



With you, Wherever.

The Supplier Handbook

Issue 1.0 - September 2014



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1 PREFACE

Pirelli's vision is expressed by the will to change the driving experience by constantly challenging the boundaries of tyre technology, style and sustainability, pioneering technologies and setting trends in communities across the world.

Pirelli is synonymous with **quality, reliability**, strong **emotions** and the ultimate in **performance**. It is in the high tech and superior performance segment of the high-end market where Pirelli has, over the years, built its leadership.

To reach a sustainable long-term value, we want to establish and develop close and long-term relationships with our suppliers, who have to share the same aspirations for **innovation, high quality, sustainable products and processes**.

We want to be recognized as an enterprise that inspires trust and respect and that creates value both for our partners and for ourselves, taking fully into account the importance of fulfilling our strict environmental, social and economic requirements to achieve a strong and long lasting competitive edge.

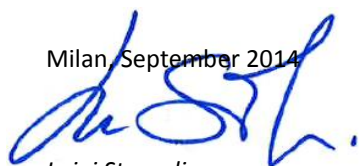
This Supplier Handbook has been designed to provide our suppliers with a clear statement of our Principles and Values, Managerial Approach, Requirements and Conduct to be consulted and complied with.

The content of the Supplier Handbook must be held as the guidelines for every business relationship with the Pirelli Group, becoming an integral part of each purchasing agreement concerning goods and/or services.

By promoting a deep orientation towards first-class quality levels and complying with high ethical and environmental standards, our Purchasing Department provides a useful interface for our suppliers, who we consider essential enablers of continuous improvement, progress and with whom we want to share excellent performance.

We master the challenge to deliver performance.

Milan, September 2014



Luigi Staccoli

Pirelli Chief Purchasing Officer

2 HOW TO USE THIS HANDBOOK

The Supplier Handbook represents the official requirements manual released by the Pirelli Group:
<http://www.pirelli.com/asset/index.php?idelement=42972>

The contents have been organized in two main macro-sections:

- Company Framework : values and requirements
- Supplier Relationship Management : processes and partnership approach

Suppliers will be guided through the document according to purchasing category, having built an “ad hoc” route and summary tables that can be consulted at any time.

Pirelli welcomes suggestions for improving the content of this document; a dedicated inbox has been created to which to address emails: sourcing.inbox@pirelli.com.



3 PIRELLI AT A GLANCE

Pirelli is synonymous with quality, strong emotions and the ultimate in performance.

We don't simply make tyres, we change the way people move.

We change the driving experience by constantly challenging the boundaries of tyre technology, style and sustainability, pioneering technologies and setting trends in communities across the world.

Our claim "Power is nothing without control" is the essence of Pirelli's products and actions: high performance, research and innovation, combined with responsibility, safety, together with respect for the environment and sustainability.

www.pirelli.com

3.1 Company Profile

Founded in 1872 and listed on the Milan Stock Exchange since 1922, Pirelli is among the main tyre makers globally (sales of 6.15 billion euro in 2013) with a distinctive focus on high-end segments, Premium tyres with the highest technological content.

Partnering with the best Prestige and Premium car makers worldwide, Pirelli has a portfolio of more than 1,200 homologated tyres which fit the personality of each car model, designed and tested to achieve perfect driving.

Present in 13 countries with 21 plants, Pirelli produces car, motorcycle, truck, bus and agricultural tyres; the Group has a wide commercial presence (more than 160 countries) with a balanced exposure to both mature and emerging markets.

The excellence of Pirelli products, the popularity of Pirelli Calendar, the prestigious involvement in Formula 1® and the involvement in the fashion industry all contribute to the success of the brand, such that its value has been estimated at €2.27 billion.

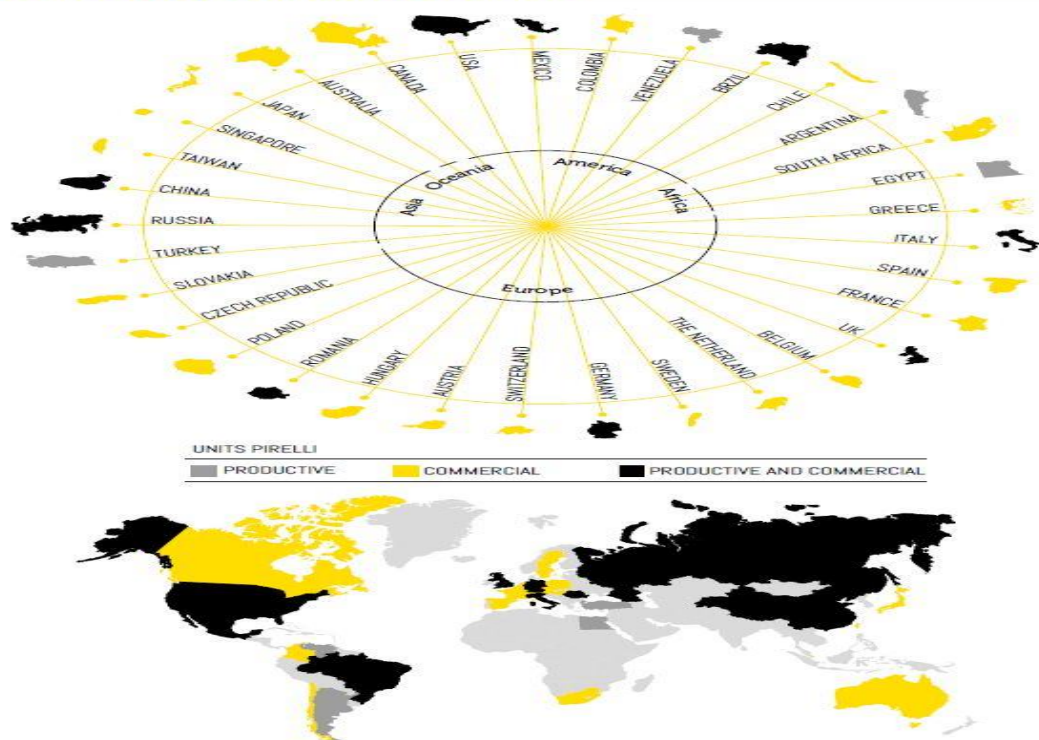
Related link:

➤ KPIs

www.pirelli.com/corporate/en/investors/docs_pres/financial_reports/default.html

➤ Annual Report

www.pirelli.com/corporate/en/investors/docs_pres/financial_reports/default.html



WW Pirelli Plants

4 PIRELLI PROCUREMENT

4.1 Mission

The mission of the Pirelli Procurement Department is to promote best practices and purchase services and goods for effective and efficient Company operation.

It is the responsibility of the Pirelli Purchasing Department to ensure the best supply base to achieve:

- the best market value
- quality
- timely delivery
- speed
- innovation
- compliance with regulations and internal procedures

The Pirelli Procurement Department has to conduct its business with fairness, transparency, responsibility, ethics, and a green and diverse approach.

4.2 Purchasing Categories

The Pirelli Procurement Department manages the following categories:

- **Logistic Services:** Warehousing & Distribution (housing, handling, added value services and local distribution at national level), International Transport (Sea/Road/Air Transport Companies at international level, Shipping Forwarders).
- **Equipment:** Process Machinery (i.e., Curing Press, Finishing&Control Machinery, Cutting Lines, Extrusion Lines, Calendaring Lines, etc.).
- **MRO:** PPE, Electrical, Hydraulic&Pneumatic, Filtration, Mechanical, Guides&Bearings, General Supplies, Material Handling, Chemicals, Welding, Instrumentation, Tools.
- **Energy:** Primary (Electricity, Natural Gas, Diesel Oil, LPG), Transformed (Steam), Utility (Grid Water, Well Water) and Technical Fluid (Nitrogen).
- **ICT:** Hardware, Software and Related personal services.
- **General Goods and Services:** security, consulting (Board of Directors, Training, HR), travel expenditures, staff cars, general services, furniture, stationery, catering services, canteen services, training, express couriers, facility services.
- **Marketing:** creativity, media, ATL/BTL advertising, printing, audio video, retail, points of sale, events, seminars, signs.
- **Raw materials:** Natural Rubber, Synthetic Rubber, Fillers, Chemicals, Textiles Reinforcement and Steel Reinforcement.
- **Auxiliary Materials:** these are used for production-maintenance needs and are not a part of production output.
- **Off takes:** this category includes all the finished goods that have been produced by a third party following Pirelli specifications (i.e., tubes, studs, cyber sensors, and pncs).
- **Building, Utilities & Facilities**
- **Industrial Services.**
- **Moulds:** Moulds, Mechanisms, Components & Accessories.

