	Global implementation of the “Excellence in Safety” programme	<i>Continuation of the programme in the factories on the basis of the work plan. Development of tools to monitor and support the programme.</i>
2017-2020	Completion of integration of Health, Safety and Environment KPIs for the sale/commercial/equities areas;	<i>Integration of systematic data collection and monitoring.</i>

**Safety culture**

In this context, the “Zero Accidents Objective” represents a precise and firm corporate position. From an industrial point of view, this objective is pursued through investments aimed at technical improvement of work conditions, while constantly insisting on the cultural and behavioural aspect of all Company players. This approach, together with the involvement and continuous internal dialogue between management and workers, has led to a sharp decline in injury rates.

In support of the management model outlined above, in 2013 the Company signed an agreement with DuPont Sustainable Solutions for the global implementation of the “Excellence in Safety” Programme. The Programme began in 2014, extending gradually in 2016-2018 to all production sites of the Group. A specific Steering Committee, chaired by the Operations General Manager, monitors the progress of the programme.

As part of the collaboration with DuPont Sustainable Solutions, Pirelli in 2018 continued to develop the theme of prevention of psychosocial risks and work-related stress. The most important areas of intervention of the “Excellence in Safety” Programme are in fact related to the improvement of the governance of safety, organisational structure, the clarity of the tasks and roles, empowering workers, improving communication within the organisation, the sharing of objectives, motivation with respect to a common strategy: all substantial issues for a work environment that is psycho-socially appropriate and stimulating, in which workers feel valued and the psychosocial risks are effectively prevented and countered. On this issue, during the two-year period 2014-2015 Pirelli joined the European Agency for Health and Safety in the Workplace (EU-OSHA) “*Together for the prevention and management of work-related stress*” campaign.

The sharing of the Safety Culture was also supported by the regular newsletters like the *Safety Bulletin*, and the sharing of significant events through the traditional channels of internal communication.

### **Safety training**

Around 8% of the total training provided by Pirelli in 2018 addressed occupational health and safety issues. In addition to safety training offered locally at every Pirelli location (illustrated previously in the paragraph dedicated to Training), special mention should be made of Group activities and projects, which simultaneously target several Countries and which allow an alignment of culture and vision, fully benefiting pursuit of the Company's own improvement targets. The Manufacturing Academy merits a special mention. This is the Pirelli Professional Academy dedicated to the sphere of factories, where health, safety and environment issues are discussed in detail.

### **Monitoring of health and safety performance and main indicators**

Alongside establishing specific guidelines and procedures for implementing management systems, Pirelli uses the web-based Health, Safety and Environment Data Management (HSE-DM) system, prepared and managed centrally by the Health, Safety and Environment Department. This system makes it possible to monitor HSE performance and prepare numerous types of reports as necessary for management or operating purposes.

The HSE-DM system collects all the information related to accidents and to the particular situations that occurred in factories, assembly units, sales centres and warehouses directly managed by Pirelli. All factories have access to information on the most significant accident or near-injury cases through a system called *Safety Alert*; in turn, the plants conduct an internal analysis of the verification of the existence of conditions similar to those that caused the accident or the near-accident and identify any corrective actions. By using this system, every site is able to analyse the solutions adopted by other plants in order to identify and apply the most effective corrective actions.

The focus on *Leading Indicators* was also further developed, namely measuring what preventive measures should be implemented and how this should be done, without prejudice to the monitoring of the *Lagging Indicators*, namely reactive indicators such as the number of accidents and their frequency index.

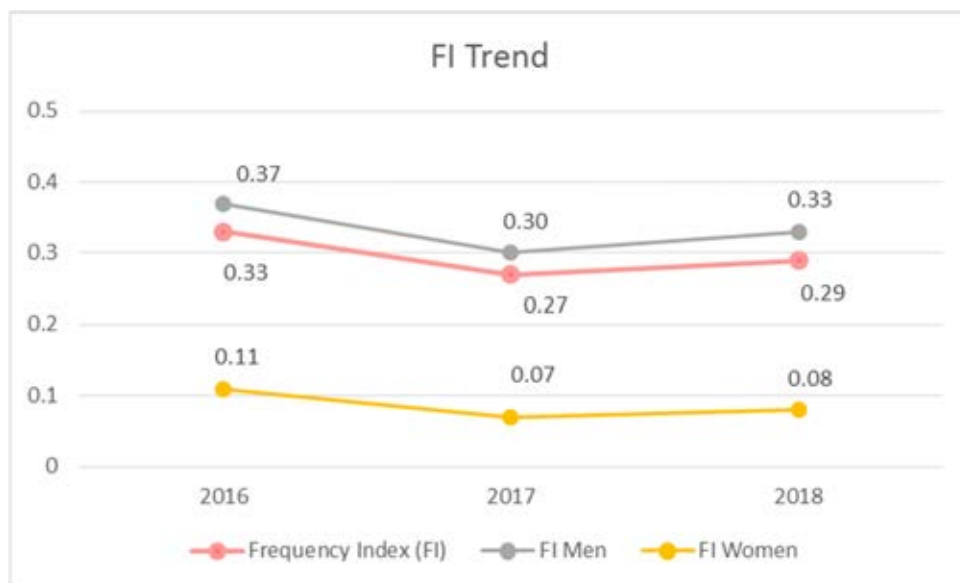
The performances reported below are for the three-year period 2016-2018 and cover the same perimeter of the Group's consolidation.

The 2020 target in the Sustainability Plan is for a reduction in the Frequency Index of 87% compared to 2009. In 2018, Pirelli registered an accident **Frequency Index (FI)** of 0.29, in line with the figure from 2017, with a reduction of 81% compared to 2009. The most representative injuries concern events involving contusions, cuts and fractures of the upper limbs.

For 2018, in continuity with the previous financial years, the injury rate index for women was decidedly lower than the value relating to men, also in relation to the fact that the female population



is generally engaged in activities with a lower risk than those of the male population. The graph below shows the trend of FI values by gender over the last three years:

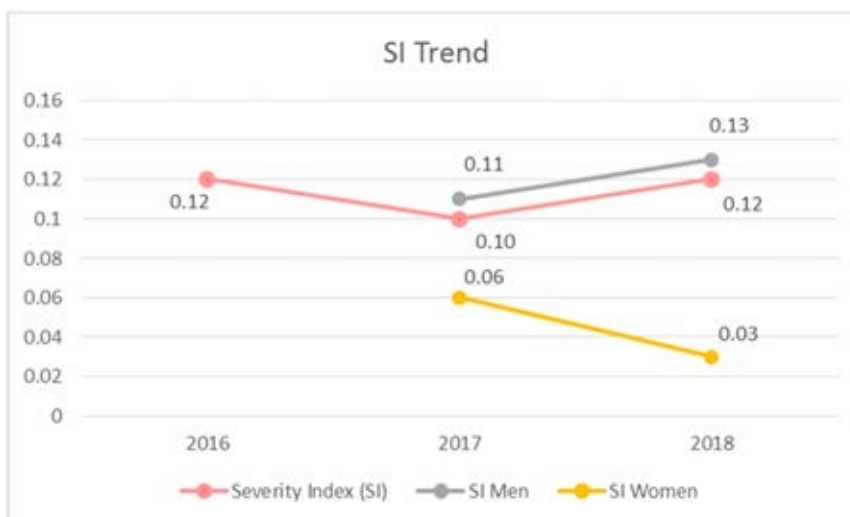


FI = number of injuries/number of hours effectively worked x 100,000

The following table summarises the distribution of the 2018 Frequency Index by geographical area:

	Europe	North America	South America	MEA	Asia Pacific
Frequency Index (FI)	0.39	0.20	0.31	0.27	0.02

The injury **Severity Index (SI)** in the Group in 2018 was 0.12, in line with the 2017 figure.



SI = number of days of absence, starting from the first day after the accident/number of hours effectively worked x 1,000

The following table summarises the distribution of the 2018 Severity Index by geographical area:

	Europe	North America	South America	MEA	Asia Pacific
Severity Index (SI)	0.15	0.17	0.11	0.04	0.01

In the case of both the Frequency Index and the Severity Index, the Asia Pacific area performed better than the other geographical areas in which Pirelli operates, characterised in any case by years of constantly decreasing rates.

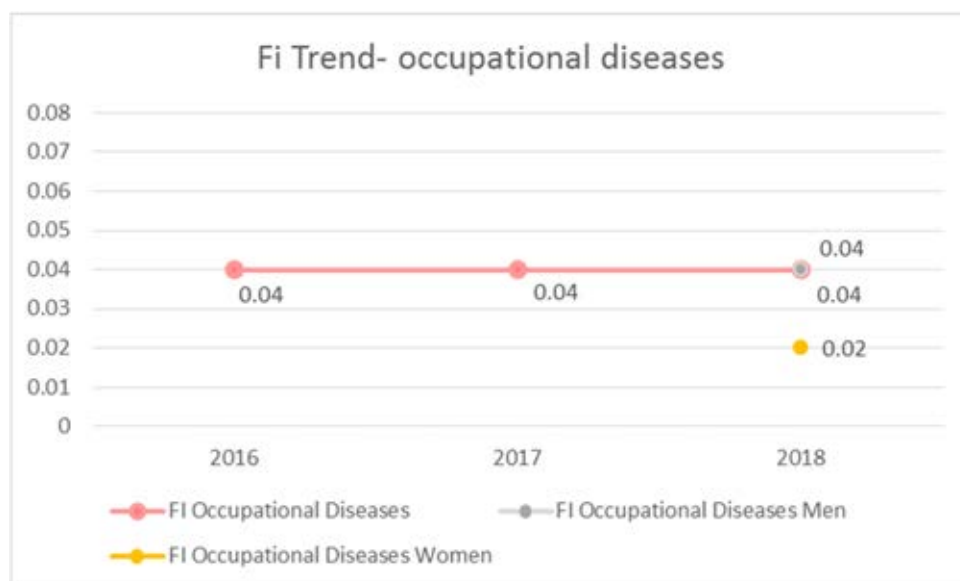
With reference to commuting accidents (not included in the calculation of the FI and SI indices mentioned above), the following tables show the total number registered by the Group in the last three years and the distribution by geographical area of the cases in 2018.

