



PIRELLI SUSTAINABILITY PLAN

2017-2020 with *selected targets to 2025*



AGENDA

— PIRELLI SUSTAINABILITY MODEL

- ACHIEVEMENTS
- EVOLVING CONTEXT & KEY INDUSTRY TRENDS
- SUSTAINABILITY PLAN: RETURN ON CAPITAL
 - GROWTH
 - PRODUCTIVITY
 - GOVERNANCE & RISK MANAGEMENT

PIRELLI SUSTAINABILITY MODEL

PIRELLI MULTI-STAKEHOLDER SUSTAINABILITY MODEL ALIGNS TO



United Nations
Global Compact



AA1000
Stakeholder Engagement Standard
2nd Edition

GOVERNANCE

Board of Directors

Board Committee

Sustainability
Steering Committee

Group Sustainability
and Risk
Governance dept.

Country Sustainability
Managers
(CEOs)

MANAGEMENT SYSTEMS

Quality

ISO 9001
IATF 16949
ISO/IEC 17025

Labour and Social

OHSAS 18001
Standard SA8000® (Reference Std)

Environment

ISO 14001
ISO 14040
ISO 14064

Anti-Bribery

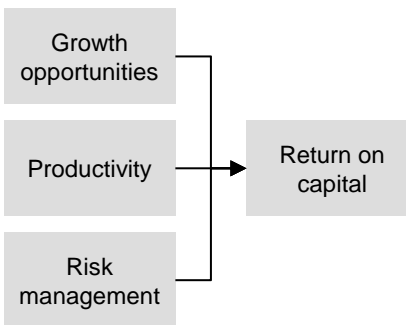
ISO 37001

Purchasing

ISO 20400

PLAN

Using the “Value Driver Model”** to better assess and communicate the financial impact of sustainable strategies.



REPORTING*

Sustainable performance is integrated in the Group Annual Report:



*Using Global Reporting Initiative (GRI –Standards), Comprehensive option; principles of integrated reporting contained in the Framework of the International Integrated Reporting Council (IIRC), Assurance Engagements, ISAE 3000 – Assurance Engagement on GHG ISAE 3000; **Tool developed by the UN Global Compact and UN Principles for Responsible Investment (PRI).

A COMPREHENSIVE CORPORATE POSITIONING & INTERNATIONAL ENGAGEMENT

MAIN GROUP POLICIES*



ADVOCACY: PLAYER WITHIN MAIN INTERNATIONAL ORGANIZATIONS IMPACTING ON SUSTAINABLE DEVELOPMENT



United Nations
Global Compact
LEAD



World Business Council
for Sustainable Development**



Corporate Social
Responsibility Europe***



European Occupational Safety and
Health Agency (EU-OSHA)****



Key Global sustainability issues

*Published on Pirelli's website in multiple languages and communicated to all employees in their local language; **Member of the Tire Industry Project Group (TIP) and of the SIMply Project on Sustainable Mobility; ***Member of the Board; ****Campaign partner.

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2017 MAJOR ACHIEVEMENTS



- **Green performance revenues* 2017: 42%** on total tyre revenues (vs 40% in 2016 and vs 5% in 2009)
- Issuance of **new Pirelli «Sustainable Natural Rubber Policy»**
- Compliance of Pirelli **Purchasing Model with ISO 20400** confirmed by third party (Feb. 2018)
- Compliance of Pirelli **Anti-Corruption Management System with ISO 37001** confirmed by third party (Feb. 2018)
- Pirelli awarded **Global Sustainability Leader of Auto Components** Industry and Gold Class Company with a score of 83 points vs. sector average of 42** (Feb. 2018)



- **Avg Rolling resistance** of Pirelli car tyres reduced by **-15%** vs 2009
- **Specific energy consumption -4%** vs 2016 and **-15%** vs 2009
- **CO₂ specific emissions -4%** vs 2016 and **-9%** vs 2009
- **Specific water withdrawal -14%** vs 2016 and **- 62%** vs 2009
- Towards «**zero waste to landfill**»: **93%** of waste recovered in 2017 (+1% vs 2016 and +24% vs 2009)
- **Renewable Energy**: around **43%** of purchased electricity came from renewable sources*** (+5% vs 2016)



- **International Stakeholder Consultations** on Natural Rubber Policy
- **National Stakeholder Consultations** on Sustainability Plans (Russia and Argentina)
- **Accident frequency index reduction: -18%** vs 2016 and **-83%** vs 2009
- **Training days per capita: 8** average days per capita
- **Supplier Sustainability risk assessment**; 83 ESG**** audits performed by independent party; total number of non-conformities found on-site decreased by 16% compared to 2016

* Figure obtained by weighing the value of sales of Green Performance tyres on the total value of sales of Group tyres. Green Performance products identify tyres that Pirelli produces throughout the world and that fall only under rolling resistance and wet grip classes A, B, C according to the labeling parameters set by European legislation; ** Sustainability Yearbook 2018 (by RobecoSAM –Analysts for Dow Jones Sustainability indexes); ***Internal evaluation on International Energy Agency (IEA) data considering Pirelli geographical breakdown;**** Environmental, Social and Governance.

