

ECONOMIC DIMENSION

Creation of Shared Value = Return of Value

“Working to ensure long-term responsible growth in full awareness of the inter-dependence of the economic, social, and environmental spheres, and being mindful of the effects a decision in one such sphere has on the others.

Seeking to be a leader of R&D in green technologies and products, ahead of market demand, in the knowledge of the benefits that today’s achievements will bring to tomorrow’s world. Linking together value creation, social progress, concern for stakeholders, and higher standards of living and environmental quality.”

(Ethical Code/Values – Sustainable Growth)

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

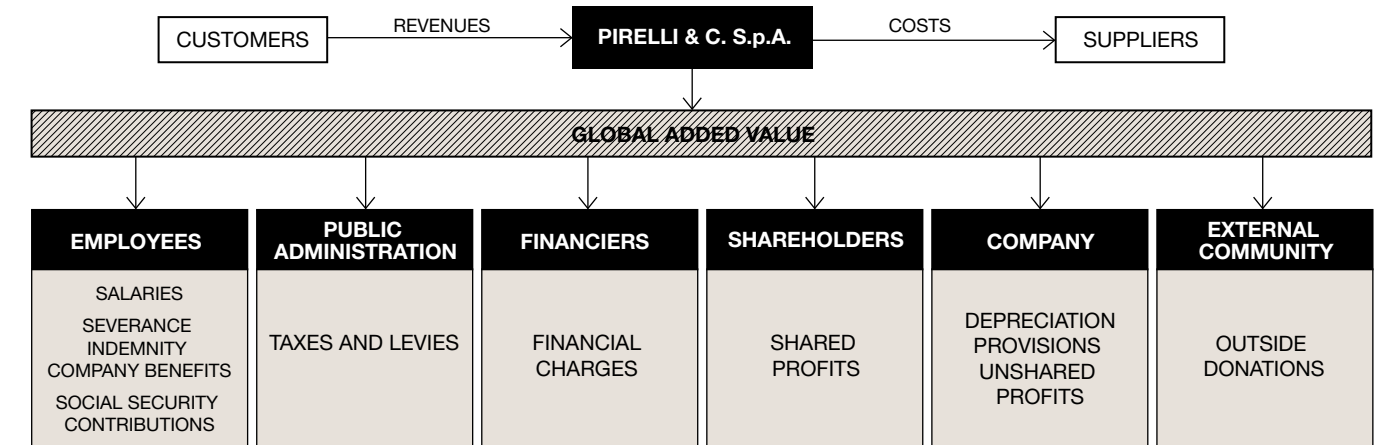
(Ethical Code – Community).

ADDED VALUE

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

The distribution of added value between stakeholders

enables the to express, in monetary terms, the existing relations between Pirelli and the major stakeholders, thus shifting attention to the socio-economic system in which the Group operates (as shown in the diagram below).



The added value created by Pirelli & C. Group in 2010, 2009 and 2008 is broken down as follows:

	2010		2009		2008	
		%		%		%
GROSS OVERALL ADDED VALUE	1,495,881		1,293,255		918,953	
Remuneration of personnel	(1,063,648)	71.1%	(949,217)	73.4%	(1,007,702)	109.7%
Remuneration of Public Administration	(137,358)	9.2%	(90,350)	7.0%	(71,400)	7.8%
Return on credit capital	(65,793)	4.4%	(70,112)	5.4%	(51,396)	5.6%
Remuneration of venture capital	(81,151)	5.4%	(81,132)	6.3%	0	0.0%
Remuneration of the company	(144,306)	9.6%	(99,144)	7.7%	214,157	-23.3%
Outside donations	(3,625)	0.2%	(3,300)	0.3%	(2,612)	0.3%

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

The trends of the items comprising gross overall added value as indicated hereinabove are adequately explained in Volume 1, Annual Financial Report at december 31, 2010. Reference is made to that Volume for further details.

With reference to the **outside donations**, the table below shows the contributions and donations made by Pirelli in the three-year period 2010, 2009 and 2008, broken down by category:

OUTSIDE DONATIONS* (in thousands of Euro)

	2010	2009	2008
Education	770	696	785
Culture	1,035	1215	624
Research	1,119	629	560
Solidarity, Sport	702	761	640
Other	0	0	3
TOTAL	3,625	3,301	2,612

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

In spite of the complex economic situation in 2008 and 2009, the Group maintained its focus on the importance of distributing value to the external community. These contributions were further increased in 2010 once the economic recovery got underway. The change over the past two years as compared with 2008 shows a marked increase in contributions to research. This area is considered key to global recovery from the crisis.