	2016	2017	2018
Commuting accidents	137	108	121

	Europe	North America	South America	MEA	Asia Pacific
Commuting accidents	30	42	49	0	0

Within the production process there were no activities with a high risk or high incidence of occupational diseases.

The Frequency Index for occupational diseases in the three-year period 2016-2018 stands at 0.04.



*FI occupational diseases = number of occupational diseases/number of hours effectively worked x 100,000*

The following table summarises the distribution by geographical area of the Frequency Index for occupational diseases in 2018:

	Europe	North America	South America	MEA	Asia Pacific
FI Occupational illnesses	0.03	0.00	0.10	0.00	0.00

With regard to accidents for agency workers, the following tables show the number of accidents recorded in the last three years and the distribution of the injury frequency index of 2018 by gender and, subsequently, by geographical area:

	2016	2017	2018
Injuries involving agency workers	11	3	8
FI agency workers (Men)	n/a	1.19	1.02
FI agency workers (Women)	n/a	0.00	0.00

	Europe	North America	South America	MEA	Asia Pacific
Injuries involving agency workers	8	0	0	0	0
FI agency workers	15.05	0.00	0.00	0.00	0.00

The Accident Frequency Index for employees of suppliers operating at the Group's production sites<sup>27</sup> is equal to 0.18. Below are the data for the last three years and the distribution by geographical area of the cases in 2018.

	2016	2017	2018
FI contractors	0.35	0.19	0.18

	Europe	North America	South America	MEA	Asia Pacific
FI contractors	0.15	0.11	0.28	0.00	0.00

<sup>27</sup> The figure covers all the Group's production sites, with the exception of the Izmit site for the relative non-significant dimensions.

**Fatalities**

	2016	2017	2018
Fatal accidents Pirelli employees	0	1	0
Fatal accidents contractors	0	0	0

**Focus: towards the “Zero Accident Objective”**

Seventeen Pirelli manufacturing plants were named “sites of excellence” in 2018, since no employees were injured there during the year:

Unit	Industrial sites
Factories	Kirov, Rome, Jiaozuo, Slatina Motorsport, Bicocca MIRS, Breuberg MIRS, CMP
Assembly unit	Sorocaba, Hurlingham, Sao Jose dos Pinhais, Goiana, Didcot, Ibirite
Sales centres	Dackia, AGOM
Logistics - TLM	Feira de Santana and Santo Andre

**Health and safety investments**

In the three-year period 2016-2018, investments in health and safety by the Group exceeded €37 million, of which over €17 million was invested in 2018.

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

## EXTERNAL COMMUNITY

### INSTITUTIONAL RELATIONS OF THE PIRELLI GROUP

The objective of the Institutional Relations Department is to create corporate value through the management of structured relationships with the Stakeholders of reference in all the countries in which Pirelli is present.

Pirelli's activities are underpinned by criteria of maximum transparency, legitimisation and responsibility, both with regard to information disseminated in public offices, and to relationships managed with institutional interlocutors in line with the Code of Ethics, the *Institutional Relations - Corporate Lobbying Policy* and the *Group Anti-Corruption Compliance Programme* (documents published on the Pirelli website) as well as in line with the principles of the *International Corporate Governance Network (ICGN)* and in compliance with the laws and regulations in force in the countries where Pirelli operates.

In the area of institutional relations, Pirelli acts above all via active monitoring and in-depth analysis of the institutional and legislative context, as well as identifying the applicable Stakeholders. The activity of Institutional Relations also includes an in-depth analysis of the global political and economic dynamics, linked to the development of the main topics of corporate interest, and benefits from collaborations with selected think tanks of international prestige. Among these are the collaborations with the Institute for International Policy Studies, the Institute for International Affairs, the Trilateral Commission and the Aspen Institute.

**At an international level**, Pirelli interacts with the main interlocutors present in the countries in which it operates with its own production sites. When necessary, the Group promotes initiatives directed towards mutual understanding and with the purpose of promoting representation of its interests through a strategy based on a clear perception of the industrial objectives and the promotion of the business. Moreover, among the various instruments of "economic diplomacy", in addition to the promotion of bilateral initiatives, Pirelli is particularly active in certain Business Councils, among which the chairmanship of the China Business Forum (BFIC), which it has held since December 2015, stands out. The BFIC is a permanent forum of dialogue between the *business communities* of the two countries set up under the aegis of the Italian Ministry of Economic Development and the Chinese Ministry of Commerce. During 2018, as part of the BFIC, Pirelli continued to pursue activities to promote bilateral dialogue and initiatives aimed at encouraging collaboration between the business communities of the two countries. In particular, as the co-president of the BFIC and in collaboration with the relevant institutions, the BFIC has promoted a series of initiatives aimed at supporting bilateral collaboration, including the 5th meeting of the BFIC, held in Shanghai on the occasion of China International Import Expo in the presence of institutional representatives of both countries, and the Forum dedicated to SMEs, held in two major Chinese provinces and which saw the participation of local institutional leaders and Italian and Chinese companies.

As proof of the Group's continued commitment to strengthening relations with the countries in which it operates, Pirelli took part in official visits in 2018 with institutional representatives in Italy and

abroad. In this context, a series of bilateral meetings could be held, aimed at deepening the Group's industrial and commercial issues with significant institutional impacts. These include representatives of the US, British, Chinese, Turkish and Russian governments.

In China, the Group is also committed to enhancing relations with local institutional interlocutors, particularly in areas where it is present with industrial plants, such as the Shandong Province. Initiatives such as the seminar in favour of economic cooperation with the Shandong Province, visits to the Milan Headquarters of the Governor of Shandong Province and the Chinese Minister of Science and Technology accompanied by the Minister of Education, University and Research of the Republic of Italy, have fostered dialogue with the institutions both at the local level and at the national level.

As part of the leveraging of the historical relations between the Company and the United States of America, where Pirelli has industrial and commercial facilities, work continued on a number of initiatives related to institutional projects and activities at the United States Council for International Business, European American Chamber of Commerce and Italian American Chamber of Commerce, the Organisation for International Investment, and the Eurogrowth initiative of the Atlantic Council. Pirelli also maintains its Board membership in the Foreign Policy Association.

Also in Brazil, Pirelli continued to celebrate the country's strong links with Italy, promoting, among others, meetings with institutional representatives. Pirelli also maintains relations with local institutions to protect its industrial sites, distributed among the states of Sao Paulo, Bahia and Rio Grande do Sul, with which a series of initiatives are also developed to raise awareness on issues such as road safety, the protection of the territory and the promotion of culture.

In the European context, one significant activity concerns Romania, in which Pirelli maintains a constant dialogue with the main institutional interlocutors in order to accompany the phases of industrial development at the Slatina plant. Among the activities carried out in 2018, during the state visit of the Romanian President in Italy, Pirelli participated in the Economic Forum dedicated to the promotion of bilateral economic relations.

As part of its relations with Turkey, the Group promotes a constant dialogue with the country's institutional representatives to accompany industrial activities and keep the monitoring of the country's economic and political environment alive. In this regard, in February Pirelli, together with the heads of the main Italian companies present in Turkey, took part in a meeting with the Turkish President and certain Ministers on a state visit to Italy.

In Russia, Pirelli promotes dialogue with institutional interlocutors in order to support the Group's industrial and commercial activities in the country. In 2018, the Italian Business Council was established in Russia, the chair of which was entrusted to Pirelli. The Group also participated in the twenty-second edition of the St. Petersburg International Economic. Finally, Pirelli participated in the Italo-Russian Business Forum in Rome, organised in the margins of the Italian-Russian Council for Economic, Industrial and Financial Cooperation.

Relations with European Institutions also focus on consolidating relations with Stakeholders of reference and monitoring legislation. The ongoing dialogue and discussion with the EU Commission, the Council and the European Parliament concern a wide range of matters of corporate interest; industrial policy, research and innovation, energy and environmental policies, transport and mobility, technical regulations, domestic market and international trade. At the various stages of drafting and formulating European legislation, Pirelli represents Group interests among EU Stakeholders. The Pirelli Group is enrolled with the European Registry for Transparency, which was instituted by an inter-institutional agreement between the European Parliament and the European Commission.

In **Italy**, the Group continues to interact with a system of relations that involve the main institutional bodies, both central and local. The relations with the Ministry of Foreign Affairs and International Cooperation are particularly important in both central and peripheral areas, with which the information activity is constant with respect to Pirelli's global presence to support the enhancement of the interests of the country system abroad. To mark the Day of the Republic, Pirelli exhibited its coloured tyres, produced for the occasion in the special "Tricolour" version, in the Embassies of the countries where industrial plants are present. The Group's relations with the Directorate General for internationalisation policies and the promotion of exchanges of the Ministry of Economic Development, in particular aimed at coordinating the activities of the Italian China Business Forum, are also distinguished. During the year, Pirelli also supported various initiatives to raise awareness on road safety and in favour of cultural promotion. These include the collaboration with the State Police for the realisation of the "Together for Safe Driving" event, hosted in the Auditorium of the Milan Bicocca office.