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EVOLVING CONTEXT & KEY INDUSTRY TRENDS

SOCIO – DEMO TRENDS

Purchasing power growth

Digitalization

Growing urbanization

MOBILITY EVOLUTION

Travel

- Higher income and autonomous capabilities will increase miles driven

Urban life

- Car sharing will reduce cars on the streets
- Autonomous driving will increase mobility demand including elderly and impaired

Transfer

- Thanks to autonomous driving capabilities, cars will compete with trains and planes on long distance trips

Commuting

- Smart-working and multimodal transport will reduce private car use for daily commuting

CAR EVOLUTION*

Connected

- 83% of sales in 2025

Autonomous

- 12% of total sales in 2025**
- 30% of Premium and Prestige sales in 2025**

Shared

- Only 1% of car sales but 5% of miles driven in 2025

Electric

- 10% of total sales in 2025
- 21% of Premium and Prestige sales in 2025

*Research reports, Pirelli estimate; ** From level 3 (the driver can safely turn its attention away from the driving task but still be prepared to intervene) to level 5 (fully autonomous vehicle).

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— **SUSTAINABILITY PLAN:**

RETURN ON CAPITAL

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- PRODUCTIVITY
- GOVERNANCE & RISK MANAGEMENT

SUSTAINABILITY PLAN

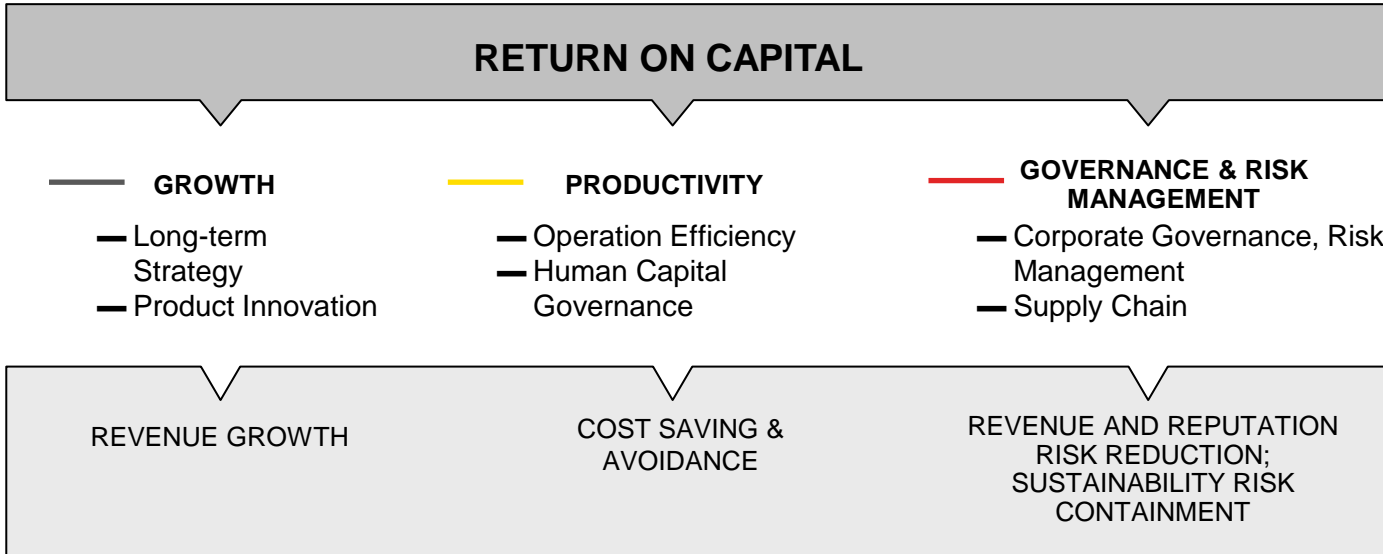
The Plan 2020 with selected target 2025:

- was drafted and is presented according to **Pirelli Value Driver Model**, with a **Return on Capital** approach;
- **integrates Group Industrial Plan** and its **High Value** development strategy;
- **replaces previous 2013-2017 Sustainability Plan** with selected targets 2020 (vs 2009);
- maintains **2009** as base reference year to allow long-term numerical trends to be appreciated;
- **impacts on 12 UN SDGs** (Sustainable Development Goals 2030) set forth by the United Nations: following slides show which SDGs are related to the targets therein described.



