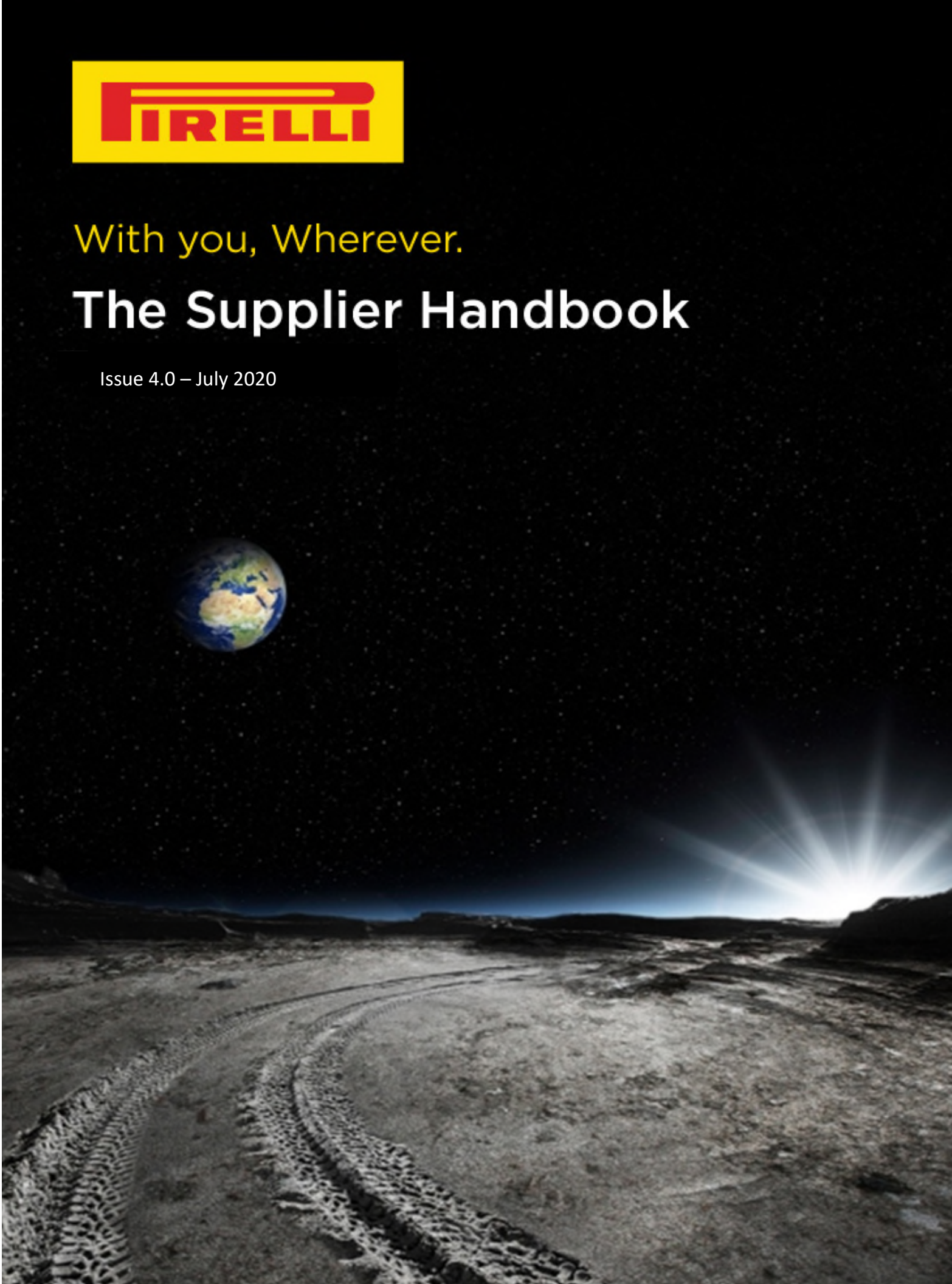
With you, Wherever.