In Italy, the Group is also always engaged in customary in-depth analysis of institutional importance concerning, in particular, issues relating to the Group's industrial presence; the promotion and strengthening of international relations in the countries where the Group operates with industrial sites; the analysis and in-depth study of the impacts related to the regulatory discipline of tyres and their entire life cycle; and other issues of road safety and environmental sustainability related to both production processes and the product.

## **MAIN INTERNATIONAL COMMITMENTS FOR SUSTAINABILITY**

The attention of Pirelli to sustainability is also expressed through participation in numerous projects and programmes promoted by international organisations and institutions in the area of social responsibility. A number of the principal commitments made by Pirelli worldwide are illustrated as follows.

### ***UN Global Compact***

Pirelli has been an active member of the Global Compact since 2004 and since 2011 has been part of the Global Compact Lead Companies. The Group endorses the "Blueprint for Corporate Sustainability Leadership", which offers leadership guidelines envisaged in the Global Compact to

inspire advanced and innovative sustainability performance in terms of management capacity for the creation of sustainable value.

In 2018, the Global Compact has proposed a series of initiatives to provide support in the definition of strategies and partnerships for the pursuit of Sustainable Development Goals (SDGs) launched in September 2015 in New York with the aim of accompanying the activities of sustainable companies until 2030.

In this context, Pirelli's participation is included in the action platforms:

- *“Decent Work in Global Supply Chains”*: in December 2018 Pirelli and the other participating companies signed the *“Commitment to Action”*, publicly committing themselves to the sustainable management of their supply chain;
- *“Financial Innovation for the SDGs”*: in September 2018 the working group presented its first publication *“SDGs Bonds & Corporate Finance - A Roadmap to Mainstream Investments”*;
- *“Reporting on the SDGs”*: following the publication in 2017 of the *“Analysis of the Goals and Targets”* report, in July 2018 the working group published the guide *“Integrating the SDGs into Corporate Reporting: A Practical Guide”*.

Since 2014, Pirelli has been a Founding Participant of the SSE Corporate Working Group, the group of companies that provide their own evaluations and indications as part of the Sustainable Stock Exchanges (SSE) initiative promoted by UNPRI, United Nations Conference on Trade and Development, United Nations Environment Programme Finance initiative and the UN Global Compact. The initiative aims to increase the attention of world stock markets, investors, regulators and companies to the sustainable performance of companies.

### ***ETRMA – European Tyre and Rubber Manufacturers Association***

ETRMA is the main partner of the EU institutions for the sustainable development of new European policies for the sector and for their proper implementation. With the institutional support of the Pirelli Group, in 2018, the association continued to raise awareness of the European Commission and European Union Member Countries on the implementation of market surveillance for monitoring compliance with regulations on the general safety of vehicles and tyres and on energy efficiency, as well as the labelling of tyres in European Countries, and through the strengthening of the partnership with the national associations of the sector of which Pirelli is an active member.

In 2018 ETRMA started the *Connected & Autonomous Driving* (CAD) working group aimed at responding to the new challenges deriving from technological changes concerning the mobility sector (connectivity, autonomous driving, etc.); the project is an evolution of the 2030 GEAR working group that ended at the end of 2017.



Moreover, ETRMA has continued its heavy involvement in the implementation of the Emission Trading Scheme, with the aim of reducing the economic impact for the sector of European energy policies and the European Innovation Partnership on Raw Materials and guaranteeing fair and unrestricted access to key raw materials for the sector.

Finally, the association supports the European Commission in the definition of policies on the Circular Economy for the sector and is successfully continuing in promoting sustainable manufacturer responsibility practices for the management of end-of-life tyres, thanks to which Europe maintains a 95% recovery rate, through close collaboration with the various operating partnerships existing in European countries. The ETRMA (and European) best practices continue to be an international benchmark.

ETRMA maintains a proactive role in the development of cognitive studies regarding environmental issues, such as *Tyre Road Wear Particles*, and health issues, for example the filling material obtained from end-of-life tyres for sports fields. As for the so-called *Tyre Road Wear Particles* (TRWP), micrometric particles produced by the combined wear and tear of the road and the tyre during vehicle circulation, ETRMA - launched “The European TRWP Platform”, a “multi-stakeholder” initiative that aims to share scientific knowledge and to involve relevant Sectors and Organisations, in order to identify a holistic and balanced approach for the definition of possible actions for the mitigation of the impacts of TRWPs.

#### ***IRSG – International Rubber Study Group***

Pirelli, in representation of the European Commission, is a member of the Industry Advisory Panel of the International Rubber Study Group (IRSG) based in Singapore, an intergovernmental organisation that brings together producers and consumers of rubber (both natural and synthetic), acting as a valuable platform for discussion on issues regarding the supply and demand for natural and synthetic rubber. It is the principal source of information and analysis on all aspects related to the rubber industry. Within IRSG, Pirelli participated in the Sustainable Natural Rubber Project, which resulted in the management guidelines for the Sustainable Natural Rubber Initiative (SNRi) launched in 2014, during the World Rubber Summit.

#### ***WBCSD – World Business Council for Sustainable Development***

Pirelli for years has been a member of the WBCSD (World Business Council for Sustainable Development). 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 endorses two projects: Tire Industry Project and SIMPLify project (previously the Sustainable Mobility Project - SMP).

The Tire Industry Project (TIP), whose members account for about 65% of global production capacity of tyres, was founded in 2005 with the objective to seizing and anticipating the challenges of

sustainable development through the assessment of the potential impact on health and environment of tyres throughout their life cycle. The project extends its evaluation activities to raw materials, tyre debris, with with an upcoming focus on India rubber and nano-materials. On the latter issue, in collaboration with the Organization for Economic Cooperation and Development (OECD), TIP has developed a specific guide was developed for the sectors that contains best practices of reference for research, development and industrialisation of new nano-materials, so as to ensure that the use of any nano-material is safe for people and the environment; the document is available at the website: <http://www.oecd.org/chemicalsafety/nanosafety/nanotechnology-and-tyres-9789264209152-en.htm>.

The TIP has also finalised the development of “*product category rules*” (PCR), published in 2018, necessary to carry out the *life cycle assessments (LCAs)* of the product, as well as to develop the “*environmental product declarations (EPDs)*” for tyres, so that the results are comparable between the various manufacturers. With reference to the aggregated sector environmental reports, TIP has published the first “*Key Environmental Indicators - Tire Industry Project (TIP) over the period 2009-2015*” which presents the environmental performance related to CO<sub>2</sub> emissions, consumption energy, water withdrawal and ISO 14001 certification of the environmental management systems of the factories where the tyres are produced.

Also in 2018, TIP has worked on the international promotion of best practices on end-of-life tyre management, in terms of valorisation of recovery and reuse as a second raw material.

In October 2018 TIP launched the “*Global Platform for Sustainable Natural Rubber*” (GPSNR), a multi-stakeholder platform aimed at promoting a more sustainable management (from a socio-economic and environmental point of view) of the value chain of the natural rubber.

Future TIP projects concern the assessment of the presence of microplastics in the marine environment.

The SiMPLify Project, in which Pirelli has participated since 2013, has developed a vision linked to an idea of urban mobility that is universally accessible and with low environmental impact, for the transport of both passengers and goods in urban context. The project (2013-2019) involves international companies in the automotive, autoparts, transportation, oil & gas, information and communication technology sectors. The project used the support of the University of Ghent and experts in the field and planned a tool based on numerical data normally available in the municipalities of cities - such as, for example, the number of inhabitants, the number of cars, kilometres of cycle paths - which, together with an on-line survey aimed at citizens, allow the calculation of 19 indicators on the state of mobility in the city and a subsequent proposal of ad hoc solutions derived from best practices available worldwide. In a first phase the project was implemented in six pilot cities such as Hamburg, Bangkok, Chengdu, Indore, Lisbon and Campinas. The project continued in 2018 and extended its support activities to other cities worldwide; Pirelli has followed, in particular, the project of Feira de Santana, home to a major Brazilian factory of the Group, which, thanks to the support of the project team, has started a profound review of its urban mobility. The effectiveness of the project and its tool is confirmed not only by the satisfaction of the cities where it has already been used, but also by the various acknowledgments received from

various international organisations, including the European Commission, which decided to adopt the tool to support 50 European cities in this regard.

### ***EU-OSHA – European Occupational Safety and Health Agency***

In 2018, for the seventh consecutive year, Pirelli continued to be an official partner of the European Occupational Safety and Health Agency (EU-OSHA), which addresses a different problem every two years. The 2018-2019 “*Healthy Workplaces Manage Dangerous Substances*” campaign aims to raise awareness about the risks posed by hazardous substances in the work environment and to promote a culture of preventing these risks. By joining the Campaign, Pirelli confirms its commitment to promoting a healthy work environment, in which chemicals are correctly and carefully managed in order to minimise risks to workers’ health and the environment.

### ***CSR Europe***

Since 2010, Pirelli has been a member of the Board of CSR Europe, represented by the Sustainability and Risk Governance Director. CSR Europe is a network of companies in Europe that are leaders in the area of corporate social responsibility. Its members include more than 40 multinational companies and 41 national partner organisations from 33 European countries.

In 2018 CSR Europe continued with the “*European Pact for Youth*” initiatives, launched in 2015, and the “*Sustainable Business Exchange*”, launched in 2016 to support the achievement of the United Nations’ sustainable development objectives.

Pirelli has chosen CSR Europe for the organisation of the Pirelli Global Stakeholder Dialogue 2016, of the consultations of the Stakeholders carried out in the same year in Romania, Mexico, Germany and Turkey, in 2017 in Russia and Argentina and in 2018 in the United Kingdom and the United States. Furthermore, in September 2017 and October 2018, CSR Europe moderated the two multi-stakeholder consultations held by Pirelli and concerning the draft of the Company Policy on the sustainable management of natural rubber (published in October 2017) and the draft of the related Implementation Manual (published in December 2018).