4.3 General Terms & Conditions

Our General Terms & Conditions set out the terms and conditions regulating any supply agreement and the relationship deriving therefrom. The General Terms & Conditions are different for the raw material supply and the supply of services and other goods.

Please, find below the hyperlink to the official updated documents:

➤ **Raw Material:**

[www.pirelli.com/mediaObject/pirellityre/ww/en/site/purchasing-general-condition/PGC Raw Material 11 02 2014/original/PGC Raw Material 11 02 2014.pdf](http://www.pirelli.com/mediaObject/pirellityre/ww/en/site/purchasing-general-condition/PGC_Raw_Material_11_02_2014/original/PGC_Raw_Material_11_02_2014.pdf)

➤ **Other Services / Goods:**

[http://www.pirelli.com/mediaObject/pirellityre/ww/en/site/purchasing-general-condition/140207_CG Tyres EN Clean/original/140207_CG Tyres EN Clean.pdf](http://www.pirelli.com/mediaObject/pirellityre/ww/en/site/purchasing-general-condition/140207_CG_Tyres_EN_Clean/original/140207_CG_Tyres_EN_Clean.pdf)

4.4 Intellectual Property

Innovation and the creation of a strong and long lasting competitive advantage cannot be reached without a proper management of intellectual property rights (IPRs).

Among the IPRs, particular attention is also dedicated to know how and more in general to confidential information, as well as to trademarks and patents.

The protection of its IPR and where possible the creation of new IPR, thus fostering its competitive advantage, is therefore among Pirelli's core interest in the relationship with all its suppliers.

5 PIRELLI SUSTAINABILITY MODEL AND POLICIES

Pirelli fully integrates social and environmental responsibility in its strategies for growth and competitiveness. Our sustainable business model and performances are formally recognized at international level by the most prestigious Ethical Financial Indices worldwide, including the Dow Jones and the FTSE4Good.

The Pirelli sustainability model is inspired by the United Nations Global Compact, the Stakeholder Engagement principles set out in AA1000 and the ISO 26000 Guidelines, embracing the entire value chain to preserve and develop group assets. In October 2004, in a letter addressed to the Secretary General, Kofi Annan, the Pirelli Group formally declared its adherence to the United Nations Global Compact and its commitment to observe and support its Ten Principles in the areas of human rights, labour standards, the environment and the fight against corruption.

We are proactively engaged in supporting universally recognized Human and Labour Rights and manage our social responsibility according to the principles and rules stated in the SA8000 Social Responsibility Standard.

We manage to continuously improve the environmental impact of our processes and products, all within the activities and relationships that we imprint day by day with maximum transparency and correctness.

We expect our Suppliers, as Pirelli Tyres strategic business development Partners, to run their own businesses complying with the same Principles and Values.

We standardize our business behaviour to the Values and Principles stated in our Sustainability policies:

- The Values and Ethical Code
http://www.pirelli.com/corporate/en/sustainability/sust_develop/policies/values/default.html
- **Code of Conduct:**
http://www.pirelli.com/corporate/en/sustainability/sust_develop/policies/code_of_conduct/default.html
- Anti – Corruption program
http://www.pirelli.com/corporate/en/sustainability/sust_develop/policies/program_anti_corruption/default.html
- **Quality Policy:**
http://www.pirelli.com/corporate/en/sustainability/sust_develop/policies/sust_quality/default.html
- **Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment:**
http://www.pirelli.com/corporate/en/sustainability/sust_develop/policies/sust_hse/default.html
- **Green Sourcing Policy:**
http://www.pirelli.com/corporate/en/sustainability/sust_develop/policies/green_sourcing/default.html
- **Equal Opportunities Statement:**
http://www.pirelli.com/corporate/en/sustainability/sust_develop/policies/sust_ach/default.html
- **Whistleblowing Policy:**
http://www.pirelli.com/corporate/en/sustainability/sust_develop/policies/Whistleblowing/default.html

All the mentioned Policies are published on Pirelli web site at:

www.pirelli.com/corporate/en/sustainability/sust_develop/policies/values/default.html

6 PIRELLI ENTERPRISE RISK MANAGEMENT

The economic crisis that has affected the world economy, the instability of financial markets, the complexity of business processes and the continuous evolution of regulations led Pirelli to change its risk model, shifting from a reactive approach to a “proactive” risk governance model.

The new integrated risk governance model (Enterprise Risk Management) has the following mission:

- to manage risks in terms of prevention and mitigation;
- to seize opportunity factors proactively;
- to disseminate a “culture” of the value of risk management within the Company, in particular, in the strategic planning and operating processes and in the most significant business choices;
- to assure transparency in relation to the risk profile assumed and the management strategies implemented, based on periodic and structured reporting to the Board of Directors and to the Top Management and adequate information to the shareholders, and more in general, to the so-called stakeholders.

The Pirelli Risk Model systematically assesses three categories of risks:

- **External Risks:** risks associated with the external environment in which the Company operates, the occurrence of which is outside the Company’s control. This category includes the risk areas related to macroeconomic trends, the development of demand, the strategies adopted by competitors, technological innovations, the introduction of new legislation and risks associated with the country (economic, safety, political and environmental).

The risk management objective is to monitor the risk and mitigate the impact in the event the risk occurs.

- **Strategic Risks:** namely, risks characteristic of the reference business, the correct management of which is a source of competitive edge, or otherwise, the cause of failing to achieve planned targets (three-year and annual). This category includes the risk areas associated with the market, product and process innovation, price volatility of raw materials, production processes, financial organisational risks and risks associated with M&A operations.

The risk management objective is to manage the risk using specific tools and safeguards designed to reduce the probability or to limit the impact if the risk occurs with the aim of achieving the best risk-performance scenario.

- **Operating Risks:** namely, risks generated by the organisational structure, by processes and by Group systems, where assuming the risks does not produce any competitive edge. The main risk areas in this category refer to Information Technology, Security, Business Interruption, Legal & Compliance, Health, Safety & Environment risks.

The risk management objective is to achieve management through prevention and internal control systems integrated in the business processes.

The Committee for Internal Control, Risks and Corporate Governance supports the Board that is periodically updated about the identification and assessment of the principal risks (Annual Risk Assessment), so as to ensure that these risks are monitored correctly. It is also acquainted with mitigation plans (Annual Risk Management Plan)

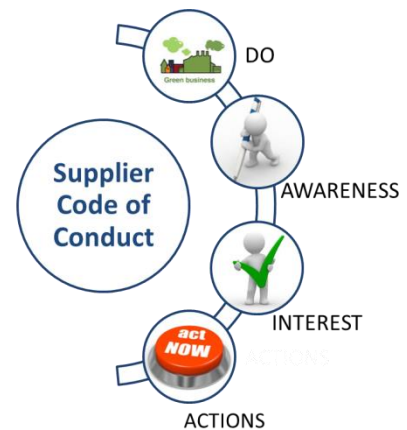
in order to maintain the overall levels of exposure to risk within the risk threshold, assessed by the Board of Directors as being "acceptable" (risk appetite).

7 PIRELLI REQUIREMENTS TO SUPPLIERS

With the Supplier Handbook Pirelli has established the “**Supplier Code of Conduct**”.