RETURN ON CAPITAL: PIRELLI VALUE DRIVER MODEL*

Sustainability Plan Structure



* Pirelli model is inspired to the Value Driver Framework of the UN-PRI (United Nations - Principles for Responsible Investment) and UN Global Compact, aimed at supporting dialogue between investors and operations on ESG themes

SUSTAINABILITY LEVERS IN PIRELLI INDUSTRIAL PLAN

INDUSTRIAL PLAN 2017-2020

TOP LINE GROWTH

HIGH VALUE FOCUS

- O.E. HOMOLOGATION PIPE LINE
- PRODUCT INNOVATION
- SHIFTING CAR CAPACITY TO HIGH VALUE
- CONSUMER CENTRIC APPROACH

COST COMPETITIVENESS

TRANSFORMATION PROGRAMS

- INTEGRATED FORECASTING
- SMART MANUFACTURING & FLEXIBLE FACTORY
- DESIGN TO COST
- ENHANCED SUPPLY CHAIN
- UPGRADING MANUFACTURING ASSET

SUSTAINABILITY PLAN 2017-2020 with selected target 2025

- Green Performance revenues 2020 for High Value Products : >65% on total revenues
- Product performance – car: noise -15%, rolling resistance -20%, wet grip +15% within 2020 vs 2009
- Raw materials: for selected segments Pirelli will double the share of renewable materials and reduce the fossil based materials by 30% within 2025 vs 2017
- Natural Rubber value chain: implementation of Pirelli Policy, ESG risk-based approach, traceability upstream
- Future Mobility: Cyber Technology with PIRELLI CONNESSO™, Cyber Tyre™ ,Cyber™ Fleet
- Business Velo: looking to future mobility & high performance

- People: shift to digital, agile and cross-functional mindset
- Training: ≥7 man / days per employee per year
- Target Zero Workplace Accidents: Frequency Index reduction by 87% within 2020 vs 2009
- Growing investment in operational risk mitigation : double digit CAGR
- Reduce energy consumption by 19% within 2020 vs 2009
- Reduce CO₂ emission by 17% within 2020 vs 2009
- Towards zero waste to landfill
- Reduce water withdrawal by 66% within 2020 vs 2009

RETURN ON CAPITAL

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— SUSTAINABILITY PLAN:

RETURN ON CAPITAL

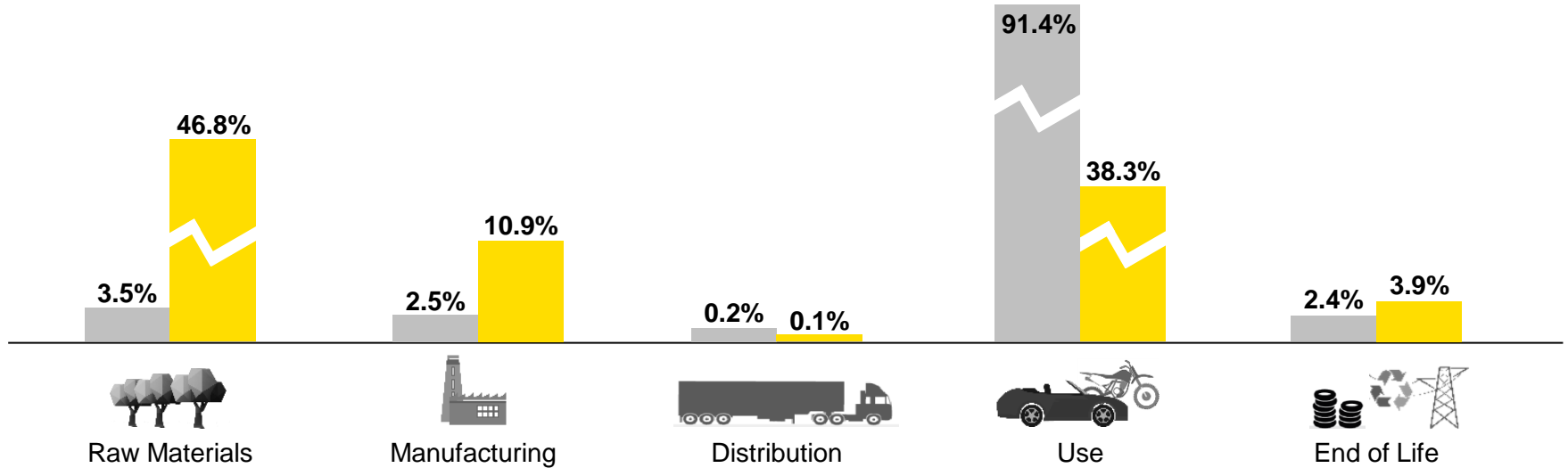
- **GROWTH**
- PRODUCTIVITY
- GOVERNANCE & RISK MANAGEMENT