### ***International commitments against climate change***

For years Pirelli has shown its commitment to the fight against climate change, promoting the adoption of adequate energy policies aimed at the reduction of CO<sub>2</sub> emissions.

This commitment was also confirmed in 2018, by joining the Task Force on Climate-related Financial Disclosures (TCFD), set up by the Financial Stability Board (FSB), with which Pirelli undertook to

disclose information voluntarily on risks and opportunities related to climate change as indicated in the TCFD recommendations.

Over the years, Pirelli has also participated in numerous events and projects such as the Climate Conferences “COP24” in Katowice (2018), “COP23” in Bonn (2017) and “COP22” in Marrakech (2016), the “Business for COP 21 Initiative” (2015) and participated in several side events organised during the “COP21” Climate Conference in Paris (2015).

Throughout 2014, the Group joined the “Road to Paris 2015” project and signed three initiatives consistent with its sustainable development strategy:

- Responsible Corporate Engagement in Climate Policy;
- Put a Price on Carbon;
- Climate Change Information in Mainstream Filings of Companies Communication.

Also in 2014, the Company signed the Trillion Tonne Communiqué, the document that requires global emissions over the next 30 years to remain below the trillion tonnes of greenhouse gases in order to avoid a rise in average global temperature higher than 2°C.

Pirelli has also signed numerous international agreements such as “The Carbon Pricing Communiqué” (2012), the “2nd Challenge Communiqué” (2011), the “Cancún Communiqué” (2010), the “Copenhagen Communiqué” as well as the “Bali Communiqué” (2007), the first document for the development of concrete strategies for a global climate agreement to be implemented through a joint government intervention.

## **COMPANY INITIATIVES FOR THE EXTERNAL COMMUNITY**

As specified in the Group “Ethical Code”, Pirelli provides support to educational, cultural, and social initiatives for promoting personal development and improving living standards. The Company does not provide contributions or other benefits to political parties or trade union organisations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation. Since the founding in 1872, Pirelli has been aware that an important role in the promotion of civil progress in all the communities where it operates and, capitalising on the Company’s natural strengths, it has identified three focus areas: road safety, technical training and solidarity through sporting activities for young people. Pirelli for some years has adopted an internal procedure to regulate the distribution of gifts and contributions to the External Community by Group companies, in relation to the roles and responsibilities of the functions involved, the operational process of planning, realising and monitoring the initiatives and the disclosures regarding the same. Essential support in the identifying of the actions that best satisfy local requirements comes from 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.

The contributions to the External Community by Group companies are part of a broader strategy to support the achievement of the Sustainable Development Goals of the United Nations (SDGs), in the paragraphs “UN Sustainable Development Goals” and “UN Global Compact”. At the end of each of the following paragraphs, the SDGs are indicated which are most directly impacted by the activities of the Company described therein.

### **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 it translates into research and the ongoing application of innovative technological solutions for sustainable transport.

Pirelli’s commitment to road safety passes first and foremost through the product: the tyre is in fact the only part of the vehicle that interfaces directly with the road and as such is the cornerstone of road safety. Road safety has always been a cornerstone of the Pirelli brand. “*POWER IS NOTHING WITHOUT CONTROL™*” is the Pirelli vision of mobility, which combines performance and safety. Structural and material improvements to improve traditional safety performance such as road grip, wet and dry braking, are combined with the most advanced technologies such as Run Flat and Seal Inside, which bring road safety to a higher level, allowing you to maintain control even in the most critical moments, such as a puncture.

Pirelli’s commitment to road safety does not stop with product innovations, but also extends to the promotion of the principles of road safety and safe driving through participation in dedicated projects and campaigns.

Bearing witness to this commitment, Pirelli in 2018, as the first tyre manufacturer to do so, joined the United Nations “*Road Safety Trust Fund*” which aims to support States to reduce the number of deaths and injuries caused by road accidents. The Fund supports the implementation of national plans, as well as concrete actions and projects aimed at improving the safety of infrastructure and vehicles, promoting the correct behaviour of road users and managing the post-accident period efficiently.

In 2018 Pirelli also continued to support FIA in the “*Action for Road Safety*” campaign, created to support the ten actions for road safety organised by the United Nations at the end of 2011. The FIA campaign promotes initiatives and training and information campaigns aimed at encouraging more responsible automotive behaviour and building safer roads and cars. As the Global Partner of this campaign, Pirelli has signed “*The Golden Rules*” of road safety, committing itself to disseminate them during events on the topic and through its distribution network.

On the subject of road safety, Pirelli is also a signatory to the *European Road Safety Charter*, through which it engages in various areas, including the dissemination of knowledge about the basic elements of road safety, the growth of awareness of young drivers on the causes of road accidents, the dissemination of information on winter safety at its points of sale, training seminars, etc.

Also at Group level, since 2013, Pirelli has participated in the *SiMPLify* project by the WBCSD that proposes solutions for the redefinition of urban mobility with a focus on the issues of sustainable mobility and road safety. For further details on Pirelli's involvement in this project, reference is made to the paragraph "WBCSD" of this Report.

There are numerous road safety initiatives implemented in the countries where the Group operates.

In Italy, also in 2018, the activity regarding Assogomma continued: the colleagues involved in product training were directly involved in the provision of courses to the Traffic Police in the framework of the "*Summer of Safety*" activity and participated in the event held in January in Sestriere, where the most senior representatives of the Italian Traffic Police were spectators and protagonists of the driving of vehicles with summer and winter tyres, to test for themselves the difference in effectiveness on snow-covered surfaces. Training activities aimed at raising awareness on the issue of road safety have also been given to young people in a school environment, through different events held in collaboration with the Traffic Police, and also through training courses at vocational colleges, as in the case of Don Orione di Fano.

In the USA and Canada, a "*Tire Safety Week*" was organised, a series of initiatives on safe driving that involved other tyre manufacturers, and in the UK "*Tyre Safety Month*" was organised (substantial contribution to education in road safety); in Mexico, in collaboration with a local television channel, messages on road safety were broadcast in 2018 in the State of Guanajuato. Also in Mexico, Pirelli sponsored an automobile museum, lending 19 tyres of different types to the exhibition.

In Russia, as occurs every year in August, Pirelli has collaborated with the city of Kirov (the traffic police department, car dealers, and the local newspaper) in the "*Kirov is for politeness on the road*" campaign.

Multiple initiatives in favour of road safety education on two wheels. Pirelli Moto in 2018 increased its collaboration with driving schools for the development of practical and safe on-road and off-road experience. The various initiatives include Metzeler Off-road Park, Old School Racing by Alex Gramigni, GS Academy in collaboration with BMW, Ducati Racing Experience in collaboration with Ducati and True Adventure Academy in collaboration with Honda.

Lastly, as in previous years, a section of the website was dedicated to driving tips, for summer and winter, highlighting the important role played by the tyres in the active safety of vehicles and its occupants.

**SDGs - Reference Targets:**

- **3.6**, dedicated to reducing the number of deaths and injuries due to road accidents;
- **11.2**, in support of safer, more accessible and sustainable transport systems, with particular attention to the needs of the most vulnerable groups.

## **Training**

The promotion of technical education at all levels and training are very old values that are well-established in the history of Pirelli. The Group continues to benefit from technical and research cooperation with various Universities in the world including the Polytechnic University of Milan, the Polytechnic University of Turin and the Bicocca University of Milan in Italy, the University of Craiova and the Polytechnic University of Bucharest in Romania, the University of Qingdao in China, and the Technical University of Darmstadt, the University of Applied Sciences of Aschaffenburg, the DHBW of Mannheim and the Berufsschule of Michelstadt, Germany, to name a few.

In China, Pirelli sponsored 36 scholarships for Science and Technology students of the University of Qingdao.

In Romania the partnerships with the Universities of Craiova and Pitesti and the Polytechnic University of Bucharest concern the recognition of scholarships and the support to an IT Academy and a Master in Automotive for the faculties of electrotechnics, industrial automation, electronics, mechanics and physics. Also in Romania with the technical colleges Alexe Marin and Metallurgical Technical College, Pirelli organised the training programme “*Train Yourself for Success*” which reached 50 students with courses and workshops on electronics and mechanics, road safety and information on tyres. In 2018 Pirelli also hosted 28 students from a dual school in a pilot project of mechanics and electronics and supported the participation of a Slatina high school team at an international robotics competition in Thailand.

In Turkey, Pirelli shared its expertise with the universities of Kocaeli and Bogazici and hosted 19 short-term interns and 31 long-term interns who had come from several universities in the country. In addition, the company continued the “*Chasing Innovation*” project launched in 2016 and dedicated to high school students interested in the topic of innovation and the acquisition of tools and skills needed for the 21st century.

In Germany, the company supported several middle and high schools: EGS Höchst, Gymnasium of Michelstadt, GAS Rai-Breitenbach and CWS Bad Koenig.

In Italy, during 2018, saw the continuation of the Alternanza Scuola Lavoro project, launched in 2017 and governed by the 2015 “Good School” law. The project, designed on a three-year basis, involves two classes of chemical and technological institutes in the area and aims to accompany the children belonging to the classes involved throughout the three-year period, in order to guide them to discover

what a company is, to support them in understanding the main dynamics of company management and to help them in the delicate phase of professional choice and orientation. Adhering to the project, Pirelli therefore facilitates schools in the regulatory compliance of the provisions of the Decree, supports the territory in the promotion of school excellence and internally promotes the management of generational diversity thanks to the involvement, within the project, of senior Pirelli colleagues in the role of mentors and guides for the young students involved.