The Supplier Handbook

Issue 4.0 – July 2020



1 PREFACE 4

2 HOW TO USE THIS HANDBOOK 5

3 PIRELLI AT A GLANCE 6

3.1 COMPANY PROFILE 6

4 PIRELLI PROCUREMENT 7

4.1 MISSION 7
4.2 PURCHASING CATEGORIES 7
4.3 GENERAL TERMS & CONDITIONS 8
4.4 INTELLECTUAL PROPERTY 8

5 PIRELLI SUSTAINABILITY MODEL AND POLICIES 9

6 PIRELLI ENTERPRISE RISK MANAGEMENT 10

7 PIRELLI REQUIREMENTS TO SUPPLIERS 11

7.1 QUALITY 12
7.2 HEALTH, SAFETY AND ENVIRONMENT 13
7.2.1 Health, Safety and Environment Requirements (EHSERs) 13
7.2.1.1 Law compliance & Subcontractors 13
7.2.1.2 HSE Management Systems & HSE data 13
7.2.1.3 Prohibited Materials, MSDS, Packaging & Labelling 14
7.2.1.4 Equipment Supply 15
7.2.2 Green Purchasing guidelines 15
7.3 LABOUR AND HUMAN RIGHTS 16
7.4 CONFLICT MINERALS 16
7.5 BUSINESS INTEGRITY 17
7.6 BUSINESS CONTINUITY MANAGEMENT : RISK PREVENTION 18
7.7 SUMMARY TABLE BY PURCHASING CATEGORY 18

8 PIRELLI SUPPLIER RELATIONSHIP MANAGEMENT 20

8.1 PARTNERSHIP APPROACH 21
8.1.1 Continuous Improvement 21
8.1.2 Innovation 21
8.2 SOURCING PROCESS 22
8.2.1 STEP 1: Sourcing 22
8.2.2 STEP 2: Tender 23
8.2.3 STEP 3: Qualification 24
8.2.4 STEP 3: Product Approval (Homologation) 24
8.2.5 STEP 4: Contracting 25
8.2.6 STEP 5: Order Management 25
8.2.7 STEP 6: Invoicing 26
8.3 RELATIONSHIP ENABLERS 26
8.3.1 Pirelli Supplier Portal 26
8.3.2 Audit 27
8.3.3 Vendor Rating 28
8.3.3.1 Score Card 29
8.3.4 Award 29

9 GLOSSARY 31

Revision History

Issue 1.0 – September 2014: First emission of Supplier Handbook

Issue 2.0 –May 2017: updated §8.2.4 Product Homologation, §8.3.2 Audit and §9.3 Glossary with regards to the transition from ISO/TS 16949 to IATF 16949 foreseen by 1st October 2018.

Issue 3.0 – November 2017: Better clarified some Purchasing Categories (§4.2); better clarified General Terms and Conditions and updated web-link (§4.3); better clarified requirements for IATF 16949 eligible/not eligible Suppliers (§8.3.2 Audit) and accordingly updated the Requirement Summary Table (§7.7); Errata Corrige: renumbered Groups in §8.2 Sourcing Process for alignment with Group numbering in picture.

Issue 4.0 – July 2020 : updated §3.1 Company Profile , §5 Pirelli Sustainability model and Policies , §7.1 Quality ; 7.2.1 Health , Safety and Environment Requirements , §8.2.1 Sourcing

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, July 2020



Pierluigi de Cancellis
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=96692

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.



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

Pirelli was founded in Milan in 1872 and today stands as a global brand known for its cutting edge technology, high-end production excellence and passion for innovation that draws heavily on its Italian roots.

With 19 production plants in 12 countries and a commercial presence in over 160 (16.500 point of sales) , Pirelli has around 31,600 employees and had a turnover in 2019 of about 5.3 billion € with a production capacity of 77 million car tyres..
It is among the world’s major producers of tyres and associated services and the only one focused solely on the Consumer tyre market, which includes tyres for cars, motorcycles and bicycles.

Pirelli, a Pure Consumer Tyre Company, has a particular focus on the **High Value** tyre market and is constantly engaged in the development of innovative products to address the most specific mobility needs of the final Consumer, such as **Specialty** and **Super Specialty** tyres.





Related link:

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

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**: Production Process Machinery (i.e., Curing Press, Finishing&Control Machinery, Cutting Lines, Extrusion Lines, Calendering Lines, etc.) including tools and machinery for Laboratory
- **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:** these are used in the production of tyres such as Natural Rubber, Synthetic Rubber, Fillers, Chemicals, Textiles Reinforcement and Steel Reinforcement. This category also includes semi-finished products manufactured by the raw materials thereof.
- **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, pncs).
- **Building, Utilities & Facilities**
- **Industrial Services:** services related to industrial operations, either functional to the final product quality (eg calibration services, production process services, product rework services etc) or functional to industrial operational activities (eg waste management services, HSE analytical services etc)
- **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 material supply (which integrates raw materials, semifinished products and auxiliary materials) and the supply of services and other goods.