To correctly dimension and understand the proportion of the spent among the above categories, it must be remembered that the amounts shown are consolidated figures indicated in Euro, although they were mainly spent in local currency in the various countries (often emerging markets / developing countries) where Pirelli operates. This is particularly true for the categories "Education" and "Solidarity." Paradoxically, though the reported figures shown are lower in absolute terms than what was spent on Culture and Research, they correspond in real terms to the financing of a "universe" of development projects in the receiving countries.

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

During FY 2010, **no significant penalties were levied and paid** on a final basis for violation of laws and regulations, including any penalties connected with the supply and use of Group products and/or services.

Finally "The Pirelli Group 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." (Ethical Code – The wider community).

SIGNIFICANT LOANS RECEIVED IN 2010

In February 2010, the **European Investment Bank (EIB)** granted **Pirelli Tyre S.p.A.** a loan for **Euro 100 million** under an agreement to support **Group research and development projects in 2009-2012**. This made it possible to use the whole credit facility approved for this purpose in July 2009.

In **May 2010** the **EIB** also disbursed the **first Euro 20 million** for a **new Euro 50 million loan**, granted in support of the **Euro 250 million loan for expansion of the Pirelli plant at Slatina in Romania**, dedicated to the production of automobile and light commercial vehicle tyres. The new loan complements a similar loan made in 2007 to support establishment of the same production plant.

SHAREHOLDERS, INVESTORS AND THE FINANCIAL COMMUNITY

"In its relations with all classes of shareholders, with institutional and private investors, financial analysts, market operators and, in general, with the financial community, the Pirelli Group is fully transparent, complies with the requirements of accuracy, timeliness, and equal access, and aims to ensure that a proper valuation of Group assets can be made."

(Ethical Code - Shareholders, Investors and the Financial Community).

Pirelli attributes great strategic importance to financial communication, considering it a key tool for building a trust-based relationship with the markets. **Accuracy, timeliness, equality and transparency** are the basic rules that Pirelli applies to its financial disclosures.

Through top management and the Investor Relations Department, the Group maintains an open and transparent dialogue with analysts and investors – both individuals and institutional investors – in view of promoting **fair valuation of its assets**.

In 2010, financial communication aimed to promote the **Pirelli Equity Story**.

Conclusion of the process of transforming the company into a **pure tyre company** (following spin-off of Pirelli RE and the disposal of non-strategic activities) and the **achieve-**

ment of 2011 targets a year early led to drafting of the **new 2011-2013 Business Plan, with vision to 2015**.

The new plan calls for:

- further focus on the premium tyre segment, which is growing at a rate faster than the market and in which Pirelli holds a leadership position;
- adjustment of production activities between rapidly developing economies (RDE), Latin America and mature markets, in consequence of which each of the three areas will contribute one-third to Group profits in 2015;
- technological upgrade of production sites and machinery (in 2015, 60% of production will be in plants less than ten years old).