GROWTH: ALIGNING STRATEGY TO FOOTPRINT

Pirelli Carbon & Water Life Cycle Assessment



GWP Global Warming Potential
WD Water Depletion

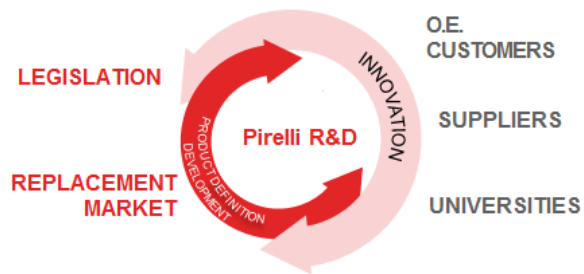


GROWTH: PRODUCT INNOVATION

Renewable Materials*



AN R&D OPEN INNOVATION PLATFORM BUILT ON A HOLISTIC MODEL

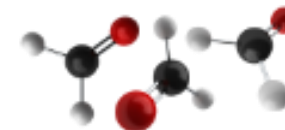


AN R&D ROADMAP DRIVEN BY RENEWABLE* RAW MATERIALS

- INNOVATIVE NATURAL NANOFIBERS for high performance tyres
- BIORESINS research on new cost-effective grades
- TAILORED LIGNIN
- HIGH PERFORMANCE SILICA FROM RICE HUSK
- FUNCTIONALIZED POLYMERS Research of innovative grades that guarantee reduced environmental impact in terms of fuel consumption, greater driving safety and improved production efficiency

By 2025 (vs. 2017) for Specific Products Segments Pirelli aims to:

- Double the share of Renewable Raw Materials
- Reduce the Fossil-Based Materials by -30%



*Renewable Natural Resources are natural resources that, after exploitation, can return to their previous stock levels by natural processes of growth or replenishment.
(source: OECD glossary definition at <https://stats.oecd.org/glossary/detail.asp?ID=2290>)

GROWTH: PRODUCT INNOVATION

Intercepting shifts in Market Expectations

PRESTIGE & PREMIUM CAR EVOLVES IN 4 DIRECTIONS

Connected

Autonomous

Shared

Electric

TYRE HAS TO EVOLVE AS WELL

Monitoring of tyres' conditions, including wear and load, via smartphone or car electronics

Integrated real-time analysis of tyres and car performance, for the safest autonomous drive

Cloud-based solutions for fleets, enabling TCO reduction and higher uptime of vehicles

Homologation of «Green» tyres (A-label RR), specifically designed for electric cars

PIRELLI IS RESPONDING WITH SPECIFIC SOLUTIONS

PIRELLI **CONNESSO**
CYBER CAR

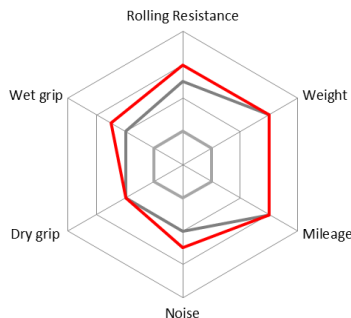
CYBER TYRE

CYBER FLEET

Runflat
Ultra Low Rolling Resistance
Pirelli Noise Cancelling System

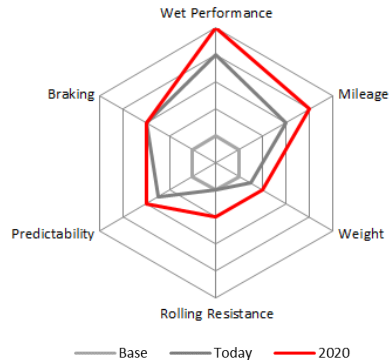
GROWTH: TYRE DEVELOPMENT

Car



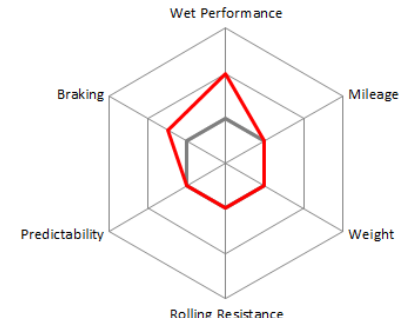
CAR base year 2009	Today	→	2020
Rolling Resistance	-15%	→	-20%
Wet Grip	+10%	→	+15%
Noise	-10%	→	-15%
RR HIGH VALUE*	-10%	→	-14%

Moto



MOTO base year 2009	Today	→	2020
Rolling Resistance	0%	→	-10%
Wet Performance	+30%	→	+40%
Mileage	+20%	→	+30%