Technical training has a fundamental role in the creation of a skilled labour pool needed to maximise plant productivity. In Mexico, the Piero Pirelli Institute for technical training, inaugurated in 2015, is equipped with the most advanced learning tools (virtual simulator, automatic controls, pneumatic systems, electrical, electro-mechanical, mechanical and measurement systems). Within the institute, there are numerous classrooms, a showroom on the process, materials and 3D models of the product, production workstations that use both virtual reality and physical warehouse simulators, service areas and offices.

Training does not only concern the production process at the factory; for Pirelli, the entire life cycle of the tyre is important. In fact, the Group is focused on disseminating sustainable agriculture practices for raw materials such as natural rubber. In Indonesia, in collaboration with the supplier Kirana Megatara, Pirelli continued the *“Rubber Productivity Enhancement Project”* with three main objectives:

- educating natural rubber farmers by teaching the correct procedures for rubber extraction enabling the protection of natural resources (maximising productivity and maintaining and extending the life of trees);
- to distribute high quality natural rubber trees to farmers, so as to increase the productivity of trees in their plantations;
- giving scholarships to the children of natural rubber growers, to allow them to go to school and buy school books.

168 families participated in the programme in 2018.

**SDGs - Reference Targets:**

- **4.4**, dedicated to increased technical training to youth and adults, aimed at increasing manual skills and entrepreneurship;
- **9.5**, referring to support for scientific research and increased technological capabilities of the industrial sectors.



### **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. Pirelli signed a global agreement not only for the sponsorship of the professional football club FC Internazionale Milano (“Inter”), but also as a partner of the global social project Inter Campus.

Since 1997, Inter Campus has developed social, flexible cooperation and long-term actions, in 29 countries around the world with the support of 200 local operators, using football as an educational tool to offer needy boys and girls aged between 6 and 13 the right to play.

Since 2008, Inter and Pirelli, along with a local partner, have been running the Inter Campus social project in Slatina, Romania. The sports and recreational activities are organised for the entire year, involving over 100 children from different social contexts who have been learning team spirit, social integration and the values of friendship through football for years. In 2018, 400 boys from the southwest of Romania were hosted in the Inter Campus Tour.

Since 2012, Pirelli and Inter have replicated the experience of Inter Campus in Mexico: Inter Campus Silao, near the Pirelli factory, inaugurated by President Felipe Calderon, involves about 120 children from the area. In 2014, Pirelli and Inter launched an Inter Campus project together in Voronezh, Russia, involving three local orphanages with about 100 children.

In the United States, Pirelli sponsored the local Rome Braves team in Georgia. In Russia, Turkey and the United Kingdom, Pirelli has sponsored various charity fundraising events.

In Kirov, Russia, Pirelli sponsored the “*Pirelli Cup*” in ice hockey, involving several teams of boys (112 participants).

In Germany, Pirelli supported a football tournament for children in Sandbach and a football league in Romania.

#### **SDGs - Reference Targets:**

- **3**, dedicated to guaranteeing a healthy lifestyle and promoting well-being for everyone, at all ages.

### **Solidarity**

The responsible approach taken by Pirelli to involvement and inclusion takes the form of social solidarity activities worldwide. The Company supports educational and didactic programmes that are able to give less fortunate children the tools to improve their condition; it contributes scholarships and research projects, firmly believing in training as vital to individual growth and the economic growth of a country.

In Spain, the Company supports programmes providing food for needy families, and a warehouse for the storage of food for the poor. Pirelli collaborates with the AMPANS Association, which takes care of the cognitively disabled. Pirelli also contributed to a solidarity project aimed at facilitating job search for people with intellectual disabilities.

In Moscow, Pirelli contributed to the “*Chance*” project that provides private lessons to orphans, and some employees have participated in sports challenges to support programmes for sick children. Pirelli organised an educational and fun trip to Moscow for a group of orphans of Kirov, a place where Pirelli has a production plant. An important activity undertaken by Pirelli for the Kirov community is the support of orphanages. In Voronezh, also in Russia, Pirelli helped to build a multifunctional sports area in the Rostovkiy park and the employees took care of charity for the elderly, bringing in gifts.

In Turkey too, a group of Pirelli employees ran a marathon, raising funds for the education of 130 autistic children, through the TOHUM foundation. Pirelli also hosted 45 disabled children on a factory visit. In Canada, a group of employees cooked for the needy, as well as presenting a donation to the Le Garde-Manger philanthropic agency.

In China, Pirelli supported 90 orphaned and/or impoverished children in Yanzhou. In Mexico, Pirelli is contributing to the creation of a community centre that offers sporting and cultural activities, as well as technical training, and will contribute in 2019 to the creation of a community centre in Leon, called the Booster Centre.

In the United States, Pirelli sponsored the Boys & Girls Club of Rome, Georgia, which takes care of disadvantaged children after school, helping with tasks, sports, career advice and special projects such as robotics.

In the United Kingdom, Pirelli supported a philanthropic trip to Ghana. In Germany, Pirelli sponsored a new watersport playground for the Mumlingstrolche nursery school and contributed to the Ehrenamtsagentur association for the integration of refugees into society. Furthermore, Pirelli Deutschland supported the LKMF association with donations (both by the company and by its employees on a voluntary level) and voluntary work. LKMF helps disabled people and people with dwarfism. In Romania, 70 Pirelli employees worked to restructure a centre for child victims of abuse and the company also made a financial donation.

**SDGs - Reference Targets:**

- 1, on the eradication of poverty in all its forms;
- 2, related to the elimination of hunger in the world;
- 11, dedicated to the development of cities and social environments that are inclusive, safe and sustainable.

## Health

Pirelli considers contributing to improving the health services of the communities where it operates to be important. 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 290 professionals 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 through the project Overland for Smile.

In many countries Pirelli promotes a healthy and active lifestyle with various projects, both among its employees and in the local community. For example, in Mexico it organises a race for employees and their families each year. In Turkey, a blood donation campaign was organised among the employees.

In several countries, Pirelli makes donations to scientific research and supports voluntary projects by employees to raise funds for research. In Canada, a donation was made for breast cancer research. In the Netherlands, Pirelli sponsored the “*Friends of Sophia*”, projects for children at the Rotterdam hospital and made donations to two foundations that help children with tumours. The company has also made donations for paediatric cancer in Belgium.

In the UK, several donations were made for Alzheimer’s, cancer and leukaemia research, and contributions were paid for neonatal intensive care and a hospice.

In Spain, Pirelli participated in the “*Somos Uno*” Solidarity Day, raising funds for biomedical research into childhood diseases and Alzheimer’s.

### **SDGs - Reference Targets:**

- 3, dedicated to guaranteeing a healthy lifestyle and promoting well-being for everyone, at all ages.

## Environmental initiatives

Many Pirelli employees around the world enthusiastically participate every year in environmental projects. Employees in France, Russia and Australia wanted to promote recycling initiatives. The New York office has obtained the “Green Seal Green Office Partner” certification.

In Romania more than 250 Pirelli employees took part in “*World Cleanup Day*”, while in Russia 40 employees of the Moscow office, together with a group of orphaned children, planted more than 100 blackcurrant bushes in the botanical garden. In Voronezh, the employees cleaned the park near the Pirelli factory during the “*City Cleaning Day*”. In September 2018 in Kirov, with the participation of Pirelli, the “*Clean Games*” were held, competitions to collect and sort the rubbish.

In Mexico, Pirelli continued to sponsor a reforestation project with the State of Guanajuato on 40 hectares of land, involving employees. In Germany, Pirelli supported the “*Plant for the Planet*” project, with the consciousness-raising of children and adults to climate challenges, identifying common actions, including planting trees. In Turkey, to award 16 “champions” (employees recognised for excellent projects), a donation was made to the World Wildlife Fund for the adoption of sea turtles.

A major project to preserve the forest areas was Kirana Megatara in Indonesia, already described in this chapter in the section on training, aimed at maximising productivity and maintaining and extending the useful life of natural rubber trees.

**SDGs - Reference Targets:**

- **12.5**, aimed at reducing the generation of waste through reduction, recycling and reuse;
- **15.2**, related to the promotion of sustainable forest management, to reduce deforestation and increase reforestation.

***Culture and social value***

The internationality of Pirelli also emerges from the love for culture, with initiatives in many countries worldwide also in 2018. The attention to culture, and even more the commitment to preserve it, spread it and enhance it, are part of the DNA of the creation of social value.

Pirelli in Brazil continued, after the restoration of the Cristo Redentor in Rio de Janeiro, to perform maintenance on the famous statue. In the field of music, Pirelli sponsors the Mozarteum project in Brazil, which presents major international classical music orchestras. Also in San Paolo, Pirelli sponsored in 2018 Escola Criativa, an artistic space and cultural project that gives expression to visual arts such as graffiti, photography and design.

In Romania, Pirelli sponsors theatre days for the community, and employees have donated more than 500 books to create a library for patients at the Slatina Hospital.

In Russia Pirelli was a partner of the Platonov international art festival, in Voronezh. More than 77,000 people visited the festival, which featured music, theatre, literature and art and culminated in the open air “*Music of the World*” concert. Also in Voronezh, Pirelli sponsored the Governor’s Ball, a fund-raising dance to promote young music and artistic talents. Also in 2018, an exhibition of the Pirelli Calendar was presented at the Multimedia Art Museum in Moscow, and in other Russian cities. In November, an exhibition was opened at the Kirov Museum, “*History of Tyre Production in Kirov.*” The exhibition contains documents, photos and handiworks.