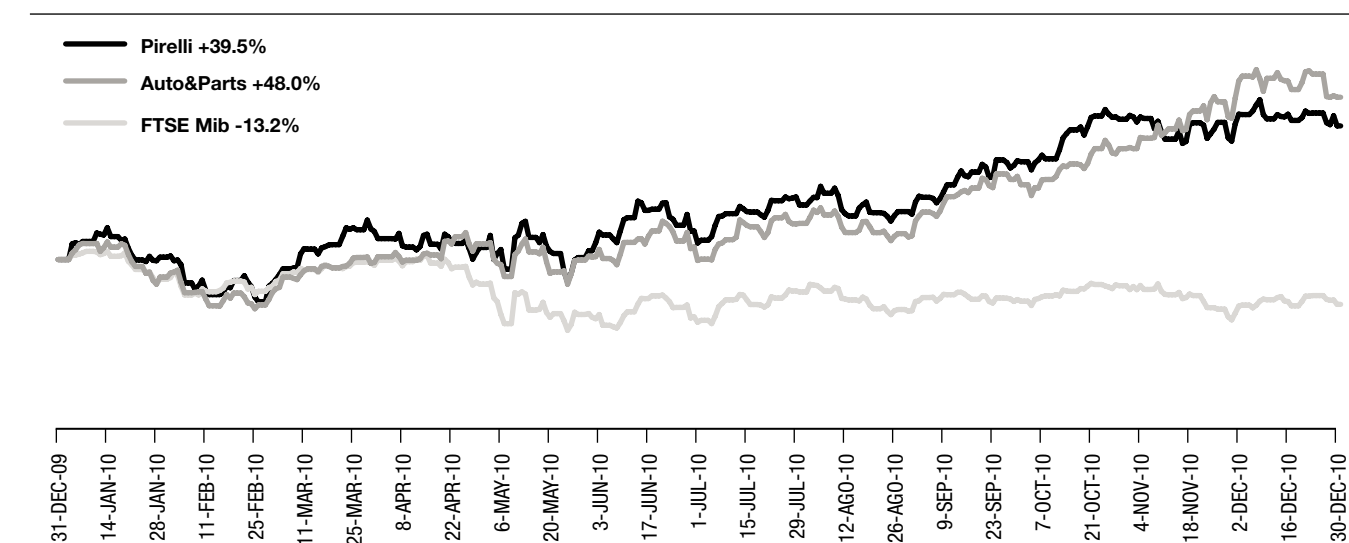
In 2010 the **Group met** more frequently with **investors** on major financial markets (**Milan, London, Edinburgh, New York, Boston, Paris, Frankfurt, Zurich, Copenhagen and Stockholm**) during dedicated road-shows and participation at industry conferences. Pirelli representatives met with **408 institutions, comprised of both current and prospective investors**. At the same time, coverage of Pirelli stock by investment banks was expanded, especially amongst international investment banks with specialised coverage for the tyre industry. At December 31, 2010 Pirelli stock was **covered by 21 brokers who regularly publish on it, including 43% global** (25% at December 31, 2008).

For years Pirelli has been dedicating special attention to relations with the **ratings agencies** that specialise in **sustainable finance**. In 2010 it also dedicated special attention to **Socially Responsible Investors**, with whom dedicated **road-shows** were held in the **Paris** and **Frankfurt** financial centres.

Pirelli financial communication is rounded out by a series of information services offered in the Investors section of the Pirelli website: from the "**Investor Channel**," a financial and business news channel, to **Peers and Market**, a weekly financial newsletter, from **Tyre Market Watch**, which monitors **tyre market trends** in the principal geographical areas where the Group operates, to the summary forecasts (**Consensus**) of financial analysts who cover Pirelli stock.

In recognition of the efforts made by the company to financial communication, Pirelli was awarded the "**Country Award 2010**" for Italy. This important award is granted by **IR Magazine Europe** to the best firms and professionals in the area of investor relations.

The following graphic illustrates the stock market performance of Pirelli & C. in 2010. It also indicates the performance of the Auto & Parts segment and the FTSE Mib, for easy comparison:



In 2011 financial communication will continue by reporting the gradual implementation of the new 2011-2013 Business Plan, and by expanding contacts with analysts and investors, dedicating special attention to **SRI Investors** as part of the Group sustainability strategy.

For more details, reference is made to the regularly updated "Investors" section of the website www.pirelli.com. It provides a complete information tool for matters of interest to shareholders and the financial community.

OUR CUSTOMERS

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

The business of **Pirelli Tyre** is divided into **two main segments: Consumer** (tyres for cars, SUV, light commercial vehicles and motorcycles) and **Industrial** (tyres for buses, trucks, agricultural machinery and steelcord). These businesses are focused in turn on **two different sales channels:**

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

A macro-distinction can be made between “Specialised Resellers” and “Distributors” in the “Replacement” channel. Specialised Resellers are tyre specialists that operate as independent businesses. They are a key point of contact between the Group and end customers. Special attention is devoted to them in terms of shared development, to enhance the offer of products integrated with high-quality service that is consistent with Pirelli values and customer expectations. “Distributors” are key partners of Pirelli in guaranteeing continuous supply of tyres to specialised resellers, by offering local delivery and distribution services throughout the whole territory.

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

Pirelli & C. Ambiente, active in the waste-to-fuel and photovoltaic renewable energy sectors and in environmental clean-up;

Pirelli Eco Technology, which operates in the diesel vehicle and heating plant emissions control technology sector;

Pzero, an interdisciplinary project with an hi-tech spirit, bringing together marketing and fashion while being firmly rooted in industrial design.