All suppliers, existing or newcomers must comply with the set of identified requirements and be strongly committed to adopting the following approach:

- 1st Step: DO** → Make Pirelli principles and practices their own
- 2nd Step: AWARENESS** → Be compliant with requirements
- 3rd Step: INTEREST** → Maintain acknowledgment
- 4th Step: ACTIONS** → Be reactive in case of missing compliance



Requirements will cover the following areas:

- Quality
- Health, Safety and Environment
- Labour and Human Rights
- Business Integrity
- Risk Prevention

7.1 Quality

The quality policy reflects the full integration of sustainability into the Pirelli management strategy. Quality is a core value in Pirelli operations, cutting across all of its functions and processes, ranging from continuous innovation in products, services, processes and systems to safeguard the integrity, health and wellbeing of employees, from environmental protection throughout the entire product life cycle to strategic collaboration with suppliers. Specific emphasis is given to the involvement of individuals and the key role they play in promoting a culture of sustainable quality.



7.2 Health, Safety and Environment

Suppliers are formally required to:

- comply with the “Social Responsibility Policy for Occupational Health, Safety and Rights, and the Environment”, by signing the “sustainability clauses” included in their supply contracts, by accepting them during the qualification process held within the Supplier Portal
- satisfy the Health, Safety and Environment Requirements as stated below.
- be aware of the Pirelli Green Purchasing Guidelines

7.2.1 Health, Safety and Environment Requirements (EHSERs)

Pirelli expects that its Suppliers respect the following Essential HSE Requirements (EHSERs).

7.2.1.1 Law compliance & Subcontractors

EHSER-1

Suppliers must comply with all applicable Health, Safety and Environmental laws and regulations in the countries in which they operate and in the countries in which they are delivering their product/service.

EHSER-2

The Supplier shall cause each of its subcontractors to comply with the provisions of this Code as if it were the Supplier itself.

7.2.1.2 HSE Management Systems & Environmental data

EHSER-3

Suppliers are expected to provide a valid ISO 14001 or EMAS and OHSAS 18001 (latest issue) certificate.

To have certified environmental and safety management systems will be considered an advantage in the selection process.

On the contrary, the ISO 14001 or EMAS and OHSAS 18001 certificate will be mandatory for all off-take companies.

The industrial services companies (including logistics and facilities), before starting any activity for Pirelli must receive pertinent Pirelli procedures concerning the activities requested and their formal acceptance of these rules will be necessary.

EHSER-4

Suppliers are required to provide a list of their significant environmental aspects, related to the activities commissioned by Pirelli, and possible measures to reduce the environmental impacts considered most significant.

EHSER-5

Suppliers could be requested to provide environmental related data from production, products and transport to enable environmental assessments, including according to Pirelli Green Purchasing Guidelines.

7.2.1.3 Prohibited Materials, MSDS, Packaging & Labelling

EHSER-6

Prohibited Materials

In order to identify any criticalities that substances or compounds might pose in terms of risk for human health and/or the environment, Suppliers are requested to:

- verify any information available at worldwide level (by means of databases ...) concerning the danger for human health and/or the Environment of substances, preparations, mixtures or articles delivered to the Pirelli Group.
- when supplying goods inside the EU area, comply with all the requirements set out by EU Council Regulation no. 1907/2006 (known as the 'REACH Regulation');
- satisfy all the requirements imposed by European legislation concerning the management of chemical substances, particularly for those recognized as SVHC ('Substances of Very High Concern'), EDs ('Endocrine Disruptors) and for which restrictions on the manufacture, placing on the market and use of certain dangerous substances, preparations and articles may exist;

EHSER-7

As far as the Materials Safety Data Sheet ('MSDS') is concerned, the Supplier has to provide:

- a MSDS written in English (as a pre-assessment condition);
- after the positive conclusion of the assessment mentioned in the previous point, a MSDS written in the language of the Country where the material is to be delivered.
- the latest version of the MSDS (updated with the information available, max. 2 years old) issued in accordance with the legislation of the Country of delivery;
- the MSDS prior to the first delivery, as well as with the delivery in the event of an update to the MSDS;
- the relevant MSDS for any type of chemical or substance which might be included in a machine, equipment, tool or utility;

EHSER-8

For packaging and transportation the following aspects need to be duly considered:

- a) packaging materials have to be reusable or recyclable;
- b) in order to ensure safe handling (in accordance with accident prevention and other regulations) and smooth operation, it is essential for all products delivered to the Pirelli Group to be packed and shipped in accordance with the requirements stated in this chapter.
- c) hazardous materials and dangerous goods are also to be packed, marked and transported in compliance with the applicable laws and regulations of the respective countries (including transit countries, where they must be packed and marked in compliance with the applicable laws and regulations of the country);
- d) packaging materials have to be CFCs ('Chlorofluorocarbons') free, chlorine-free, chemically inactive, groundwater neutral and nontoxic when incinerated;
- e) in case of wood packaging being used, it shall be free of biocide according to the relevant legislation in the receiving country, as well as in all transit countries.
- f) the use of methylbromide (or bromomethane, CAS 74-83-9) for the treatment of wood is forbidden ;
- g) packaging materials are to be marked with recognized recycling symbols or with material symbols;

EHSER-9

Health and Safety labels:

- a) hazard symbols (pictograms) – as well as other legally required hazard warning information – must be clearly visibly and permanently attached to individual packaging as well as to the outer packing of shipping units;
- b) they shall comply with the specific legal requirements of the country to which the material is delivered.

7.2.1.4 *Equipment Supply*

EHSER-10

The supply of Equipment shall comply with the latest revision and the relative up-dated European Directives independently of the country of supply

Food Services & Canteen Management

EHSER-11

For Suppliers providing food services and canteen management, a valid (latest issue) ISO 22000:2005 certificate or equivalent HACCP ('Hazard Analysis and Critical Control Points') Food and Safety Management System Certification will be considered an advantage in the selection process.

7.2.2 Green Purchasing guidelines

Pirelli, in line with the Green Sourcing Policy, has published its Green Purchasing Guidelines (PGPG) where all supplier environmental requirements are specified per industry category.

Pirelli expects that its Suppliers become aware of this document ensuring that their performances will respect nature and secondly will build value throughout the whole supply chain.

The official version can be accessed at the following link:

<http://www.pirelli.com/asset/index.php?idelement=42973>.

7.3 Labour and Human Rights

The Pirelli Group recognizes the crucial importance of human resources, in the belief that the key to success in any business is the professional input of the people who work for it in a climate of fairness and mutual trust. The Pirelli Group safeguards health, safety and industrial hygiene in the workplace, both through management systems that are continually improving and developing and by promoting an approach to health and safety based on the prevention and the effective handling of occupational risk. The Pirelli Group considers respect for workers' rights as fundamental to the business. Working relationships are managed placing particular emphasis on equal opportunity, on furthering each person's career development and on taking their diversity into account by creating a multi-cultural working environment.

Pirelli and its suppliers undertake to fully comply with the social laws and regulations of the country where they operate, during their activities.

These rules include:

- hiring of workers in compliance with the legal minimum age;
- respect of the workers' right for free association;
- salaries comply with local standards and regulations;
- written workers contracts comply with laws and regulations and the preventing of overtime;

- internal audit for check on the quality of workers management;
- Sustainability and CSR Reports.

7.4 Conflict Minerals

Pirelli shares international concerns about the conflict in the Democratic Republic of the Congo (DRC) and adjoining countries, and we are working to ensure that the mining of the minerals that end up in our products does not contribute to human rights violations in the region.

US law requires certain US-listed companies to disclose the use of conflict minerals (Tin, Tungsten, Tantalum or Gold) in their products.

Pirelli is not a US-listed company, but complies with requests from customers conducting country of origin verification or due diligence in their supply chains.

In order to facilitate the disclosure for our customers, Pirelli conducts country of origin verification or due diligence in our supply chain, for products/materials that may contain any of the minerals in question.

We make direct contact with the suppliers we need to request verification from, and ask them to use the CSFI form (<http://www.conflictreesourcing.org/conflict-minerals-reporting-template>), which is commonly accepted for this purpose.