In Turkey, Pirelli made a donation to the Association for Supporting Contemporary Life.

In Italy, the commitment to activities that generate value for the territory is evidenced by the numerous and consolidated collaborations with prestigious national and international entities and institutions: in particular, in the art world, with the FAI (Italian Environment Fund), in the world of the theatre with the Piccolo Teatro di Milano and the No'hma Teresa Pomodoro Theatre, and in music with the Villa Arconati Festival and the Teatro alla Scala Foundation.

**SDGs - Reference Targets:**

- 4, aimed at promoting quality education and all forms of equitable and inclusive learning.

## FONDAZIONE PIRELLI (PIRELLI FOUNDATION)

One of the missions of the Fondazione Pirelli, or Pirelli Foundation, established in 2008, is the preservation of the Group's historic and cultural heritage and the promotion of its corporate culture through initiatives with a strong social and cultural impact, exhibitions, as well as collaborations with other cultural institutions.

Also in 2018, the year of the Foundation's first ten-year anniversary, numerous activities have been launched aimed at enhancing the company's historical and artistic heritage. The following initiatives should be noted.

The publishing project "Il Canto della fabbrica" (Mondadori, June 2018, Italian and English edition), dedicated to the story of the Pirelli factory as a testimony of industry 4.0 and the homonymous concert-event presented in world premiere on 8 September 2017 in the Manufacturing Department of the Pirelli factory in Settimo Torinese. The project has also developed in the digital field with the implementation of the dedicated website [ilcantodellafabbrica.org](http://ilcantodellafabbrica.org). The communication of the project and the event reached more than 111,400 users through the Foundation's social media accounts; 25 articles were released in the press. On 4 June 2018, during an evening of celebration of the Foundation's 10 years of activity, the book was presented in the Auditorium of the Pirelli Headquarters to about 600 people (including over 100 employees). The Italian Chamber Orchestra conducted by Maestro Salvatore Accardo performed the piece "Il Canto della fabbrica".

Exhibition "Advertising with a capital P" (from July 2018, Fondazione Pirelli): multimedia exhibition with a focus on Pirelli advertising from the 1970s to the early 2000s, told through video installations and display of original communication materials created by great artists and designers, and by international agencies. From July to December 2018, **over 1,700 people** visited the exhibition.

Educational and training activities:

- Pirelli Educational Foundation: about 2,125 primary and secondary school students and about 270 teachers involved in education and training. The Pirelli Foundation also participated in the Festival of Robotics, the Conference on Science and Literature at the Istituto Giulio Natta in Milan, the Road Safety Exhibition at the Wow-Space of Comics, at the

Coollest Projects Festival at the Polytechnic University of Milan, proposing training activities that saw the overall involvement of 670 children and about 80 teachers;

- University: lessons and guided visits to about 265 students coming from the main Italian and foreign universities (particularly UCSC Catholic University of the Sacred Heart, University of Milan-Bicocca, IULM, NABA, Salesian University College Paul VI of Milan, Linköping University, Delft University of Technology).

Digital communication: production of about 800 pieces of social content and activation on the *fondazionepirelli.org* website of the weekly section “History and stories from the Pirelli world”. The website has been visited approximately 54,000 times (+ 24% vs 2017). The Foundation’s social media accounts of the Facebook, Instagram and Twitter (the latter activated in 2018) have about 9,500 followers (+25% vs 2017).

Special events dedicated to “Promotion of Reading”:

- participation in the “Tempo di libri” fair: around 2,400 visitors were welcomed at the stand, including about 120 children and young people involved in the Pirelli Foundation Educational activities;
- “Tales of Milan industrial city” event in collaboration with Teatro Franco Parenti, Bookcity Milan and University of Milan-Bicocca (Pirelli Headquarters, over 400 participants).

Brand enhancement projects to support the Business Units: research and loans of materials: about 80 requests divided between Pirelli stand fittings at fairs and events; PZero stores; plants and offices in Italy and abroad, merchandising, in collaboration with Pirelli Design, product brochures in collaboration with Pirelli Motorsport and guided tours and events in the Foundation (about 500 guests from July to December 2018).

Projects to enhance the historical heritage in the eyes of the external community:

- Research and loans of materials: 86 requests divided between exhibitions in collaboration with other cultural institutions (e.g. the Milan Triennale, Urban Centre, Milan, Assolombarda, Milan), documentaries (e.g. “NEWMUSEUM (S). Stories of company archives and museums”, Museimpresa), publications (e.g. “Talking about a neighbourhood. Places, faces and memories of Bicocca””, in collaboration with the University of Milan-Bicocca);
- Initiatives to promote the Corporate Culture at the Pirelli Foundation and the Pirelli Headquarters: Guided tours of the Bicocca district in collaboration with the University of Milan-Bicocca: “Discovering the Gregottian places” (about 200 participants) and “Bicocca Tales” (about 130 participants); Milan Movie Week (guided tours with focus on the exhibition “Publicity with a capital P” at the Foundation (about 100 participants); Open Archives - Photography Network: guided tours of the Foundation with a focus on photographers who contributed to the Pirelli magazine in the 1960s (about 120 participants); 17th Corporate Culture Week promoted by Museimpresa (Confindustria, about 200 participants).

Works on the Historical Archive:

- Photographic Collection: over 1,900 photographs catalogued and digitalised, 5,331 photographs from the Pirelli magazine digitalised and 1,000 photographs published online;
- Iconographic Collection: 785 catalogued and digitalised advertisements;
- Corporate In-House Organ “Facts and News”: 4,200 catalogued articles and 8,212 digitalised pages;
- Audiovisual Collection: 89 films catalogued and digitalised, and 64 films published online.

280 technical tyre drawings from the 1980s and 1990s and large-format photography by Luca Comerio (1905) were also restored.

In July 2018, the premises of the Historical Archives were refitted with the exhibition of a new selection of photographs, drawings and paintings, and two recently acquired advertising posters.

Initiatives for the internal community Among these we note:

- Implementation of the assets and activities of the Pirelli libraries in Milan Bicocca and Bollate: over 7,000 titles in the catalogue and over 1,500,000 materials, including books and multimedia, available to employees, following the activation of the collaboration with the Common Library System of Milan (SBM). Overall, more than 3,000 loans were registered in 2018, over 3,800 movements (loans and extensions) and over 500 users. The Biblionews newsletter has been activated with periodic updates on books, libraries and reading (over 300 members);
- “Christmas at the Pirelli Foundation” (“Natale in Fondazione Pirelli”): preparation of the Foundation’s spaces with decorations created from historical advertisements and distribution of the “Christmas Tales” (“Racconti di Natale”) leaflet (about 500 participants).

More than 8,600 people participated in the Foundation’s activities during 2018.

## **PIRELLI HANGARBICOCCA™**

Pirelli HangarBicocca™, which with its 15,000 square metres is one of the largest exhibition venues in Europe, is a space dedicated to the production, exhibition and promotion of contemporary art, created in 2004 from the reconversion of a vast industrial facility that belonged to Ansaldo-Breda.

The programming of solo exhibitions by the most important international artists is distinguished by a character of research and experimentation and special attention to site-specific projects which are capable of maintaining a dialogue with the unique features of the space. The 2018 artistic programme, curated by Artistic Director Vicente Todolí and curator Roberta Tenconi, presented

artists of great international profile, alternating exhibitions of very successful names with exhibitions of emerging artists. The programme managed to attract an Italian and international audience composed of art experts, representatives of the most important museums, trade journalists and the general press, as well as an equally large number of enthusiasts, families and students. During the year there was a total attendance of about 243,000 visitors who visited the 6 major exhibition projects dedicated to Italian and international artists, and the permanent installations *I Sette Palazzi Celesti 2004-2015* by Anselm Kiefer and *La Sequenza* by Fausto Melotti, in addition to the mural *Efêmero* by OSGEMEOS:

- Lucio Fontana, “Ambienti / Environments”;
- “Take Me (I’m Yours)”;
- Eva Kot’átková, “The Dream Machine is Asleep”;
- Matt Mullican, “The Feeling of Things”;
- Leonor Antunes, “the Last Days in Galliate”;
- Mario Merz, “Igloos”.

The vocation of Pirelli HangarBicocca™ is that of a space which is open to the city and its surroundings, of an institution that accompanies the normal exhibition activity with a range of programmes intended to attract even the general public to contemporary art.

In 2018, the Public Program accompanied the exhibitions with a full calendar of events, guided tours to the exhibitions and the district, projections and meetings with the key players in art and culture.

During the year there were 10 cultural events (daytime and/or evening) that involved about 9,500 participants in activities related to current exhibitions, including the *Generosity* event at the end of the exhibition “Take Me (I’m Yours)” which involved approximately 6,700 visitors.

In 2016 Pirelli HangarBicocca™ launched the Membership programme with the aim of creating a community that shares a passion for contemporary art. In two years its membership has reached the number of about 1,000 active Members. In 2018, 3 new agreements were signed with the following institutions: Palazzo Strozzi, Florence; CAMERA - Italian Centre for Photography, Turin; Bagatti Valsecchi Museum, Milan.

In 2018 there were 11 activities dedicated to Members, of which: 4 preview visits to exhibitions, 2 curatorial visits, 2 Family Labs reserved for Member Families and 3 visits to other institutions. 13 dedicated newsletters. Among the benefits, it is always possible to book in advance the activities of the Public Programme and to take advantage of special discounts on the purchase of exhibition catalogues and the institutional line at the Bookshop and at IUTA Bistrot.