CUSTOMER FOCUS

Customer focus – a key aspect of the Values and Ethical Code of the Pirelli Group – presupposes a constant and on-going commitment in terms of:

- *comprehension of the market context in which the Group operates;*
- *consideration of the impact of the Group’s actions and behaviour on the customer;*
- *exploitation of every opportunity offered by doing business to satisfy the customer’s needs;*

- *anticipation of customer needs;*
- *top product quality, as well as excellence of production systems and processes;*
- *constant focus on performance to satisfy customer performance and safety expectations;*
- *excellence and competitiveness on the market to offer customers quality products and services that efficiently satisfy their demands.*

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

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

TRANSPARENCY

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

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

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

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

There were **no cases of non-compliance** with regulations or voluntary regulations applicable to marketing activity in 2010, including advertising, promotion and sponsorship.

INFORMATION AND TRAINING

Tyre products are subject to statutory noise abatement requirements at the **European** level. These laws will become much stricter beginning **in 2012**, when **new regulations governing rolling resistance and road hold on wet pavement** will also come into effect (European Union Regulation (EC) No. 661/2009). **Tyre labelling** requirements will also come into force **in 2012** (EU Regulation (EC) No. 1222/2009). They aim to **improve road safety**, by promoting tyres models having a high level of road hold on wet pavement, and reduction of the environmental impact of road transport through the promotion of tyres having low rolling resistance (and thus more fuel efficient) and having low noise levels. Every label will always have to give information about product performance in terms of rolling resistance, road hold on wet pavement and external noise, to be measured using harmonised test methods.

In the **United States**, “**Uniformity Tyre Quality Grading**” (**UTQG**) is required. These rules are currently being revised and will include mention of the degree of rolling resistance. **All Pirelli products** are sold with a **safety warning** affixed to the side of the tyres, **although this is not required under the law**. Voluntary tyre labelling requirements also exist in **Japan** and are being considered in other countries as well.

In 2010 there were **no cases of non-conformity** to regulations or voluntary codes involving product/service information and labelling.

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

The international website *www.pirelli.com* is particularly important for this purpose. Updated at the end of 2010, it contains a series of changes, particularly regarding its approach to consumers.

The strategic objective of the site consists in helping consumers choose the product most suited to their needs, while assisting them throughout the decision-making process until eventual online purchase, and providing them as much information as possible. Regardless of whether the consumer’s “journey” on the site concludes with an online purchase, he will still have been provided with all the tools necessary for visiting any reseller, ready to make an informed purchase. More specifically, the “**Find your perfect tyre**” configuration tool is a method for engaging the consumer by starting from his personal and driving characteristics, leading him step by step to determining the most suitable tyre for his needs, as described in detail by internationally recognised ex-

perts. This ideal tyre can even be “tested” by using virtual and interactive tests.

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

The new website marks a significant change for the Pirelli digital identity: its functionality and style make it stand out as one of the most important brands in the automotive and other sectors.

GETTYRE is the **Pirelli and Metzeler e-commerce** site dedicated to motorcycle and scooter owners. In collaboration with the network of resellers located in every region of Italy, GetTyre.it is the official online store that clearly features a range of tyres and special offers for consumers. The site is already active in Italy and, from March 1, 2011, it will also be active in Spain.

Pirelli paper publications are dominated by the **company magazines *Pirelli World*** and, for Brazil, ***Giro***, in addition to publications for the international market, including ***Pirelli Truck. Street and Motopasion*** in Brazil. This last publication, which is also available online and published in four languages in Europe (Italian, Spanish, German and English) and in two languages in South America (Spanish and Portuguese), represents a steady channel for communication between Pirelli and transport resellers and professionals. It offers a key tool for distributing information and updates on products and applications.

In 2010 a project to improve both company employees’ and customers’ knowledge about tyres and Pirelli products was developed and implemented worldwide. This is the ***Tyre Campus*** project, whereby Pirelli aims at achieving **excellence in product training**, both in terms of content and methods, from factory visits to simulations of tyre performance. Information and training are now truly comprehensive. Tyre Campus also proposes high-level training to its own customers on administrative, management and marketing issues, in addition to technical product training.