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

- **Raw Materials, Semifinished Products and Auxiliary Materials:**

  http://www.pirelli.com/asset/index.php?idelement=99879

- **Other Services / Goods:**

  http://www.pirelli.com/asset/index.php?idelement=99780

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 of which Pirelli has been an active member since 2004.In October 2004, by means of a Letter addressed to the United Nation Secretary-General Kofi Annan, the Pirelli Group has formalized its adhesion to the Global Compact, as well as its commitment to respect and support the"Ten Principles"..
- the Stakeholder Engagement Principles set out in AA1000
- the ISO 26000 guidelines,.

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 Group Sustainability documents:

- **The Values and Ethical Code**
  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/sust-ethical-code

- **Code of Conduct:**
  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/sust-code-of-conduct

- **Anti – Corruption program**

  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/sust-anti-corruption-program

- **Global Human Right Policy**

  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/global-human-rights-policy-

- **Health , Safety and Environment Policy**

  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/health-safety-and-environment-policy

- **Product stewardship product policy**

  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/sust-product-stewardship-policy

- **Quality Policy**:
  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/quality-policy

- **Social Responsibility Policy for Occupational Health, Safety and Rights, and Environment:**
  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/social-responsibility-policy-for-occupational-healt-safey-rights-environment

- **Green Sourcing Policy:**
  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/sust-green-sourcing-policy

- **Equal Opportunities Statement:**
  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/sust-equal-opportunities-statment

- **Whistleblowing Policy:**

  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/sust-whistleblowing-policy

- **Antitrust program**

  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/sust-antitrust-program

- **Sustainable Natural Rubber**

  https://corporate.pirelli.com/corporate/en-ww/sustainability/policies/sust-sustainable-natural-rubber-policy

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

https://corporate.pirelli.com/corporate/en-ww/sustainability/sustainability

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 empower 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**”.

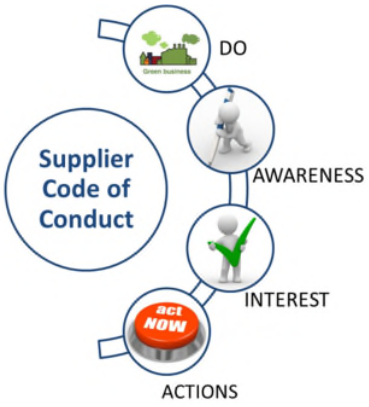
All suppliers, existing or newcomers, must comply with the set of identified requirements and be strongly committed to adopting the following approach :

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

Quality is a core value in Pirelli, cutting across all of its functions and processes, granting 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.

The core purpose is therefore delivering high value products on the market which respect market needs in compliance with Regulations (Legal, HSE, Government, Automotive, etc), Sustainability, Risks, Customer Requirements and Customer Specific Requirements. This is reached through the approach of “Zero Defect Manufacturing”.

Supplier Quality is therefore entrusted to transfer all the aforementioned values to its suppliers which has to be compliant with all of them.



7.2 Health, Safety and Environment

Suppliers are formally required to:

- Read and understood the "Health, Safety and Environment Policy", 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 & HSE data

EHSER-3

Suppliers are expected to provide a valid ISO 14001 or EMAS and ISO 45001 (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 or ISO 45001 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 Pirelli specifications concerning the activities requested and their formal acceptance is considered as strictly needed

EHSER-4

Suppliers could be requestedto 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 HSE information as it follows:

- environmental related data from production, products and transport to enable environmental assessments, including according to Pirelli Green Purchasing Guidelines.
- Health and Safety data performance and key data about its specific hazards, risks and incidents, related to their activities, and possible measures to reduce the most critical risks

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:

a) 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.
b) 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');
c) 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' , see the link : https://echa.europa.eu/candidate-list-table),
   - EDs ('Endocrine Disruptors , see the link : https://echa.europa.eu/ed-assessmen)
   - for which restrictions on the manufacture, placing on the market and use of certain dangerous substances, mixtures and articles may exist;

EHSER-7

As far as substances or mixtures are concerned , an appropriate Materials Safety Data Sheet ('MSDS') has to be provided by the Supplier taking into account the following conditions

a) a MSDS written in English (as a pre-assessment condition);
b) after the positive conclusion of the assessment mentioned in the previous point, a MSDS written in the language of the Country where the material shall be delivered.
c) 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 has to be delivered as well;
d) an updated version has to be sent should the MSDS need to be modified / integrated / … in order to take into account updated scientific information updated;
e) 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. Returnable or reusable packaging have to be preferred to single-use ones in all those application where it is feasible ;;
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) Any chemical product used for the treatment of wood has to be duly declared in advance; ;
g) packaging materials are to be marked with recognized recycling symbols or with material symbols;

EHSER- 9

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;

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 of applicable Technical Standards and the relative updated European Directives independently of the country of supply and applicable legal requirements on the country of supply.