HB Kids and HB Family activities for children aged between 4 and 14, saw the participation of 2,000 children and young people, in line with the figures from the preceding years. The number of



participants who took part in the School activities was over 11,600 students, while visits by Italian and foreign students and university teachers involved about 2,000 people.

The education department also continued its guided tours proposing activities in Italian and foreign language in addition to the format “Art on Sunday” involving cultural mediators in Sunday lessons on the history of art related to the exhibitions and Bike Tours to discover the Bicocca area. The Educational Department has collaborated with Italian and international artists such as Roberto Fassone, Adelita Husny-Bei and Eva Kotátková. Projects were also shared with the Fondazione Franco Albini and Fondazione Merz.

With a view to the enhancement of Anselm Kiefer’s *I Sette Palazzi Celesti 2004-2015*, the collaboration with the Milano Musica Festival continued with a concert weekend in November 2018.

Inside the Bookshop, in addition to a selection of books and catalogues related to current exhibitions, children’s books, art-related essays, reference books are sold merchandising products, including t-shirts and shoppers with new graphics, small stationery and umbrellas with the institutional logo, as well as postcards and posters with exhibition images.

During the year Pirelli HangarBicocca™ also hosted 18 major private events including the Annual Dealer Convention and the Ferrari Customers Gala Dinner, the Company Meetings of Swatch Italia, Siemens Healthineers, the new edition of the Barilla World Nutrition Forum, the dinners of Loro Piana, Moncler, Ducati and Pagani, as well as the Charity dinners of Fondazione Umberto Veronesi for fundraising for the paediatric project and Progetto Itaca, both supported by Pirelli HangarBicocca™, granting free use of the space.

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<p><b>Human Rights</b></p>	<p><b>Principle 1</b> – Business should promote and respect internationally proclaimed human rights in their respective spheres of influence.</p>	<p>Disclosure 407: Freedom of Association and Collective Bargaining                      Disclosure 408: Child Labor                      Disclosure 409: Forced or Compulsory Labor                      Disclosure 410: Security Practices                      Disclosure 411: Rights of Indigenous Peoples                      Disclosure 412: Human Rights Assessment                      Disclosure 414: Supplier Social Assessment                      Disclosure 103-2: Grievance Mechanism</p>	<p>Disclosure 413: Local Communities</p>
	<p><b>Principle 2</b> – Business should ensure that they are not, albeit indirectly, complicit in human rights abuses.</p>	<p>Disclosure 410: Security Practices                      Disclosure 412: Human Rights Assessment                      Disclosure 414: Supplier Social Assessment</p>	
<p><b>Labour Standards</b></p>	<p><b>Principle 3</b> – Businesses should uphold the freedom of association of workers and recognise the right to collective bargaining.</p>	<p>Disclosure 402: Labour/Management Relations                      Disclosure 403: Occupational Health and Safety                      Disclosure 407: Freedom of Association and Collective Bargaining                      Disclosure 410: Security Practices                      Disclosure 102-11: Precautionary Principle or Approach                      Disclosure 102-41: Collective Bargaining Agreements</p>	
	<p><b>Principle 4</b> – Business should uphold the elimination of all forms of forced and compulsory labour.</p>	<p>Disclosure 409: Forced or Compulsory Labor                      Disclosure 410: Security Practices</p>	<p>Disclosure 412: Human Rights Assessment</p>

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
	<p><b>Principle 5</b> – Business should uphold the effective elimination of child labour.</p>	<p>Disclosure 408: Child Labor Disclosure 410: Security Practices</p>	<p>Disclosure 412: Human Rights Assessment</p>
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<p><b>Environment</b></p>	<p><b>Principle 7</b> – Businesses should support a precautionary approach to environmental challenges.</p>	<p>Disclosure 102-11: Precautionary Principle or Approach Disclosure 201: Economic Performance</p>	<p>Disclosure 301: Materials Disclosure 302: Energy Disclosure 303: Water Disclosure 304: Biodiversity Disclosure 305: Emissions Disclosure 306: Effluents and Waste Disclosure 307: Environmental Compliance</p>
	<p><b>Principle 8</b> – Business should undertake initiatives to promote greater environmental responsibility.</p>	<p>Disclosure 301: Materials Disclosure 302: Energy Disclosure 303: Water Disclosure 304: Biodiversity Disclosure 305: Emissions Disclosure 306: Effluents and Waste Disclosure 307: Environmental Compliance Disclosure 308: Supplier Environmental Assessment Disclosure 103-2: Grievance Mechanism</p>	<p>Disclosure 201: Economic Performance</p>

Areas of the Global Compact	Global Compact Principles	Directly Relevant GRI Indicators	Indirectly Relevant GRI Indicators
	<p><b>Principle 9</b> – Businesses should encourage the development and diffusion of environmentally friendly technologies.</p>	<p>Disclosure 301: Materials                      Disclosure 302: Energy                      Disclosure 303: Water                      Disclosure 305: Emissions</p>	
<p><b>Anti-Corruption</b></p>	<p><b>Principle 10</b> – Businesses should work against corruption in all its forms, including extortion and bribery.</p>	<p>Disclosure 205: Anti-Corruption                      Disclosure 419: Socioeconomic Compliance                      Disclosure 102-16: Values, Principles, Standards, and Norms of Behavior                      Disclosure 102-17: Mechanism for Advice and Concerned about Ethics</p>	<p>Disclosure 205: Anti-Corruption                      Disclosure 419: Socioeconomic Compliance                      Disclosure 102-16: Values, Principles, Standards, and Norms of Behavior                      Disclosure 102-17: Mechanism for Advice and Concerned about Ethics</p>

**SDGS SUMMARY TABLE**

Sustainable Development Goals (SDGs)	Paragraphs describing the Group’s activities in support of the SDGs and relevant targets
1 - No Poverty	Company Initiatives for the External Community (Solidarity pp. 192-193)
2 - Zero Hunger	Company Initiatives for the External Community (Solidarity pp. 192-193)
3 - Good Health and Well-being	Welfare and Initiatives for the Internal Community (pp. 166-168) Occupational Health, Safety and Hygiene (pp. 172-174) Company Initiatives for the External Community (Road Safety pp.188-190, Sport and Social Responsibility p. 192, Health p. 194)  <u>Target:</u> <ul style="list-style-type: none"> <li>• Accident Frequency Index: -87% by 2020 compared to 2009</li> </ul>
4 - Quality Education	Training (pp. 160-165) Company Initiatives for the External Community (Training pp.190-191, Culture and Social Value pp. 195-196)  <u>Target:</u> <ul style="list-style-type: none"> <li>• Training: investment in employee training of at least an average of 7 man days</li> </ul>
5 - Gender Equality	Diversity Management (pp. 151-157)
6 - Clean Water and Sanitation	Water Management (pp. 129-131)  <u>Target:</u> <ul style="list-style-type: none"> <li>• Specific withdrawal of water -66% by 2020 compared to 2009</li> </ul>
7 - Affordable and Clean Energy	Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 114-115) Energy Management (pp. 121-124) Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 124-129)  <u>Targets:</u> <ul style="list-style-type: none"> <li>• Specific Energy Consumption: -19% by 2020 compared to 2009</li> </ul>
8 - Decent Work and Economic Growth	Our Suppliers (pp. 95-112) Internal Community (pp. 146-182)

<p><b>9 - Industry, Innovation and Infrastructure</b></p>	<p>Company Initiatives for the External Community (Training pp. 190-191)</p> <p><u>Target:</u></p> <ul style="list-style-type: none"> <li>• For specific product segments it is foreseen, by 2025 and compared with 2017, the doubling of the weight of renewable materials used and the reduction by 30% of raw materials derived from fossils</li> </ul>
<p><b>10 - Reduced Inequalities</b></p>	<p>Diversity Management (pp. 151-157)</p>
<p><b>11 - Sustainable Cities and Communities</b></p>	<p>Principal International Commitments for Sustainability (WBCSD pp. 184-186)</p> <p>Company Initiatives for the External Community (Road Safety pp. 188-190, Solidarity pp. 192-193)</p> <p><u>Target:</u></p> <ul style="list-style-type: none"> <li>• Improvement of product performances in 2020:             <ul style="list-style-type: none"> <li>○ Car products: -20% average rolling resistance, +15% on wet surfaces, -15% noise (vs 2009)</li> <li>○ Moto products: -10% average rolling resistance, +40% performance on wet surfaces, +30% for mileage (vs 2009)</li> <li>○ Velo: +5% braking performance, +10% wet surfaces (vs 2017)</li> </ul> </li> </ul>
<p><b>12 - Responsible Consumption and Production</b></p>	<p>Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 114-115)</p> <p>Energy Management (pp. 121-124)</p> <p>Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 124-129)</p> <p>Water Management (pp. 129-131)</p> <p>Waste Management (pp. 131-132)</p> <p>Company Initiatives for the External Community (Training pp. 190-191)</p> <p><u>Targets:</u></p> <ul style="list-style-type: none"> <li>• Specific Energy Consumption: -19% by 2020 compared to 2009</li> <li>• Specific CO<sub>2</sub> Emissions: -17% in 2020 compared to 2009</li> <li>• Water Specific Withdrawal: -66% by 2020 compared to 2009</li> <li>• Waste Recovery: &gt;95% by 2020</li> </ul>