We expect all of our manufacturing suppliers to provide conflict minerals that are sourced responsibly. When evidence appears that conflict minerals are being sourced from the covered countries, Pirelli works with suppliers to encourage them to source from smelters certified as conflict-free. Pirelli reserves the right to cease working with a supplier who refuses to cooperate in helping the international community ensure human rights in the Congo region.

7.5 Business Integrity

The Pirelli Group pursues and supports fair business with both its customers and suppliers. It considers the protection of the integrity of its business processes and activities as a fundamental value to always be followed.

Pirelli requires its suppliers to supply the following documentation about their company business integrity:

- Ethical Code;
- Anti- Corruption policy;
- Code of Conduct.

7.6 Business Continuity Management: Risk Prevention

Fires, explosions, electrical and mechanical breakdowns, natural disasters, etc. may threaten the lives of Pirelli employees and jeopardize continued operation of the company. It is the Policy of Pirelli and its subsidiary companies to reduce their exposure to such losses to the maximum possible extent, in line with other corporate objectives as well as international best practices.

Going further into detail, Pirelli requires, among other things, the following standards to be applied for each of its facilities:

1. Automatic Fire Protection Systems (Sprinkler protection is provided at least for the key production and storage areas).
2. The facility has adequate and reliable water supply for firefighting (tanks, pumps, tubes, etc.).
3. Valve/Fire Protection System Supervision (valves, pumps, sprinkler alarms & regular inspections, etc.).
4. Smoking Controls (Smoking must be prohibited at the facility with exclusion only for the designated areas).
5. Hot Work Permit System (Strict controls for welding, cutting and other hot work activities should be developed and enforced).
6. Flammable/Hazardous Material Controls (in particular for flammable liquids).
7. The facility has a formal Plant Emergency Organization that adequately addresses all credible types of emergencies that could result in catastrophic property loss (i.e. fire & explosions, floods, earthquakes, windstorms and other severe weather conditions, building collapse, etc.).
8. The Plant Emergency Organization is adequately staffed and trained to handle expected emergencies.
9. The facility has adequate automatic fire detection/suppression/control systems where needed.
10. Ensure that all the buildings are made of non-combustible materials.

Furthermore, Pirelli reserves the right to require additional information on the following points:

1. Whether the supplier holds a stock of finished goods and/or key raw material/spare parts in a separate warehouse outside the production site perimeter;
2. Whether there is an alternate facility equipped to ensure continuity of supply to Pirelli (whenever a business interruption occurs at the supplier's key production site);
3. Whether the supplier has a business continuity plan already active;
4. Whether the supplier runs a risk assessment on its supply chain risks on a regular basis;
5. Whether any major business interruptions have occurred at the supplier's production site and how they were handled;
6. Whether the supplier has a policy/strategy to minimize a unique supply source situation in its supply chain. If the supplier has only one source, when/ how do they propose to handle their supplier's business interruption.

If necessary, Pirelli reserves the right to acquire further information, through a risk assessment questionnaire and/or on-site visit.

7.7 Summary Table by Purchasing Category

The Summary Table aims to present in a concise way all the Company requirements with the related Key Performance Indicators (KPI) aggregated by purchasing category.

The table is designed to have the purchasing categories placed in the columns and the list of all the requirements on the lines, each requirement is then classified as follows:

- **Mandatory (M)**: implies that the requirement must be respected, without any derogation, because it is an important part of the supplier qualification process. Accordingly, it is also a baseline requirement of the Vendor Rating.
- **Strongly advised (SA)**: fulfilment of this requirement is recommended since in a short time it could become "mandatory". Compliance with this requirement and disclosure to Pirelli works to supplier advantage, in order to improve supplier vendor rating.
- **Nice to have (NTH)**: this requirement is useful for Pirelli to assess the willingness of the supplier to be proactive in becoming more and more compliant and it is used as an additional contribution to the Vendor Rating.

If the Supplier has a commercial relationship with Pirelli for more than one purchasing category, priority should be given to the more relevant one by turnover.

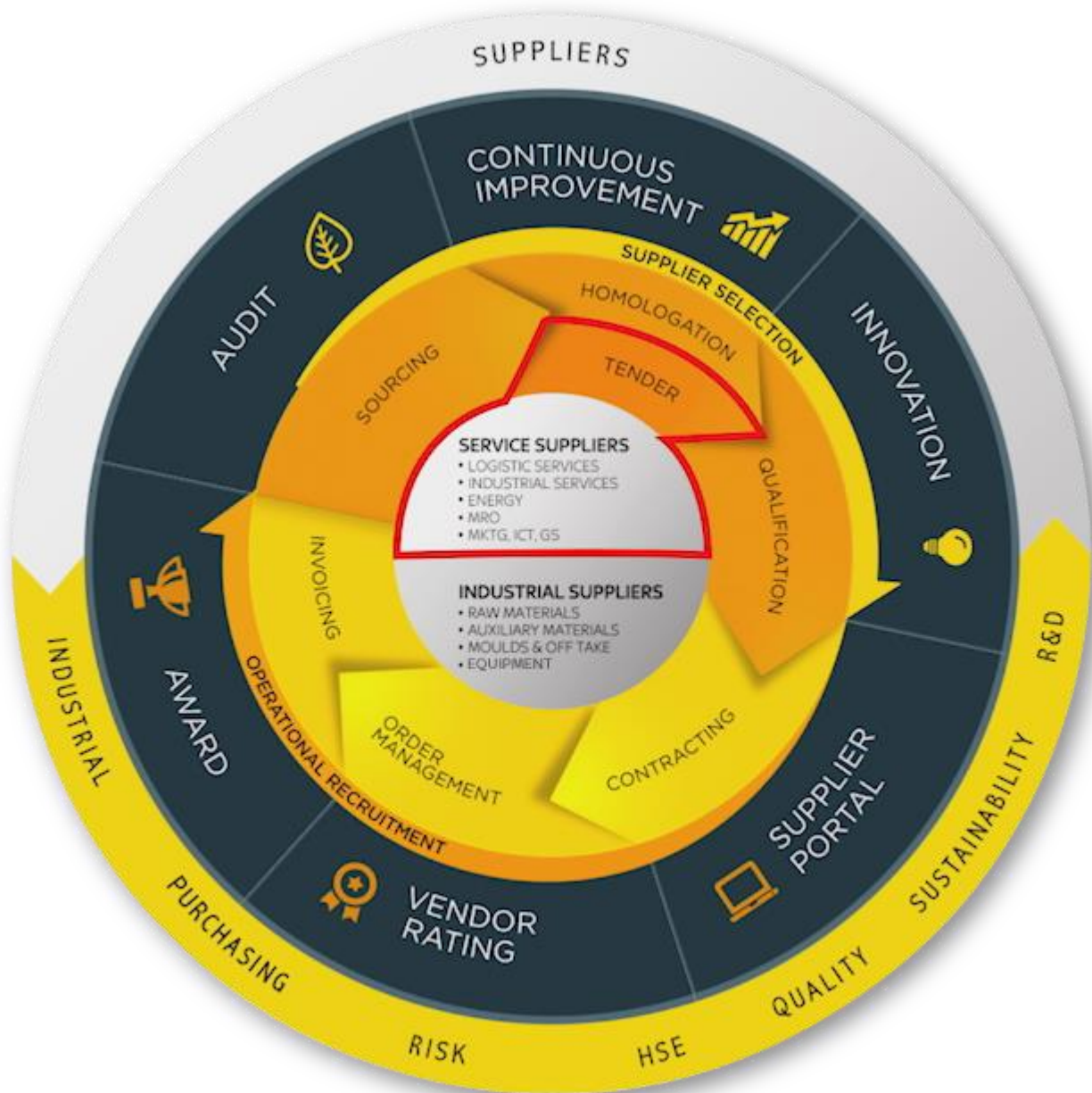
The Requirements Summary Table can be downloaded at the following link:

<http://www.pirelli.com/asset/index.php?idelement=42971>

8 PIRELLI SUPPLIER RELATIONSHIP MANAGEMENT

Pirelli has a joint approach model and cooperation with suppliers.