Velo

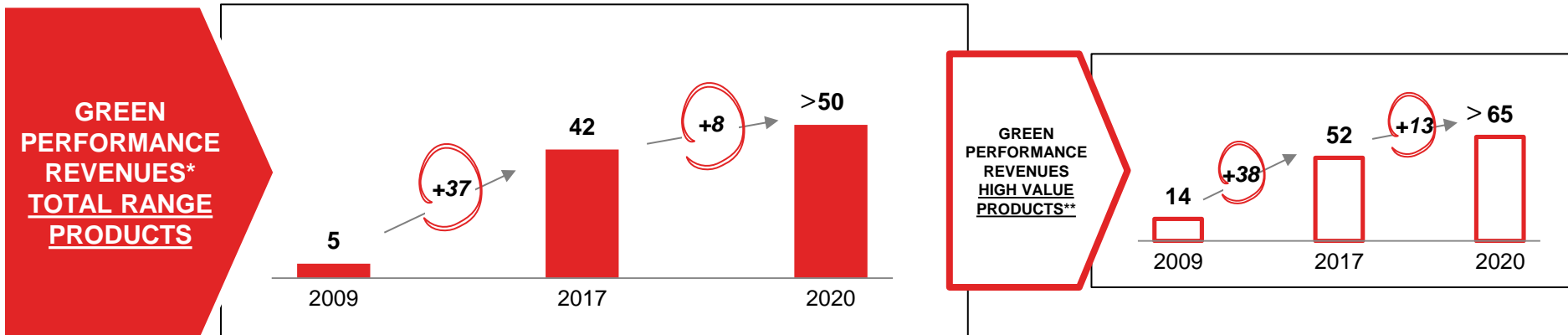


VELO base year 2017**	Today	→	2020
Rolling Resistance	0%	→	0%
Wet Performance	0%	→	+10%
Braking	0%	→	+5%

Less rolling resistance } Less CO₂ emissions
 Less noise } Better living environment
 Increased mileage } Increased tyre life
 Less weight } Less impact on natural resources

* Focus on HIGH VALUE products including RIM18+ and «specialties» (Run-Flat, PNCS, Seal Inside with rim ≤ 17); ** 2017: stating year of Velo Business.

GROWTH: GREEN PERFORMANCE REVENUES



- Figure calculated by applying the EU-label regulation to all tyre products sold WW
- Criteria to categorize the Green Performance products: Rolling Resistance and Wet Grip that falls ONLY in A, B, C classes

* Figures calculated in % by weighing the value of sales of Green Performance Products on the total value of Group sales; ** Focus on HIGH VALUE products including RIM18+ and «specialties» (Run-Flat, PNCS, Seal Inside with rim ≤ 17)

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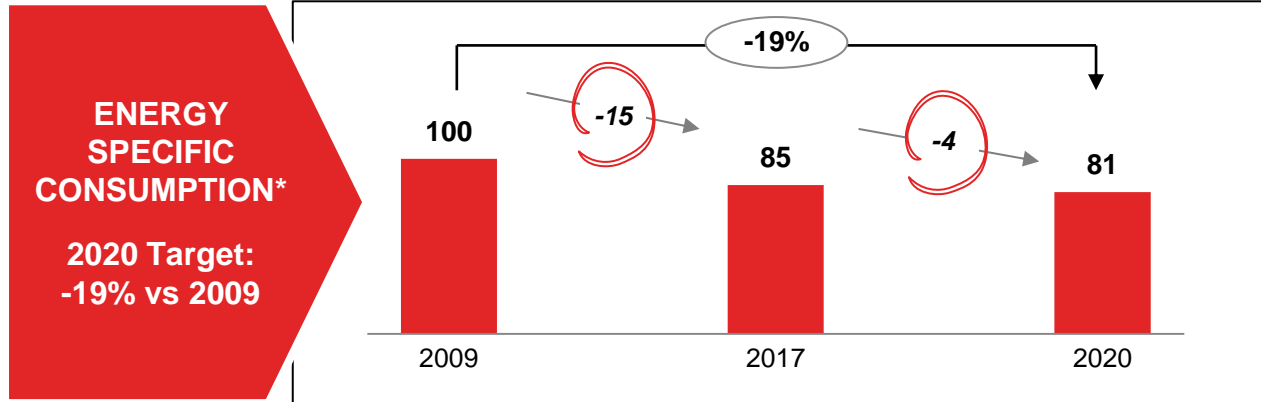
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PRODUCTIVITY: PROCESS EFFICIENCY