EHSER-11

For Suppliers providing food services and canteen management, a HACCP (*'Hazard Analysis and Critical Control Points'*) Food and Safety Management System is mandatory. A valid (latest issue) ISO 22000 certificate or equivalent HACCP 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.responsiblemineralsinitiative.org/reporting-templates/cmrt/), 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.

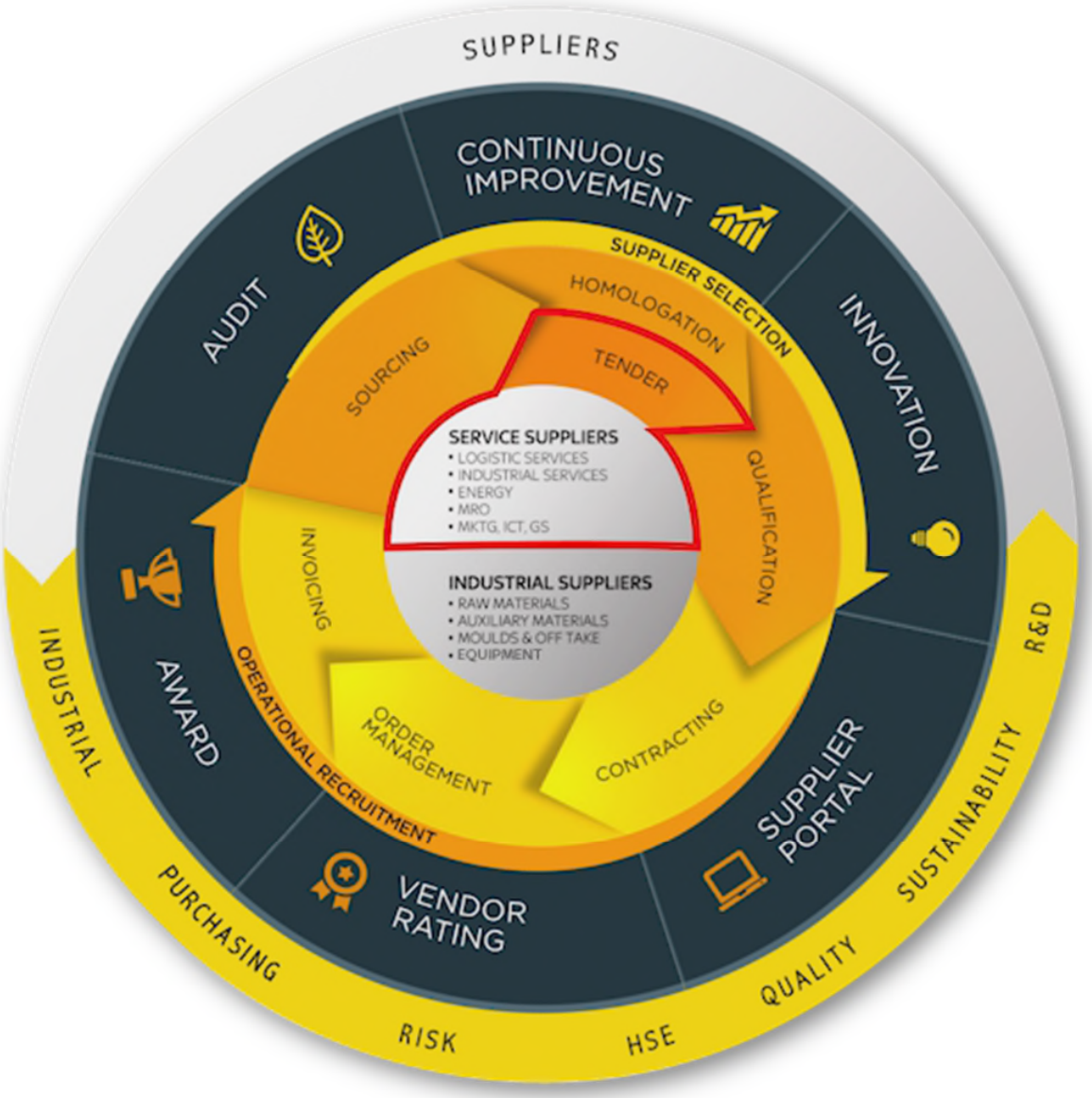
The Requirements Summary Table can be downloaded at the following link :

http://www.pirelli.com/asset/index.php?idelement=96254

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.