The “Pirelli SRM wheel” represents this attitude, three layers as concentric circles grouped together:



- The central one is the engine : purchasing categories are the entry point and the key element from the supplier side to start the exploration ;
- The middle one is the sourcing process that establishes the route step by step

- The external one that surrounds everything is made by the enablers that support suppliers and Pirelli along the route during creation and maintenance of the partnership

The right processes and enablers contribute to effective Supplier Relationship Management and to making it strategic with Pirelli and Suppliers' people engagement.

8.1 Partnership Approach

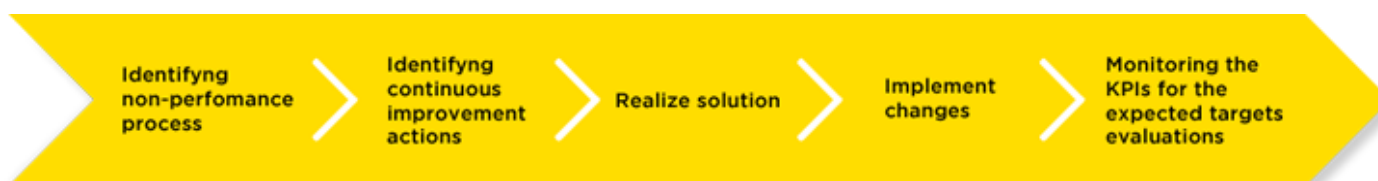
Pirelli considers High Value Added those Suppliers of products / services with whom a close collaboration in all aspects of the supply chain is established, to ensure the needs and expectations of current and future customers and markets. Pirelli activates relevant activities focused on strengthening the partnership for such suppliers.

8.1.1 Continuous Improvement



Suppliers acting as partners and builders of value along the entire Supply Chain should approach Pirelli with an attitude of wanting to establish a long-term relationship:

- Identifying non-performance processes (see below "Complaint Management")
- Identifying continuous improvement actions
- Realize solutions
- Implement changes
- Monitoring KPIs for expected targets evaluation



Pirelli asks its suppliers to be proactive, ready to change their way of thinking and doing things, to be interested in searching for more efficient solutions. It is important that the supplier adopts a long term strategy that defines the goals to be reached, the paths that must be followed and the resources needed.

8.1.2 Innovation






Pirelli is synonymous with innovation aiming at collaborating with suppliers in order to build trust and increase innovation-related activities.

The best-in-class suppliers have the opportunity of being invited to take part in projects for product or process development, this cooperative approach can speed up the innovation process providing a chance of gaining competitive advantage.

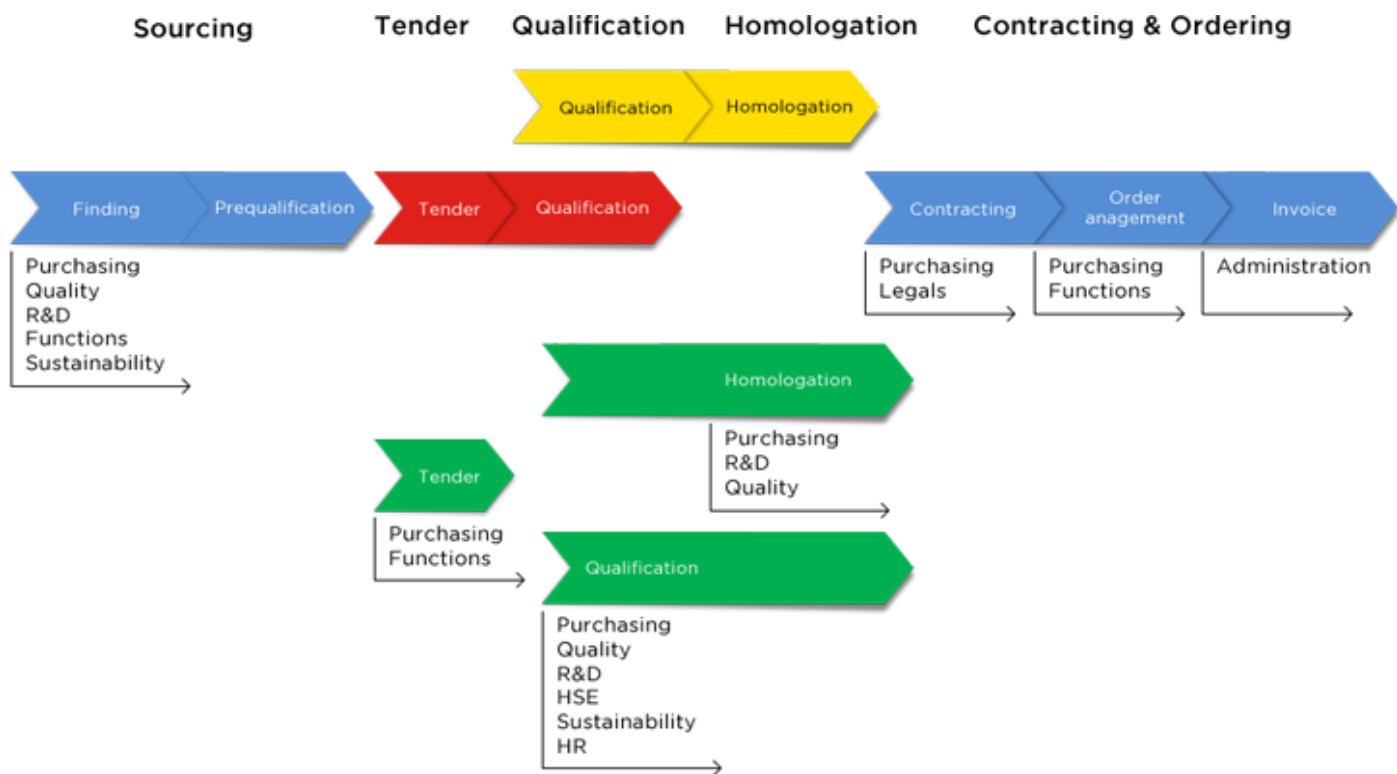
The more suppliers are acquainted with Pirelli's needs, plans, strategies and product development programs, the more they perceive that this can assure future business opportunities with Pirelli through innovation-related activities.





8.2 Sourcing Process

According to Pirelli Sourcing Process, the purchasing categories can be split in 3 groups:

- **GROUP 1:** Logistic Services, Equipment, Industrial Services, Energy, MRO, Marketing, ICT, General Services, Building, Utilities & Facilities. 
- **GROUP 2:** Raw material, Auxiliary Material, Off Takes, Moulds. 
- **GROUP 3 :** Equipment 

By following the right label (red/yellow/green), it will be possible to understand which process steps are applicable.



-
-  **STEPS FOR ALL CATEGORIES**
 -  **GROUP 1:** Raw Material; Auxiliary Materials; Off Take; Moulds.
 -  **GROUP 2:** Logistic Services; Industrial Services; Energy; MRO; Marketing; ICT; General Services; Building Utilities & Facilities.
 -  **GROUP 3:** Equipments.

8.2.1 STEP 1: Sourcing



Pirelli uses a sourcing process, which consists of 2 key sub-processes called “Finding” and “Prequalification”, to search for, preliminarily assess and pre-select new suppliers/products according to the Company’s purchasing strategic plan (new services/goods required, improvement actions, new market scenarios, etc.).

This process is managed by inter-functional worldwide teams, normally driven by the Purchasing Department, except for Raw Materials, Auxiliary Materials, Equipment, Off Takes and Moulds where in case of new products/ process development, R&D guides the sourcing activities.

➤ **Finding**

The Finding process covers two phases:

- Identification of new potential suppliers
- Contacting new potential suppliers asking for pre-qualification

The Pirelli Supplier Portal is used in this phase as the main repository for a pre-selection of already assessed suppliers.

➤ Pre-qualification



The selected suppliers, who wish to participate in the Tender or start a business relationship with Pirelli, need to complete the Pre-Qualification phase if they have not already done so as self-assessment.