Energy Consumption

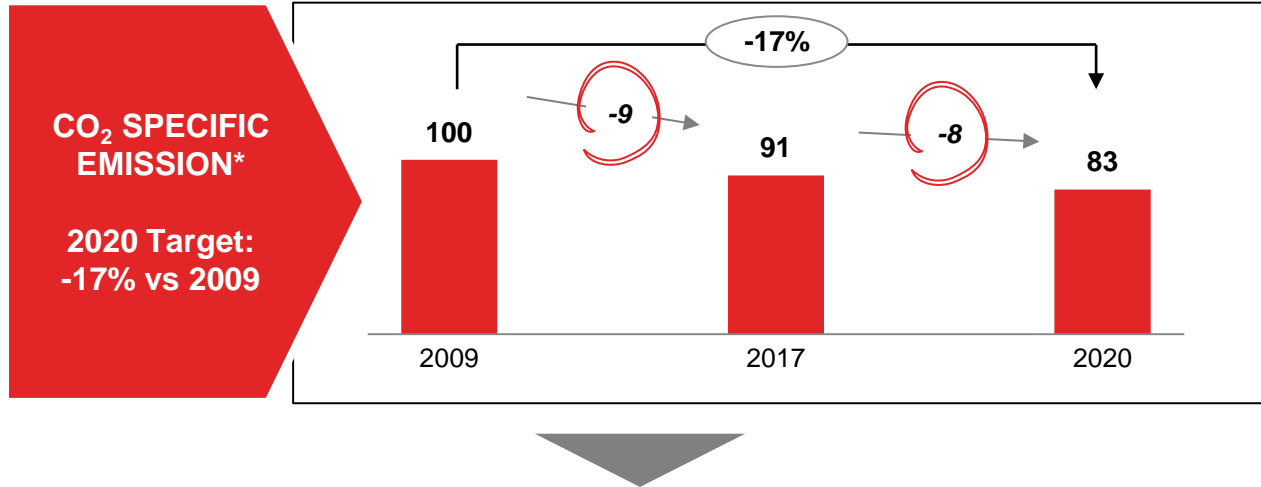


- Energy specific consumption in 2017 vs 2009: -15%
- Target 2020 : energy specific consumption -19% vs 2009

* Value calculated in % and normalized on tons of produced tyres.

PRODUCTIVITY: PROCESS EFFICIENCY

CO₂ Emissions & Renewables

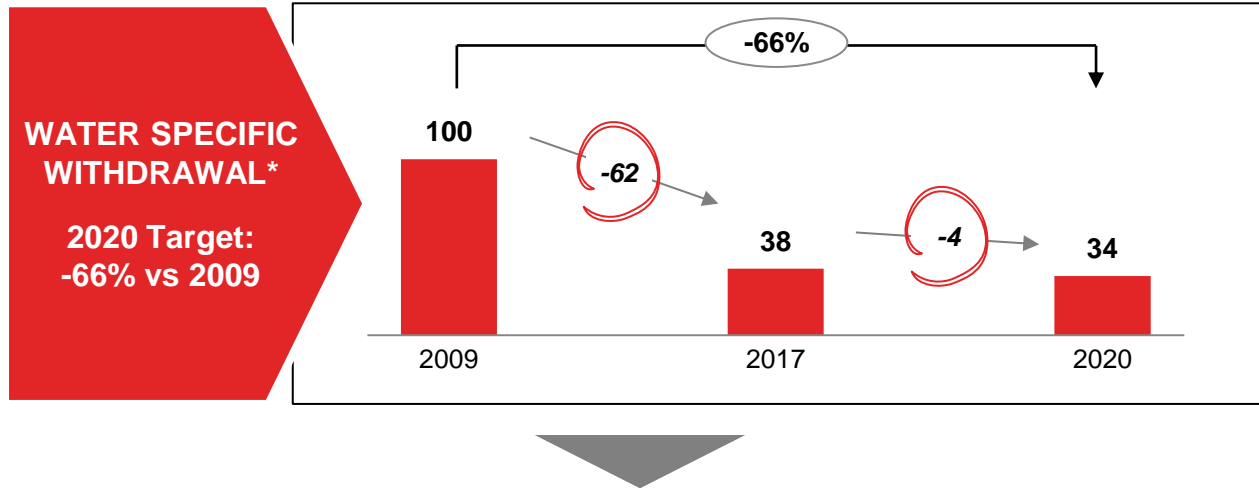


- CO₂ specific emissions in 2017 vs 2009: -9%. Positive impacts from steam generated from biomass, and from the use of renewable electrical energy;
- In 2017 around 43% of the electricity purchased by the Company came from renewable sources** (+5% vs 2016);
- Target 2020: CO₂ specific emissions -17% vs 2009

* Value calculated in % and normalized on tons of produced tyres; ** Internal evaluation based on Pirelli specific projects and International Energy Agency (IEA) data considering Pirelli geographical breakdown.