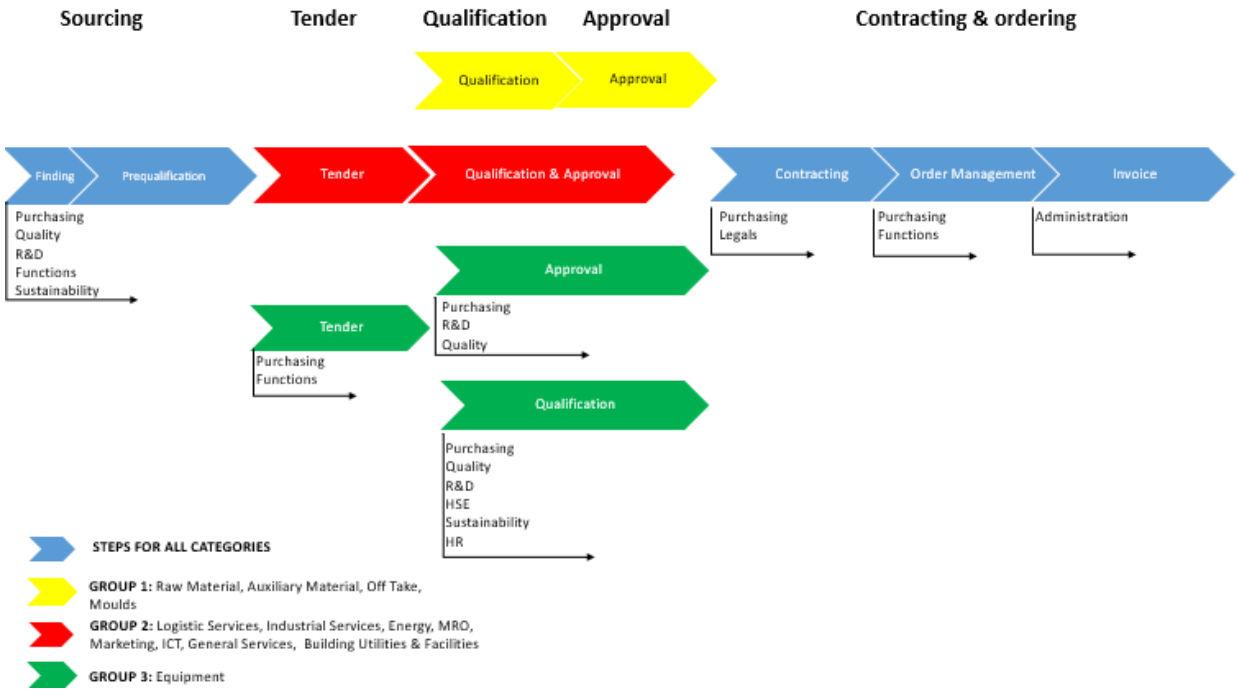
The more suppliers are acquainted with Pirelli's needs, plans, strategies and product development programs, the more they perceive that this can assure future business opportunities with Pirelli through innovation-related activities.

8.2 Sourcing Process

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

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

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



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 as self-assessment.

This step is undertaken through the Supplier Portal where they will be required to answer specific questions about:

- **General Company Data: the required info in** this tab are mainly related to the company's tax details, address of its registered and operative base .
- **Business Sector Data :** in this tab is required to enter the description of the main product or services that can be supply
- **Financial Data :** this tab is necessary to enter the turnover
- **PSCR (Product Safety and Conformity Representative):** this tab is equal to the Supplier Contact.

Further information about basic Quality requirements (Quality Potential Analysis P1) can be asked out of the Portal.

Only 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 Supplier Portal (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 of the Pre-Qualification one and it's mandatory to be eligible for a tender awarding. The scope of this step it's the complete check of the level of compliance of a supplier with the 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 Profile
- Financial Data
- Corporate Responsibility Requirements
- Required Documents and Certificates (accordingly to the purchasing category)

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

Based on the purchasing category, the Qualification process may include some additional steps:

- Risk Management Questionnaire:. The supplier has to manage a self-assessment about the level of its plant based on business continuity KPIs. This is actually optional but relevant for supplier evaluation
- Supplier on-site/ remote visit: Audit (mentioned in "Audit") or STA (supplier technical assistance);
- Security assessment: Questionnaire and security on-site audit based on VDA standard. The objective is to ensure that the supplier adopts security measures aiming at protecting Pirelli information and assets.
- 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 approval.