LISTENING AND EXCHANGING IDEAS AS SOURCES FOR CONTINUOUS IMPROVEMENT

Customer relationships are managed principally through two channels:

- the local **sales organisation**, which has direct contact with customers and, by using the *Sales Force Automation* (SFA) information management system, can process and respond on-site to all customer information requirements;
- the **Pirelli Tyre Contact Centers**, which number

31 worldwide and are staffed by over 200 employees, providing both information assistance and order management (inbound), telemarketing and teleselling (outbound), with over 1,800,000 calls a year. A training programme for certain European markets was also developed during 2010 (and is being expanded in 2011), in order to improve relationship skills with customers and developing greater technical and commercial skills. Specific reports and analyses are generated on the basis of available tools to assess efficiency, effectiveness and customer satisfaction.

Pirelli is also present on **Facebook**, **Twitter** and **Youtube**, three constantly updated channels that are enjoying exponential growth in spontaneous participation by fans. The principal aims of this exposure is to maintain the **involvement** of users interested in the Pirelli brand and products, support communication of the institutional website and exploit the opportunity to **transform customer experiences into opportunities for continuous improvement**.

The German brand Metzeler is particularly active through **RIDEXPERIENCE**, the **multilingual blog** where bloggers share their extreme travel experiences, technical advice and interesting news about the motorcycling world.

Feedback received during 2010 included the results of the **Dealer Satisfaction Surveys** conducted in Italy and Brazil, covering the level of customer satisfaction compared with leading competitors. In **Italy** Pirelli posted a total level of satisfaction **exceeding the market average (+2.3%)**. The competitive advantage was confirmed not only at the general level but also for the principal sectors that were investigated, particularly marketing, which remains a strong point for Pirelli (+5.1% above the average for its main competitors) and the product range (+4.9% above the market average). In **Brazil**, FY 2010 confirmed an **extremely positive trend**, both in terms of general customer satisfaction (+3% from 2009 and +18.3% from 2008 with Pirelli reaching the highest levels of satisfaction on a scale from 1 to 5), and in terms of specific areas like product quality (+4.2% from 2009 and +15.6% from 2008).

In collaboration with a group of professors and researchers at the **Bocconi University in Milan**, a specific study was conducted in 2010 on the target market of the new **Cinturato P1**, prior to its planned launch on the market in the first half of 2011. This study was carried out by using the **conjoint analysis** statistical method, in order to determine the **purchase drivers** according to the value perceived by the consumer. "The result has shown that **the brand, as a proxy for quality and safety, is the**

most important purchase driver (34%), followed by product performance characteristics, such as road hold (23%) and durability (15%).

The **action plans** defined after the results of surveys conducted in Europe during 2009 were implemented in **2010**.

Pirelli will launch the **Engaging the Consumers** project in **2011**. Using a detailed analysis of all phases of the purchase process, the project aims to identify and select Pirelli's target consumers with precision – the consumers on which it will focus "consumer insights driven" plans – in addition to marketing activities. All of these activities serve to support Group growth strategies.

QUALITY CERTIFICATIONS

ISO 9001

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

ISO/TS 16949

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

ISO/IEC 17025

Since 1993 the Pirelli Materials and Experimentation Laboratory, and since 1996 the Pirelli Pneus (Latam) Experimentation Laboratory, have implemented the quality management system and are accredited in compliance with ISO/IEC 17025. This system is maintained in compliance with the current standard. Pirelli's car tyres are an excellent example of the Company's focus on quality, which is confirmed by its pre-eminence in a large number of product tests, and also ensured by the Company's close links with highly prestigious partners (famous car makers, specialist magazines, driving schools, etc.) for product development and experimentation.

European Regulation no. 1907/2006 (REACH)

Monitoring of the producers and suppliers of raw materials used by the Group continues as part of certification of the compliance of chemical products pursuant to European

regulations to protect worker health and the environment. In accordance with REACH requirements, Pirelli does not produce or directly import chemical substances from non-EU countries, constantly controls the chemical substance registration processes implemented by producers and suppliers, verifies their certification and requests continual updates as necessary to carry on its business.

SAFETY, PERFORMANCE AND ECO-SUSTAINABILITY

The Group's **R&D** has carried on its **commitment** to develop innovative products, characterised by performance and eco-sustainability, in accordance with the company **Green Performance** philosophy.