PRODUCTIVITY: PROCESS EFFICIENCY

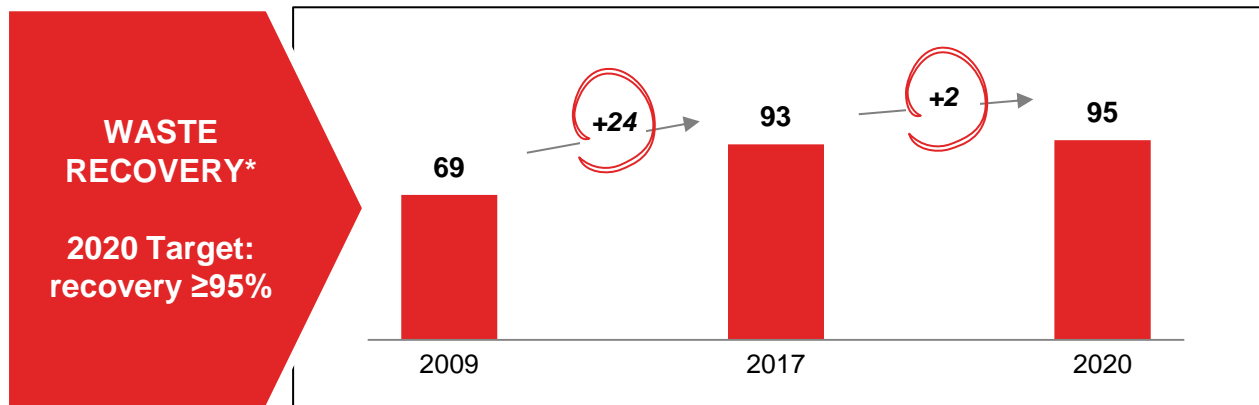
Water Withdrawal



- Water specific withdrawal in 2017 vs 2009: -62% (around 60 million cubic meters of water saved since 2009)
- Target 2020 : water specific withdrawal -66% vs 2009 (estimated 100 million cubic meters of water saved in the decade 2009-2020)

* Value calculated in % and normalized on tons of produced tyres.

Waste Recovery



- Waste recovered (on total waste) in 2017 vs 2009: 93% (+24% vs. 2009)
- Target 2020 : *towards no waste to landfill* with a recovery rate ≥95%

* Value calculated in % and normalized on tons of produced tyres.

A Digital, Agile, Cross-functional and Responsible Mindset supporting Pirelli long-term development

CULTURE & EDUCATION

- Customer centric with focus on products
- Trust and transparency
- Adaptiveness to respond to changes and capture value

WAY OF WORKING

- Work horizontally
- Open collaboration
- Agile to stress customer centric and iterative approach

DATA & TECHNOLOGY

- Sharing information
- Single source of truth
- Technical excellence practices
- Flexible technology stack

PRODUCTIVITY: HUMAN CAPITAL GOVERNANCE



DIALOGUE & ENGAGEMENT

- As from 2018: introduction of new “Sustainable Engagement Index” to measure employees satisfaction

OCCUPATIONAL HEALTH & SAFETY

- Safety Culture focused on reaching «Zero Accident »
- Target 2020: reduction of accident frequency index (IF) by -87% vs. 2009 (2017 Performance : -83% vs 2009)

REMUNERATION

- ESG Targets integrated in management* annual and long-term incentives

DIVERSITY

- Historically, a multi-cultural” Company: 89.5% employees work outside Italy
- 53% of Senior Management experienced at least an assignment abroad during her/his career
- Women in the Board of Directors: 29%
- Women in management positions: 21.6%

WELFARE

Group Welfare Guidelines applied throughout the Group

- 4 pillars: lifestyle, support for families, working life and working environment, leisure time

TRAINING & DEVELOPMENT

- Average training days per capita/year ≥ 7
- 90% of employees involved in at least 1 training program/year
- Focus on developing skills and competences strategically supporting digital transformation

**Applied to the generality of Group top management and executives.*

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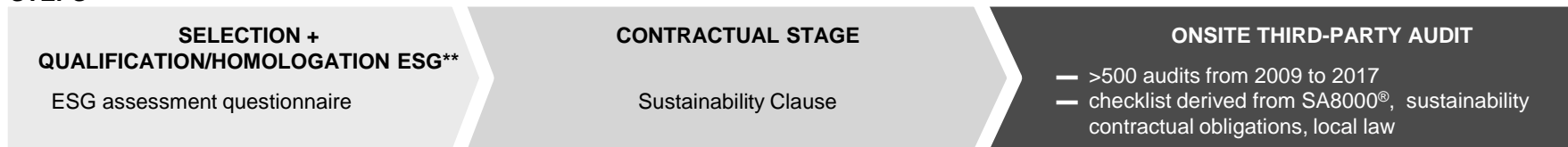
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Full compliance of Purchasing Model with ISO 20400 provisions attested*

STEPS



ENGAGEMENT

- ESG** yearly training Campaign
- CDP*** Supply Chain **2020 target: 90%** response rate of raw materials suppliers (2017 rate: 71%)
- Sustainability Supplier Award
- Joint Development Agreements on Innovative and Renewable Raw Materials.