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 Approval (Homologation) 

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

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

For Raw Materials and Auxiliary Materials: the product approval procedure consists in a commercial, laboratory and factory evalutation with a well-defined timescale. The suppliers are expected to demonstrate that their supplies could be qualitative monitored and continuously satisfied Pirelli's requirements. Pirelli reserves the right to re-start a new approval procedure in case of important changes of suppliers' production process that could affect product's properties.

For Offtakes and Moulds: the product approval 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).

For Equipment: the product approval 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**

  https://pirelli.synertrade.com/ngp411delta/loginprocess

- **Pre-qualification / Qualification**

  https://pirelli.synertrade.com/ngp411delta/loginprocess

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

- Self- Assesment phase: supplier does not need to receive ID and Password from Pirelli to proceed;
- Pre-Qualification phase: supplier needs to receive ID and Password from Pirelli to proceed;
- Qualification phase: supplier needs to receive ID and Password from Pirelli to proceed;

The Operative Manual , FAQs , Tutorial and Videos will be available at the first login into the platform inside the welcome page.

8.3.2 Audit

Supplier sustainability Audit

Pirelli regularly commissions independent (third-party) 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, for supplier quality system management development, Pirelli provides for periodic audit activities (on-site or remote mode) with reference to IATF 16949 if the supplier is already qualified.

Pirelli carries out the two following type of audits:

- **VDA 6.x Audit**: the task is to evaluate the Supplier’s processes 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

- **IATF 16949** (if Supplier is IATF eligible) **or ISO 9001** (if Supplier is not IATF eligible) **Quality System Audit**: the Supplier shall demonstrate the conformity of its production sites with the certification for which it is eligible. If the Supplier is IATF eligible, the audit is aimed at supporting the ultimate objective of becoming IATF 16949 certified, according to the plan agreed with Pirelli. Grading scale: acceptable; not acceptable.

The above two types of audits are planned with prioritization based on a risk analysis which includes Supplier's quality performance, certification level of Supplier quality system and impact on tyre performance.

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 :

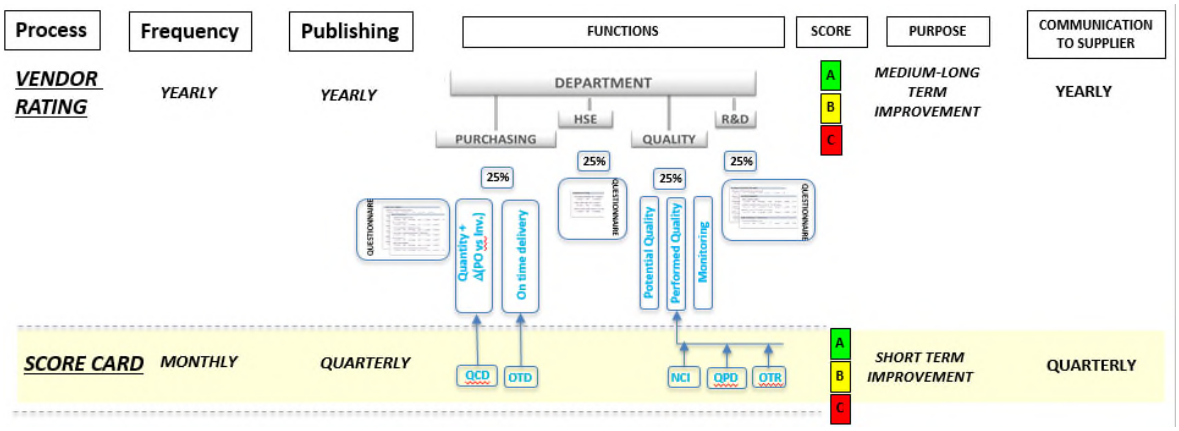
http://www.pirelli.com/supplierportal/en-ww/supplier-relationship-enablers/vendor-rating-help-manual

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 reactiveness 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." (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 Glossary

ATL: Above the Line

BTL: Below the Line

CAS: Chemical Abstracts Service

CFCs: Chlorofluorocarbons

CSR: Corporate Social Responsibility

EDs: Endocrine Disruptors

EHSER: Essential Heath, 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

IATF: International Automotive Task Force

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

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)

(c) 2020 Pirelli & C. SpA – Pirelli