This step is undertaken through the [Supplier Portal](#) where they will be required to answer specific questions about:

- **General Company Data:** this tab is necessary to enter the company's tax details, the address of its registered and operative base (if the two are different) and the personal data of the Contact Person (the person who is filling in the questionnaire).
- **Sustainability & HSE Data:** this is the tab with information about the company's approach to issues regarding social responsibility, health, safety and the environment and quality.
- **Information:** on this tab the supplier can provide information concerning other services /products that they can supply or other countries where they can operate.

For specific purchasing categories or countries suppliers may be requested to also provide:

- Business & Financial Data
- Documents (ex. Certificate)

After obtaining a positive result in the pre-qualification phase, Suppliers with which Pirelli is willing to have a business relationship will enter the next process called "Qualification".

8.2.2 STEP 2: Tender



Suppliers invited to tender can apply only if they have completed the pre-qualification phase through the self-assessment tool (for more details see paragraph on the Supplier Portal).

Before application, as a preliminary step, Pirelli may ask for a signed NDA (Non-Disclosure Agreement), based on the confidentiality of the information and documents to be shared.

The NDA is mandatory for Logistics Services.

Once a RFQ is published, the suppliers who have been invited are made aware of:

- services/goods specifications
- the terms & conditions of the tender

- required cost details

Pirelli manages each business relationship in a transparent and ethical manner, promoting free competition. To guarantee equity throughout the entire tender process, the Purchasing Department is the only function that can be contacted in case of clarification/request for details. Non-compliant behaviour will lead to disqualification.

Suppliers must submit their proposal by the expiry date according to Pirelli guidelines.

Pirelli will evaluate both the quantitative and qualitative contents of each offer and will inform the suppliers of the results of the tender.

8.2.3 STEP 3: Qualification



Qualification is a follow-on process after sourcing or tender, aimed at achieving compliance by suppliers with essential Pirelli Qualification Requirements.

During this phase, the supplier has to confirm the answers given during the Pre-Qualification phase and provide more information on:

- General Company Data
- Sustainability and HSE Data
- Industry Specific Data

As in Pre-Qualification, some questions are "disabling", an inadequate response to them will not allow the supplier to successfully close the qualification process.

After having completed the Questionnaire the supplier has to upload some specific Official Documents related to the Company and the product/service offered.

Documents are classified as:

- Mandatory : suppliers has to provide them to be able to go on with the qualification process ;
- Strongly Advise: suppliers are recommended to provide but can go on with the qualification process. They will be considered during the assessment for the calculation of the final scoring ;
- Nice to Have : suppliers can add these documents; the final scoring will consider these **this** additional info.

Once the Questionnaire has been properly compiled and the required documents uploaded the supplier is allowed to start the qualification assessment.

The rating for the assessment is shown to the supplier, if the score is more than 24 and all the mandatory documents have been validated, the supplier is qualified as a Pirelli Supplier.

For Raw Materials the Qualification process includes some additional steps:

- Risk Management Questionnaire: this is actually optional but relevant for vendor rating evaluation. The supplier has to manage a self-assessment about the level of its plant based on business continuity KPIs
- Supplier on-site visit: Audit (mentioned in "Supplier Quality Audit") or STA (supplier technical assistance);

- Sample pre-testing (optional): small samples may be ordered for lab tests;
- Assessment and improvement gap: based on assessments of documents, audit and sample tests, suppliers will be asked to implement corrective actions.

After achieving positive results in the above phases (especially in the audit), suppliers will officially move to product homologation.

Qualification has to be re-confirmed regularly on the basis of document expiry dates and alerts are sent to suppliers to remind them to provide updated documents.

8.2.4 STEP 3: Product Homologation



Once suppliers have submitted the Required Documents requested during the qualification phase and everything complies with Pirelli requirements, the product homologation phase can begin.

Suppliers of Raw Materials must guarantee quality by carrying out, in accordance with ISO/TS 16949 (section 8.2.4.1), a yearly re-verification (“homologation re-verification”) of the raw material homologated by Pirelli. The “homologation re-verification” process is a complete measurement of all raw material parameters present in the Pirelli specification. Any differences in the homologated material must be agreed between the Supplier and Pirelli. Results shall be available for Pirelli review.

For Raw and Auxiliary Materials: the product homologation procedure is described in the flow chart in appendix and in the detailed document general requirements.

For Offtakes and Moulds: the product homologation procedure includes 2 steps: Technical Approval (including full assessment of the Pirelli technical specification) and Industrial Approval (check during use in the factory, 12 months monitoring of product performance). An on-site audit is foreseen not only for material products but also for the whole production process.

For Equipment: the product homologation procedure is as described in the detailed flow chart (see appendix).

8.2.5 STEP 4: Contracting



Our General Terms and Conditions regulate the business relationship and its main aspects and shall be signed by the supplier before the start of any supply. Please find below a list of the main contents of our General Terms and Conditions:

- Commercial conditions
- Intellectual Property
- Confidentiality and privacy
- Required certification and guarantees
- Sustainability Clause compliance
- Invoicing procedure and other requirements

8.2.6 STEP 5: Order Management



Pirelli is a paperless Company; all Purchase Orders are electronically signed and sent by fax or email.

In this document the supplier will find:

- Pirelli Company Heading
- Pirelli Delivery address
- Pirelli Invoicing address and email inbox
- Reference buyer
- Payment terms
- Incoterms
- Ordered Quantity
- Unit price
- Delivery date
- Total Value
- Additional notes (if any)

Once the Purchase Order has been received, the supplier must read, accept and sign the section related to:

- Payment terms
- Conditions

The signed copy has to be sent back to the reference buyer.

In future, Pirelli aims to make issued purchase orders available directly on the Supplier Portal asking suppliers to upload their signed copy.

With reference to Logistic Services, order management is automatically managed through the Logistic Service execution process.

In case of complaints, Suppliers are expected to handle and resolve issues efficiently and in a timely manner. Claims are filed when a defect is identified on receipt or during use.

For each complaint, the Supplier must comply with the steps set out in the Eight Disciplines (8D) Problem Solving (e.g. acknowledge and process the complaint, take the appropriate action depending on the decision made concerning it) and provide Pirelli with evidence that:

- immediate measures have been deployed to resolve the real or potential impact of non-conformity;
- the causes of the defect/issue have been identified and corrective measures have been taken;
- it can guarantee that non-conformity will not reoccur;
- it has measured the effectiveness of the corrective measures taken.

8.2.7 STEP 6: Invoicing



Suppliers may invoice:

- once the purchase order has been received
- once the supply has been fulfilled

The invoice must show the purchase order number and comply with it in terms of:

- price
- quantity
- payment terms

In case of non-conformity invoices are blocked for authorization or re-issue.

Pirelli will make a new facility available on the Supplier Portal that will allow suppliers to view all correctly submitted invoices and, in case of any missing ones, it will be possible to upload them directly.

With reference to some Logistic Services a tool is available that automatically calculates the details of the costs to be inserted in the invoice.

8.3 Relationship Enablers

8.3.1 Pirelli Supplier Portal



The Pirelli Supplier Portal is a web collaboration tool dedicated to any companies whose business activities are related to Pirelli's fields of interest and which are willing to join the existing vendor pool or consolidate their already established commercial relationships with Pirelli.

The Pirelli Supplier Portal is used during the Pre-qualification process and Qualification process phases. Relevant links to the platform are given here below:

➤ Self-Assessment / Pre-qualification

https://ebp.pirelli.com:50701/irj/servlet/prt/portal/prtroot/pcd%213aportal_content%212fcom.sap.pct%212fspecialist%212fcom.sap.pct.srm.sup.suppliercollaboration40%212fcom.sap.pct.srm.sup.iviews%212fZVQ_QUESTIONNAIRE

➤ Qualification

<https://ebp.pirelli.com/irj/portal?f=1>

Before starting the procedure, it is important that suppliers take note of the following prerequisites:

- Pre-Qualification phase: supplier does not need ID and Password to proceed;
- Qualification phase: supplier needs to receive ID and Password from Pirelli;
- Browser requested: up to Explorer 10 , other browsers are not supported;
- Help Desk for technical support: Vendor.Support@pirelli.com;
- The supplier needs to upload some specific documents like the Company's Certificate of Incorporation.