FOCUSING ON THE ORIGIN OF THE VALUE CHAIN

SUSTAINABLE NATURAL RUBBER POLICY ONGOING CONSULTATION WITH

- NGOs
- Suppliers
- Customers
- Development Agencies
- Multilateral Organisations

*Third Party Opinion released in February 2018 by SGS Italy S.p.A; **ESG: environmental, social, governance; ***CDP: Carbon Disclosure Project.

The Policy...

- is the result of one year and a half analysis, **consultation and engagement** process with key international Stakeholders
- imports **governance models** from major international reference documents and tools
- targets **transparency and traceability** of the whole supply chain upstream, with a **risk-based** approach

....and is based on substantial pillars:

- Protection of **labour and human rights**, local **community development**, prevention of **conflict related to land ownership**
- **No Deforestation, No Burn, No Peat, No land grabbing; Ecosystems protection through land planning**
- a **call to co-operation and constructive dialogue among Stakeholders** playing a material role in natural rubber value chain
- encouragement to invest in solid and **internationally recognized forms of certifications**
- transparent **reporting** on implementation **results**

...in 2018

- **Release of the Policy Implementation Manual (drafted with the contribution of key stakeholders) and on-site training**
- **Deforestation risk mapping through innovative digital tools**
- **Traceability and ESG risk evaluation activities through local engagement**

(February 2018)

BY-LAWS

Pirelli By-Laws set forth that the corporate governance of Pirelli is **inspired to the international best practices**

In line with Pirelli fundamental legacy, traditions and entrepreneurial culture:

- (i) **technological know-how** is to remain **owned by Pirelli** and **never to be transferred** to any third parties, and
- (ii) **Pirelli headquarters** is to **remain in Milan** (Italy)

Unless either resolution is approved by an overwhelming majority representing **90% of Pirelli shareholding**

One-fifth of the board is to be **appointed by minority shareholders**

BOARD OF DIRECTORS

Members of the Board of Directors are **highly qualified**, and have a suitable mix of competences

Half of the Board made up of independent directors

Internal committees are in line with international best practices

independent directors with key role are the majority in:

- i. the *Remuneration Committee*;
- ii. the *Audit, Risks, Sustainability and Corporate Governance Committee*;
- iii. the *Related-Party Transactions Committee*.

KEY PRINCIPLES

Separation between the office of Chief Executive Officer and Chairman

Pirelli Chief Executive Officer to lead top management and ensure Pirelli business culture continuity

Leading role of Marco Tronchetti Provera in the designation of his successor in 2020

Internal role of the Board of Directors regarding the maximum number of appointments deemed compatible with the office as director of the Company

Appointment of a Director as responsible of all sustainability matters

GOVERNANCE & RISK MANAGEMENT: ENTERPRISE RISK MANAGEMENT

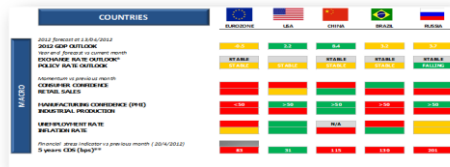
A Holistic Approach: Stretching from Sustainability to External Risks

REPUTATIONAL AND SUSTAINABILITY RISKS

EXTERNAL RISKS*

External risks refer to events whose occurrence is outside the Company's control (i.e. country risk-macroeconomic volatility)

SCENARIO ANALYSIS OF KEY MACRO GEOPOLITICAL EVENTS

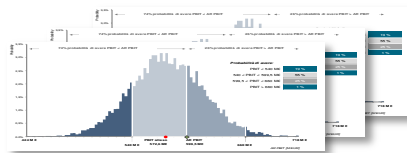


LOW EXPOSURE TO HIGH RISK COUNTRY

STRATEGIC RISKS*

Strategic risks refer to events that stem from business. The correct management of such risks is a source of competitive advantage, or otherwise, the cause of failing to achieve planned targets

MONTECARLO SIMULATION TO ASSESS EXPECTED VOLATILITY



EBIT TARGET IN LINE WITH RISK APPETITE

OPERATIONAL RISKS*

Operational risks refer to events generated by the organisational structure. Assuming these risks do not produce any competitive edge. (i.e. ICT-HSE-Loss Prevention and Business Continuity-Compliance)

ANNUAL OPERATIONAL RISK ASSESSMENT

Area	Transmittibile	Basso	Medio	Alto	Ultimo
ICT					
Security					
Compliance					
HSE					
Loss Prevention					
Business Continuity					
Compliance					
ICT					
HSE					
Loss Prevention					
Business Continuity					

DOUBLE DIGIT CAGR INVESTMENT IN RISK MITIGATION

*Some risk clusters may be trasversal to more areas