Respect for the environment, safety and cutting-edge performance are the key characteristics of the new Pirelli car product lines, such as the **Cinturato** family and the **Scorpion Verde**. In the commercial vehicle segment, the extension of the **Serie 01**, introduced in 2009 for trucks and tractors, to trailer and semi-tractor-trailer equipment (**ST:01**) represents another example of the company's commitment. The **eco-impact mark** on the side of **Serie 01** tyres identifies the products that permit reductions in environmental impact through lower rolling resistance, fuel consumption and external noise, in addition to higher mileage. **The new generations of tyres are already made in compliance with future European Union labelling regulations, which is coming into force in 2012**. Similarly, Pirelli in 2008 also proceeded with the early elimination of highly aromatic oils from green performance product compounds. By eliminating them in 2008, Pirelli anticipated the mandatory 2010 European deadline.

For more details about the "eco-sustainable" characteristics of products, please see the *Environmental Dimension* chapter in this report.

Pirelli research is constantly dedicated to **improving product quality and performance, as well as end customer safety**. To achieve this, the company relies on its **close ties with the most prestigious car makers** in a segment that is particularly scrupulous and demanding in terms of safety and performance: the **Ultra High Performance** market. Continuous improvements in key performance parameters, such as braking performance under dry and wet conditions, offer customers top-quality products in terms of road safety. There are tyres that have been conceived primarily to offer safety and innovation, such as **self-supporting** tyres or **Run Flat** tyres, which guarantee vehicle mobility and control even in the event of a sudden loss in pressure.

Pirelli's commitment to end customer safety is also docu-

mented by its signature on the **European Road Safety Charter**, promoted by the European Commission through the Directorate General Energy and Transport, with the aim of reducing the number of victims of motor vehicle accidents. With this agreement, Pirelli undertook to intensify its programme of initiatives already launched at the international level. In particular, aside from nudging consumer choices towards higher performance, and thus safer tyres, Pirelli has implemented information programmes (e.g. a space dedicated to safety and prevention topics in each issue of *Pirelli Truck*) designed to raise driver awareness of the importance of driving with tyres in good condition (correct pressure and sufficient remaining tyre tread).

The "**Safe & Go**" 2010 campaign is worthy of mention in this sense. As part of this programme, "mobile workshops" were set up at the rest areas along Italian motorways. Here, Pirelli technicians performed free checks for motorists on the condition of their tyres and offered genuine "maintenance lessons."

Other initiatives that have been scheduled beginning from 2011 call for the creation of information kits targeting young people, to be distributed through Pirelli reseller networks. These kits will describe the tyre characteristics having the greatest impact on road safety.

The motorcyclist world is particularly sensitive to road safety. This is the target for a Pirelli campaign that will focus on active and passive safety issues, from the importance of certified protective equipment to motorcycle maintenance and the Motor Vehicle Code.

OUR SUPPLIERS

"Suppliers and outside workers play a key role in improving the competitiveness of the business. While seeking the keenest competitive edge, the Group bases its relations with suppliers and outside workers on fairness, impartiality, and ensuring equal opportunities for all parties concerned.

The Pirelli Group requires that its suppliers and outside workers comply with the principles and rules in this Code." (Ethical Code – Suppliers and Outside Workers).

GROUP POLICIES

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

In compliance with the Group Ethical Code and the Policy "Social Responsibility for Occupational Health, Safety and Rights, and Environment", Pirelli has developed the necessary procedures to **select and assess suppliers and subcontractors according to their commitment to economic, social and environmental responsibility**.

The Pirelli model for sustainable management of its supply chain was verified and validated by SGS: in 2009, within the Assurance Process of the Sustainability Report according to AA1000 Standard provisions, a specific focus on sustainable development of the supply chain was made.

SUSTAINABILITY CLAUSES OF CONTRACT

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

The clauses envisage the implementation of Pirelli sustainability policies: Ethical Code, Code of Conduct and the “Social Responsibility for Occupational Health, Safety and Rights, and Environment” Policy. Execution of the contract gives Pirelli the right to carry out audits of its suppliers to assess compliance with the principles and commitments agreed to by signing the clauses.

The sustainability clauses have been translated into 22 foreign languages. This guarantees the maximum clarity and transparency towards the supplier in terms of his sustainability obligations under contract, which he assumes not only in his relations with Pirelli itself but also at his own facility and in relations with his own suppliers.

In 2010, the consolidation of large-scale distribution and acceptance of sustainability clauses permitted structured substantial review of their application through independent audits, as previously mentioned.