For more details suppliers can find:

- The Operative Manual at the following link:
http://www.pirelli.com/mediaObject/pirellityre/ww/en/extra-catalogue/site/en_qualification_manual_supplier/original/en_qualification_manual_supplier.pdf
- FAQs at the following link:
http://www.pirelli.com/tyre/ww/en/site/supplier_collaboration.html
- Tutorial Videos at the following link:
<http://www.youtube.com/watch?v=cWuiPYzMQi0&feature=youtu.be>

Pre-Qualification on the Pirelli Supplier Portal is open for self-assessment to all suppliers except for Suppliers of Raw Materials and Logistic Services. In any case, all suppliers must be compliant with Pirelli policies and requirements: Raw Material Suppliers and Suppliers of Logistic Services will be contacted directly by the buyer.

8.3.2 Audit



Supplier sustainability Audit

Pirelli regularly commissions independent audits to sector leading companies to review the compliance of Pirelli vendors with their ethical, social and environmental responsibilities, as provided inter alia in the sustainability clauses that they signed.

These independent audits are carried out according to a checklist of sustainability parameters based on:

- the SA8000® standards;
- the “Social Responsibility Policy, for Occupational Health, Safety and Rights, and Environment Policy”;
- The Pirelli Ethical Code.

Supplier Quality Audit

Within the Pirelli Premium Quality Value Stream, Pirelli provides for routine Audit activity according to:

- ISO-TS 16949 System Audit: The task is to examine any aspect of structure, function, interaction of cross tasks to a crucial degree. Grading scale: acceptable; not acceptable.
- VDA 6.x Process Audit: the task is to analyse the process in such a way that risks and weaknesses are detected in the work processes and in their interface. Grading scale:

- A quality-capable;
- B conditionally quality-capable;
- C not quality-capable

8.3.3 Vendor Rating



Pirelli assesses its Suppliers yearly by launching an internal campaign that involves all the functions that play an active role in the Supplier Relationship lifecycle.

Vendor Rating Report: is a yearly Supplier evaluation that Pirelli publishes on the Pirelli Supplier Portal, reporting information about:

- KPI scores;
- Overall scoring;
- Classification of results.

Results are classified as follow:

1. **A ➔** the overall results are above target, the supplier will be considered in the short list for the Pirelli Yearly Supplier Award;
2. **B ➔** usually the results are in line with the targets to be achieved, but for certain KPIs Pirelli asks for a Corrective Action Plan. The recovery plan must be submitted within 6 weeks. The Supplier is asked for continuous improvement in order to achieve the A classification.
3. **C ➔** the supplier's results are usually under the targets. Pirelli asks for a Corrective Action Plan for all the items below target. The recovery plan must be submitted within 4 weeks; however Pirelli will audit the Supplier in order to verify effective implementation.

Pirelli strongly encourages the Supplier to share this information internally to develop a commitment to a continuous improvement approach.

For the procedure to be followed for the correct addressing to Pirelli of the required Corrective Action Plan, suppliers are invited to follow the instructions published at the following link:

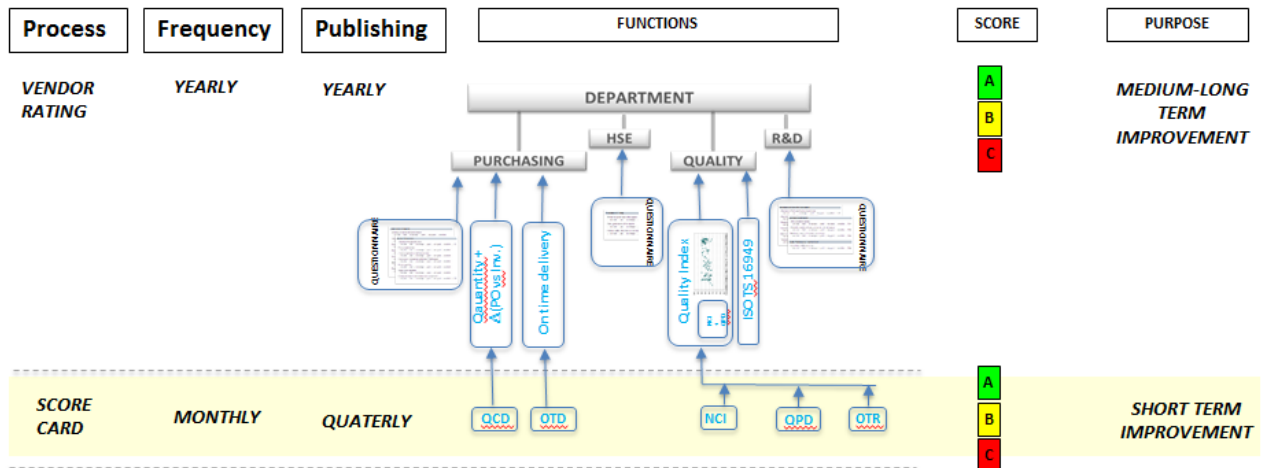
http://www.pirelli.com/tyre/ww/en/site/supplier_collaboration.html

8.3.3.1 Score Card

The Supplier Score Card is a monthly Supplier's performance evaluation process on Purchasing (with KPI's on On-Time-Delivery and Delivered Quantity) and Quality (with KPI's related to Not Conforming deliveries, the related quality impact and the Supplier's reactivity on NC) that Pirelli shares with Raw Materials Suppliers on a quarterly basis.

In the quarterly communication, Pirelli informs the Supplier about the scoring (A, B, C) and states escalation rules, asking for containment / corrective actions for improvement when necessary (B, C).

The KPI's measured monthly by the Score Card are included in the yearly Vendor Rating: therefore, by means of the quarterly communication to Suppliers and, if necessary, containment / corrective actions, the yearly vendor rating is supposed to be improved.



Process Flow



8.3.4 Award

Since 2012 the Annual Supplier Award has become an Institutional Event.

Starting from the Vendor Rating Report, Pirelli wants to reward those Suppliers who have performed with an excellent approach in:

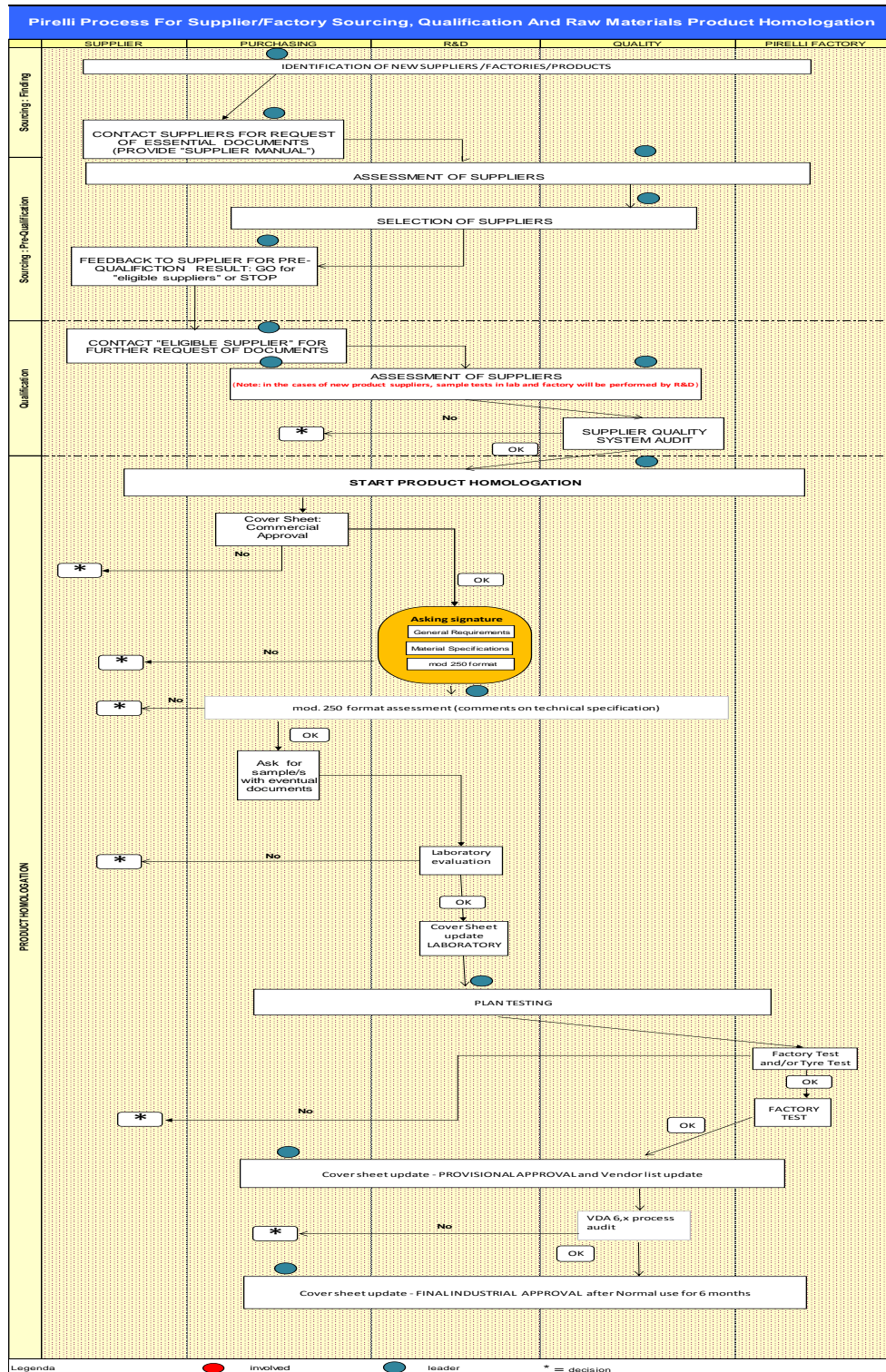
- Quality
- Sustainability
- Speed
- Total Cost
- Global Presence
- Innovation
- Service Level

“The awarded companies are considered capable of overcoming the strict compliance, becoming real partners in quality and innovation, thus gaining a competitive advantage in the international market.” (Luigi Staccoli, Pirelli CPO)

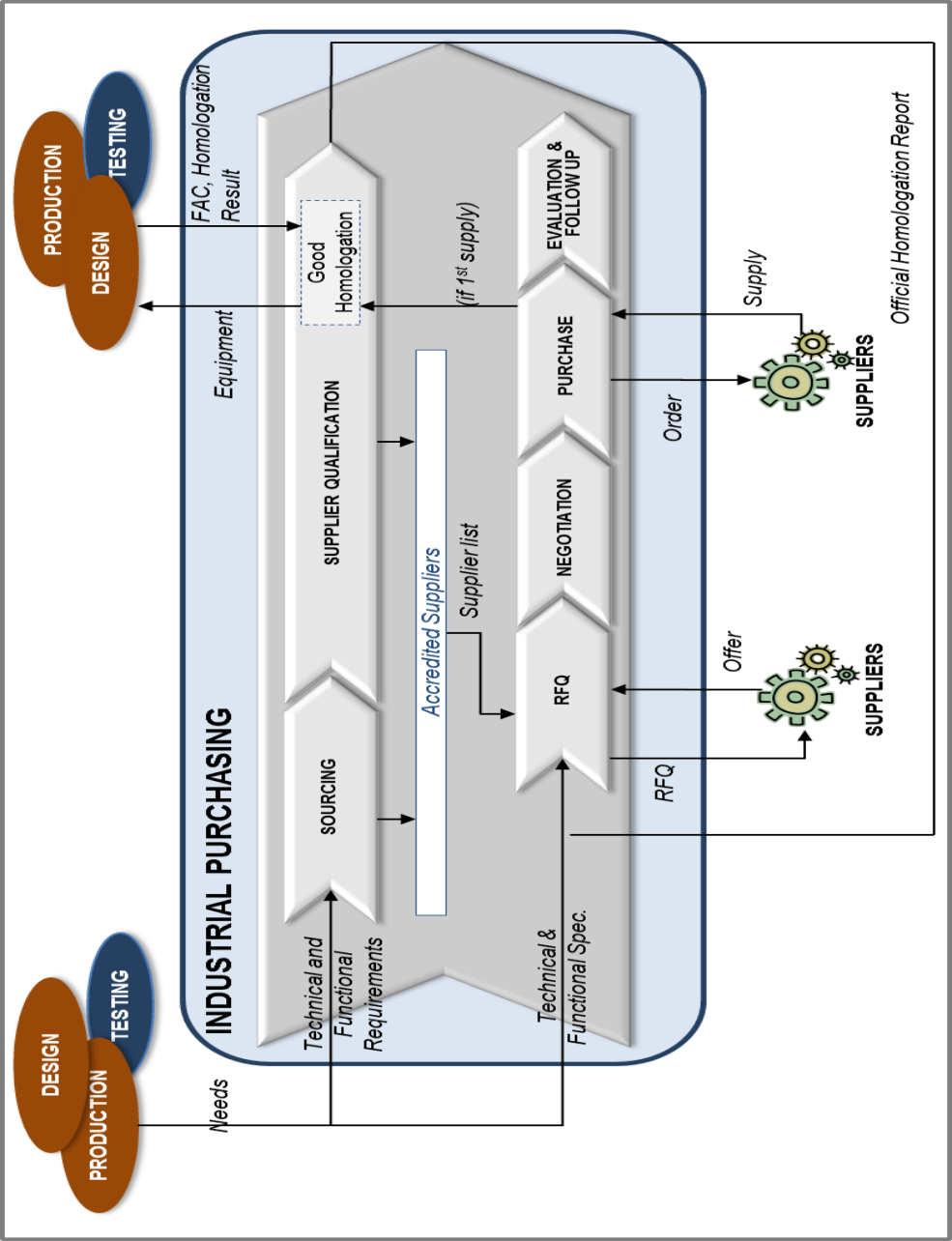
Partnerships between Pirelli and its suppliers are based on mutual trust and transparency. They imply the adoption of sustainability business practices to promote a continuous improvement approach to better perform in existing and new markets.

9 APPENDIX

9.1 Pirelli Detailed Process for Supplier /Factory Sourcing Raw Materials



9.2 Pirelli Detailed Process for Supplier Sourcing Equipment



9.3 Glossary

ATL:	Above the Line
BTL:	Below the Line
CAS:	Chemical Abstracts Service
CFCs:	Chlorofluorocarbons
CSR:	Corporate Social Responsibility
EDs:	Endocrine Disruptors
EHSER:	Essential Health, Safety and Environment Requirements
EMAS:	Eco-Management and Audit Scheme
ESG:	Environmental, Social and Governance
EU:	European Union
FAQ:	Frequently asked questions
HACCP:	Hazard Analysis and Critical Control Points
HSE:	Health, Safety and Environment
IPR:	Intellectual Property Rights
ISO/TS:	International Standard Organization/Technical Specification
ISO:	International Organization for Standardization
KPIs:	Key Performance Indicators
LPG:	Liquefied Petroleum Gas
M&A:	Merger and Acquisition
M:	Mandatory
MSDS:	Material Safety Data Sheet
NDA:	Non-Disclosure Agreement
NTH:	Nice to have
NCI:	Number of issued claims
OHSAS:	Occupational Health and Safety Assessment Series
OTD:	On Time Delivery
OTR:	On Time Response to claim indicator

PGPG: Pirelli Green Purchasing Guidelines

QCD: Quantity Correctly Delivered

QPD: Quality Product Delivered

REACH: Registration, Evaluation, Authorisation and Restriction of Chemical

SA: Strongly Advised

SVHC: Substances of Very High Concern

VDA: Verband der Automobilindustrie (German Association of the Automotive Industry)

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