<p><b>13 - Climate Action</b></p>	<p>CDP Supply Chain (pp. 108-109)</p> <p>Joining the Task Force on Climate-Related Financial Disclosures (TCFD) (pp. 114-115)</p> <p>Management of Greenhouse Gas Emissions and Carbon Action Plan (pp. 124-129)</p> <p>Principal International Commitments for Sustainability (International Commitments against Climate Change pp. 186-187)</p> <p><u>Targets:</u></p> <ul style="list-style-type: none"> <li>• Specific Energy Consumption: -19% by 2020 compared to 2009</li> <li>• Specific CO<sub>2</sub> Emissions: -17% in 2020 compared to 2009</li> <li>• Green Performance Revenues: &gt;50% of total revenues and &gt;65% on High Value Product Revenues by 2020 compared to 2009</li> <li>• Improvement of product performances in 2020:             <ul style="list-style-type: none"> <li>○ Car products: -20% average rolling resistance, +15% performance on wet surfaces, -15% noise (vs 2009)</li> <li>○ Moto products: -10% average rolling resistance, +40% performance on wet surfaces, +30% for mileage (vs 2009)</li> <li>○ Velo: +5% braking performance, +10% wet surfaces (vs 2017)</li> </ul> </li> </ul>
<p><b>14 - Life below Water</b></p>	<p>Water Management (pp. 129-131)</p>
<p><b>15- Life on Land</b></p>	<p>Sustainability of the Natural Rubber Supply Chain (pp. 101-104)</p> <p>Company Initiatives for the External Community (Training pp. 190-191)</p>
<p><b>16- Peace, Justice and Strong Institutions</b></p>	<p>Programs of Compliance 231, Anti-corruption, Privacy and Antitrust (pp. 76-79)</p>
<p><b>17 - Partnerships for the Goals</b></p>	<p>Sustainability of the Natural Rubber Supply Chain (pp. 101-104)</p> <p>Main International Commitments for Sustainability (pp. 182-187)</p> <p>Company Initiatives for the External Community (pp. 187-196)</p>

## CORRELATION TABLE WITH TOPICS LISTED IN ART. 2, D. LGS 254/2016

	Topics from D. Lgs 254/2016	Reference Paragraph	Page Number
Environmental Aspects	Use of Energy Resources (from renewables and non-renewables)	<ul style="list-style-type: none"> <li>• Risks Related To Environmental Issues</li> <li>• Energy Management</li> </ul>	48, 121-124
	Use of Water Resources	<ul style="list-style-type: none"> <li>• Risks Related To Environmental Issues</li> <li>• Water Management</li> </ul>	48, 129-131
	Greenhouse Gas Emissions and Air-Polluting Emissions	<ul style="list-style-type: none"> <li>• Risks Related To Climate Change</li> <li>• Joining the Task Force on Climate-Related Financial Disclosures (TCFD)</li> <li>• Management Of Greenhouse Gas Emissions and Carbon Action Plan</li> <li>• Solvents</li> <li>• NO<sub>x</sub> Emissions</li> <li>• Other Emissions and Environmental Aspects</li> </ul>	44, 114-115, 124-129, 132-135
Social Aspects	Health and Safety	<ul style="list-style-type: none"> <li>• Employee Health and Safety Risks</li> <li>• Health, Safety and Hygiene at Work</li> </ul>	48, 172-179
	Training and Development	<ul style="list-style-type: none"> <li>• Risks associated with Human Resources</li> <li>• Development</li> <li>• Training</li> </ul>	47-48, 159-165
	Welfare	<ul style="list-style-type: none"> <li>• Welfare and Initiatives for the Internal Community</li> </ul>	166-168
	Dialogue with Employees	<ul style="list-style-type: none"> <li>• Litigations Risks</li> <li>• Listening: Group Opinion Survey</li> <li>• Industrial Relations</li> </ul>	49, 165-166, 168-172
	Actions for Gender Equality	<ul style="list-style-type: none"> <li>• Diversity Management</li> <li>• Sustainability and Diversity Policy</li> </ul>	151-157, 207-208
	Respect for Human Rights: Measures Taken and Prevention	<ul style="list-style-type: none"> <li>• Risks in term of Corporate Social and Environmental Responsibility, Business Ethics, and Third-Party Audits</li> <li>• Human Rights Governance</li> <li>• Diversity Management</li> </ul>	52, 143-145, 151-157
Governance Aspects	Fight against Active and Passive Corruption	<ul style="list-style-type: none"> <li>• Risks in term of Corporate Social and Environmental Responsibility, Business Ethics, and Third-Party Audits</li> <li>• Programs of Compliance 231, Anti-corruption, Privacy and Antitrust</li> </ul>	52, 76-79



**PIRELLI & C SPA**

**INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED  
NON-FINANCIAL DISCLOSURE IN ACCORDANCE WITH ARTICLE 3,  
PARAGRAPH 10 OF LEGISLATIVE DECREE 254/2016  
AND WITH ARTICLE 5 OF CONSOB REGULATION 20267 ADOPTED  
BY RESOLUTION OF JANUARY 2018**

**FOR THE YEAR ENDED 31 DECEMBER 2018**



## Independent auditor's report on the consolidated non-financial disclosure

In accordance with article 3, paragraph 10 of Legislative Decree 254/2016 and with article 5 of Consob Regulation 20267 adopted by resolution of January 2018

To the board of directors of Pirelli & C SpA

In accordance with article 3, paragraph 10 of the Legislative Decree 254/2016 (the Decree) and with article 5 of CONSOB Regulation 20267/2018, we have performed a limited assurance engagement on the consolidated report on responsible management of the value chain / non-financial disclosure of Pirelli & C SpA and its subsidiaries (Pirelli group) as of and for the year ended 31 December 2018, prepared in accordance with article 4 of the Decree and included in section Report on Responsible Management of the Value Chain of the annual report 2018 of Pirelli group, approved by the board of directors of Pirelli & C SpA on 26 February 2019 (the NFD).

### Responsibility of the directors and of the board of statutory auditors for the NFD

The directors are responsible for the preparation of the NFD in accordance with articles 3 and 4 of the Decree and with the Sustainability Reporting Standards, issued by Global Reporting Initiative in 2016 (GRI Standards), and with the process suggested in AA1000APS (AccountAbility Principles Standards).

The directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFD is free from material misstatement, whether due to fraud or unintentional errors. The directors are responsible for identifying the content of the NFD, within the matters mentioned in article 3, paragraph 1 of the Decree, considering the activities and characteristics of the group and to the extent necessary to ensure the understanding of the group activities, its trends, its results and related impacts. The directors are responsible for defining the business and organisational model of the group and, with reference to the matters identified and reported in the NFD, for the policies adopted by the group and for the identification and management of risks generated or faced by the group.

The board of statutory auditors is responsible for overseeing, in accordance with the law, the compliance with the Decree.

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#### **Auditors' independence and quality control**

We are independent in accordance with the principles of ethics and independence disclosed in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board of Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, privacy and professional behaviour. Our audit firm adopts the International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for the compliance with ethical and professional standard and with applicable laws and regulations.

#### **Auditors' responsibility**

We are responsible for expressing, on the basis of the work performed, a conclusion regarding the compliance of the NFD with the Decree, with the GRI Standards and with the process suggested in the AA1000APS. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB), for limited assurance engagements. The standard requires that we plan and perform procedures to obtain a limited assurance that the NFD does not contain material errors. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised (reasonable assurance engagement) and, therefore, do not provide us with a sufficient level of assurance to become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFD are based on our professional judgement and consisted of interviews, primarily with company personnel responsible for the preparation of the NFD, in the analysis of documents, recalculations and other procedures aimed at obtaining evidence as appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant matters reported in the NFD relating to the activities and characteristics of the group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree, with the reporting standard adopted and considering AA1000SES (Stakeholder Engagement Standard);
2. analysis and assessment of the criteria used to identify the consolidation area, to assess its compliance with the Decree;
3. comparison of the financial information reported in the NFD with the information reported in the group consolidated financial statements;
4. understanding of the following matters:
  - o business and organisational model of the group, with reference to the management of the matters specified by article 3 of the Decree;



- policies adopted by the group with reference to the matters specified by article 3 of the Decree, actual results and related key performance indicators;
- main risks, generated or faced by the group, with reference to the matters specified in article 3 of the Decree.

With reference to such matters, we have carried out some validation procedures on the information presented in the NFD and other audit procedures as described under point 6. below:

5. understanding of the processes underlying the preparation, collection and management of the qualitative and quantitative material information included in the NFD. In particular, we have held meetings and interviews with the management of Pirelli & C SpA and with the management of Pirelli Neumaticos SA de CV, Pirelli Pneus Ltda and Pirelli Tyre SpA and we have performed limited analysis and validation procedures, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFD;
6. analysis of policies and procedures in place and of the coherence of the sustainability management model compared to UNI ISO26000 principles, among which: governance, human rights, relationship and work conditions, and environment.

Moreover, for significant information, considering the activities and characteristics of the group:

- at a group level,
  - a) with reference to the qualitative information included in the NFD, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and obtained supporting documentation to verify its consistency with available evidence;
  - b) with reference to quantitative information, we performed analytical procedures and limited tests, in order to assess, on a sample basis, the proper consolidation of the information;
- for the industrial sites located in Silao (Mexico) and Feira de Santana (Brazil), which were selected on the basis of their activities, their contribution to the performance indicators at consolidated level and their location, we carried out site visits during which we met local management and gathered supporting documentation regarding the compliance with procedures and calculation methods used for the key performance indicators.



**Conclusions**

Based on the work performed, nothing has come to our attention that caused us to believe that the NFD of the Pirelli group as of 31 December 2018 and for the year then ended has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree, with the GRI Standards and with the principles of inclusivity, materiality and responsiveness of AA1000APS, as described in the Methodological note of the Report on Responsible Management of the Value Chain.

*Milan, 3 April 2019*

*Signed by*

Paolo Caccini  
(Partner)

*Signed by*

Paolo Bersani  
(Authorized signatory)

This report has been translated into English from the Italian original solely for the convenience of international readers