These clauses will be revised in 2011, in view of syntactical simplification, while maintaining the key elements of social and environmental responsibility and business ethics that are currently included. The clause providing for Pirelli audits will obviously be retained.

PURCHASES PERFORMANCE

Following is an overview of the **purchases of goods and services** by Pirelli in 2010/2009/2008, highlighting the **weight of tyre purchases on total purchases**:

Purchases of goods and services Percentage purchased against total purchases	2010	2009	2008
TYRE	94%	94%	94%
OTHER BUSINESSES (CORPORATE + ECO TECHNOLOGY + AMBIENTE + P ZERO)	6%	6%	6%

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

The following illustration show the breakdown of Pirelli (Tyre + Other Businesses) purchases by geographical area and the second illustration shows the number of suppliers corresponding to each area.

As readers will notice, more than half of the acquired value is represented by OECD countries. Likewise, the number of Group suppliers is far greater in OECD areas than in non-OECD areas.

It should be pointed out that 78%¹ of suppliers are located in the same area as the supplied Pirelli affiliates, in accordance with a *Local for Local* procurement approach.

PERCENTAGE VALUE OF PIRELLI PURCHASING BY GEOGRAPHICAL AREA*

		2010	2009	2008
OECD COUNTRIES	EUROPE	50.0%	47.4%	49.2%
	NORTH AMERICA	2.4%	3.1%	1.4%
	OTHERS*	2.5%	3.1%	0.4%
NON-OECD COUNTRIES	LATIN AMERICA	18.2%	26.4%	26.9%
	ASIA	20.8%	15.4%	20.2%
	AFRICA	1.5%	1.4%	1.9%
	OTHERS	4.6%	3.1%	0.0%

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

PERCENTAGE OF PIRELLI SUPPLIERS BY GEOGRAPHICAL AREA*

		2010	2009	2008
OECD COUNTRIES	EUROPE	58.7%	63.5%	49.2%
	NORTH AMERICA	3.2%	4.3%	1.4%
	OTHERS*	0.2%	3.4%	0.4%
NON-OECD COUNTRIES	LATIN AMERICA	26.7%	22.9%	26.9%
	ASIA	4.7%	4.5%	20.2%
	AFRICA	3.0%	1.3%	1.9%
	OTHERS	3.5%	0.1%	0.0%

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

As indicated above, the purchases of goods and services by the Tyre business represent 94% of Group purchases. Additional details on the purchases made by Pirelli Tyre follow below, broken down by type of purchase, and a

1 Does not include raw material suppliers

snapshot of the number of suppliers corresponding to the types of goods/services acquired by Pirelli Tyre.

PERCENTAGE VALUE OF PIRELLI TYRE PURCHASES BY TYPE

	2010	2009	2008
Raw materials	55.4%	52.4%	59.5%
Supplies	4.6%	4.8%	5.1%
Services	28.7%	34.1%	25.6%
Capital goods	11.4%	8.8%	9.8%

PERCENTAGE OF PIRELLI TYRE SUPPLIERS BY TYPE

	2010	2009	2008
Raw materials	3.0%	3.3%	2.6%
Supplies	38.9%	9.7%	5.4%
Services	47.3%	73.8%	82.8%
Capital goods	10.8%	13.2%	9.2%

The Table “Percentage Value of Pirelli Tyre purchases by Type” shows that **raw materials** remain the **most important purchasing category**, accounting for **55% of the total**. This percentage was higher in 2010 than in 2009. The reason for the increase lies in the continuous growth of prices, particularly for natural rubber. The total spent on “Capital goods” has also increased, being closely tied to the increase in industrial capacity that characterised the period.

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

What follows is a graph illustrating the **percentage composition of the mix of raw materials** purchased by Pirelli Tyre in 2010. Alongside it we see the 2009 and 2008 data published in previous sustainability reports. Specifically in comparison with 2009, the weight of natural rubber rose in 2010 against a decrease in carbon black and chemicals. The average volume of raw materials used in 2010 for the production of tyres was about 1 million tonnes, including **about 6% derived from recycled material**.

MIX OF PURCHASED RAW MATERIAL

	2010	2009	2008
Natural rubber	33%	24%	28%
Synthetic rubber	24%	23%	22%
Carbon black	11%	13%	12%
Chemicals	14%	17%	14%
Textiles	10%	13%	11%
Steelcord	8%	10%	13%

INTERACTION BETWEEN PIRELLI TYRE AND ITS SUPPLIERS

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

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

The Vendor Rating covers all merchandise and geographical areas of purchase and is used as an integral component of commercial negotiations. These procedures are supported by a special website available online through the **Purchasing Portal**. This website supports the Regulations (including the *Purchasing Manual, General Conditions to be applied to suppliers*), the *Vendor List*, surveys, *Vendor Rating* with feedback and the definition of support actions. This portal provides both an assurance of process **uniformity and a guarantee of transparency**, in addition to being a **communication, on-going training and knowledge sharing tool**.

The processes of dialogue and interaction with suppliers are the object of process improvement, in terms of both quality and tools. Specifically, the Vendor Rating results are regularly revised and commented on by the Purchasing Department. This process involves meetings organised with the suppliers, aimed at identifying any corrective actions or measures to improve performance.

Each purchase contract includes the name of the buyer contact, to provide the supplier with a company channel that is always available for any feedback.

Several new projects to improve the purchasing process and support relationships with suppliers were developed and implemented in 2010. In particular:

- continuous improvement and extension of IT systems for systematic analysis and monitoring of the provision of indirect materials and services;
- vendor training on sustainable management: pilot programmes launched in Brazil and Turkey;
- launch of activities for the new Group “Purchasing Portal,” which is an advanced tool that from 2011 will permit managing purchases even more efficiently and with greater coordination amongst the various countries than is the case now. The new IT tool will also make it possible to conduct communication, awareness and training campaigns for vendors, in which sustainability will play a key role.

INDEPENDENT AUDITS OF VENDOR SUSTAINABILITY

Independent audits of 72 suppliers of Pirelli Tyre operating in countries of concern where Pirelli operates – Brazil, Argentina, Egypt, China, Romania, Turkey, Venezuela, Indonesia, Malaysia, Thailand - (as defined by the EIRIS classification) **were carried out between November 2009 and January 2010**. These audits reviewed compliance by these vendors with the sustainability clauses.

A number of **remedial plans** to rectify identified non-conformities were developed after the audit, and all of these were being completed at the end of 2010.

The commitment made by **Pirelli Turkey** merits special mention: it has **trained dozens of vendors on the sustainable corporate management process**, in view of shared growth.

Another 58 independent audits were scheduled between the end of 2010 and early 2011 in the United Kingdom, Germany, Italy, China, India, Latin America, Turkey, Egypt and Romania.

These 58 audits cover:

- 25% of the total value of purchases from service vendors in western countries;
- 25% of the total value of purchases from raw material vendors in the “countries of concern.”

The vendor **audits** are carried out both at the **Pirelli sites**, where the suppliers provide services with their own personnel, and **at Suppliers’ own facilities**.

Both workers and supervising managers are interviewed on specific issues as part of these audits.

At the **central level**, a **team** comprised by the **Group Sustainability and Purchasing Departments** defines the guidelines for selection of the vendors to be audited, while supporting the corresponding local departments that will manage the process.

The audits are performed by a leading international service auditor of Quality, Health and Safety, Environment and Social Responsibility (QHSE) compliance. This auditor uses a **checklist** of sustainability parameters based on the **SA8000®** standard, the **“Social Responsibility for Occupational Health, Safety and Rights, and Environment” Pirelli Policy**, and the **Pirelli Ethical Code**, and thus in compliance with the provisions of the Group’s **sustainability clauses signed by the vendors**.

The results of the audits conducted between the end of 2010 and the beginning of 2011 will be immediately analysed to identify any criticalities and/or areas for improvement and to prepare corrective measures to be shared and developed with the suppliers themselves, according to a priority plan tied to the criticality of any instances of non-compliance that are found.

2011 TARGETS

In addition to the **58 audits already mentioned**, work continues on achieving the following targets in 2011:

- In-service training programme on sustainable management of the supply chain, targeted at all Group buyers.
- New Vendors Portal: development, pilot project in Italy and first extension to other EMEA countries.
- Definition of new audits on the basis of the criteria decided by the local offices of Pirelli, while maintaining central support (following the training mentioned above).
- Drafting of a Pirelli manual for sustainable management of the supply chain, designed to render the adopted managerial approach more uniform and efficient amongst the various affiliates, while making the relevant know-how available to everyone.