



## PRESS RELEASE

### PIRELLI PRESENTS 2011-2013 INDUSTRIAL PLAN AND VISION TO 2015

**PIRELLI TO FOCUS ON PREMIUM SEGMENT IN ALL AREAS, PREMIUM GROWING FASTER THAN MARKET, AND ON AREAS OF RAPID ECONOMIC GROWTH;**

**INVESTMENT OF 1.9 BILLION EUROS IN 5-YEAR PERIOD;**

**STRONG GROWTH IN ASIA-PACIFIC, LEADERSHIP CONSOLIDATION IN LATAM, NEW OPPORTUNITIES IN MATURE MARKETS IN PREMIUM SEGMENT EXTENDED TO GREEN AND SUSTAINABLE PRODUCTS;**

**INCREASED 'LOCAL-FOR-LOCAL' PRODUCTION, BRINGING OFFER CLOSER TO DEMAND;**

**LAUNCH OF NEW MEXICAN PLANT TO SERVE NAFTA AREA: INITIAL INVESTMENT 210 MILLION DOLLARS;**

**IN 2015, TWO THIRDS OF PROFITABILITY WILL COME FROM RAPIDLY GROWING ECONOMIES AND LATAM;**

**AVERAGE ANNUAL REVENUE GROWTH OVER THREE YEARS SEEN AT 8%, WITH EBIT MARGIN RISING TO BETWEEN 10.5% AND 11.5% IN 2013;**

**TYRE SECTOR DIFFERENT TO AUTOMOTIVE, MORE PROFITABLE, LESS EXPOSED TO THE ECONOMY, MORE FLEXIBLE;**

**FOCUS ON PREMIUM SECTOR AND EFFICIENCY PLAN WILL OFFSET INCREASES IN RAW MATERIAL COSTS;**

**BY 2015, 60% OF PRODUCTION WILL COME FROM PLANTS LESS THAN 10 YEARS OLD;**

**ITALY'S SETTIMO TORINESE PLANT TO BE THE GROUP'S MOST ADVANCED, INVESTMENT OF 155 MILLION EUROS, FULLY OPERATIONAL IN 2011;**

**CONTINUED FOCUS ON RESEARCH AND DEVELOPMENT, MAINTAINING CONSTANT PROCESS AND PRODUCT INNOVATION;**

**SUSTAINABILITY PLAN: BY 2015 WATER CONSUMPTION TO FALL 35%, ENERGY CONSUMPTION TO FALL 15%, WITH CONSEQUENT DECLINE IN CO2 EMISSIONS;**

**PIRELLI BRAND VALUE ESTIMATED AT 1.8 BILLION EUROS BY INTERBRAND.**

## NEW TARGETS:

### 2011-2013 GROUP TARGETS:

	2010*E	2011	2013	Cagr 2010-13
Total Revenues	~ 4,8 bln	> 5,15 bln	> 6,05 bln	> 8%
of which 'green performance'	36%	39%	47%	
Ebitda % (after restructuring charges)	> 12 %	13%÷14%	15%÷16%	
Ebit % (after restructuring charges)	> 7,5%	8,5%÷9,5%	10,5%÷11,5%	

\* 2010 data exclude Pirelli Re and Pirelli Broadband Solutions

### TYRE TARGETS 2011-2013 BY SEGMENT (CONSUMER AND INDUSTRIAL):

	2010	2011	2013
Revenues	>4,7 bln	>5,1 bln	>6,0bln
% industrial	31%	32%	32%
% consumer	69%	68%	68%
Ebit margin	> 8,5%	9%÷10%	11%÷12%
% industrial	33%	31%	30%
% consumer	67%	69%	70%

**SOUND FINANCIAL SITUATION: NET DEBT/EBITDA RATIO APPROX 0.6 IN 2015; DEBT STRUCTURE IMPROVED, MATURITIES LENGTHENED**

**THE PLAN DOES NOT INCLUDE M&A OPERATIONS OR CAPITAL INCREASES**

*Milan, 4 November 2010* – The Board of Directors of Pirelli & C. approved the 2011-2013 industrial plan, with vision to 2015. The plan was illustrated today to the financial community by Pirelli & C. Chairman Marco Tronchetti Provera and Chief Operating Officer Francesco Gori, with the support of Maurizio Boiocchi, the head of Research and Development, and Ugo Forner, Guglielmo Fiocchi, Andrea Pirondini and Alberto Pirelli, respectively the heads of the Car, Moto, Truck and Agro business units.

*“Pirelli has concluded its transformation into a pure tyre company and reached its targets ahead of schedule. In a world that is changing fast and in which new areas of growth are emerging, we have developed a plan which puts the company in the best possible position to compete”,* said Mr. Tronchetti Provera.

*“The strategies and the actions envisaged – he added – will allow Pirelli to achieve average annual growth of 8% over the period of the plan, with profitability (Ebit margin) rising to between 10.5% and 11.5% in 2013. This result will be mainly achieved through an even greater focus on the Premium segment, which is growing at a faster pace than the rest of the market and also within the replacement segment. The latter, which represents 75% of Pirelli’s revenues, minimizes the tyre segment’s exposure to slowdowns in the auto sector and gives it a higher structural profitability than auto. That focus will be achieved by increasing investment and production capacity in the premium segment, as well as through a re-balancing of our production among rapidly growing economies (RDE), Latin America and mature markets (with about two thirds of our*

*profitability deriving from the RDE and Latam areas) and a technological upgrade of our production sites and machinery so that by 2015, 60% of production will be in plants less than ten years old. These actions will allow us to offer products which are constantly being renewed (in 2013, 30% of total sales will be new products), always more tailored to the specific needs of customers, with reduced environmental impact and greater competitiveness thanks to continued innovation in materials and processes. All of this leveraging the brand's potential and counting on a young and multi-ethnic management team."*

## **INDUSTRIAL PLAN 2011-2013 AND VISION TO 2015**

### **GUIDELINES AND OBJECTIVES**

#### ***Why a new plan?***

The effectiveness of the actions implemented on the basis of the 2009-2011 plan, helped by a recovery in tyre demand from the end of 2009, permitted Pirelli to raise its financial targets three times in the course of 2010 and to reach, one year ahead of schedule, goals set for 2011 in the previous industrial plan.

In line with its strategy of focusing on the tyre sector, as outlined in the 2009-2011 industrial plan, Pirelli proceeded with the disposal of non-strategic activities (Telecom Italia, Alcatel-Lucent Submarine, Oclaro, Pirelli Broadband Solutions) and concluded the separation from the group of Pirelli Real Estate, transforming itself into a 'pure Tyre company' 98% of whose revenues are already derived from the activities of that sector.

Alongside the tyre activities, the company is also pursuing the Pzero fashion and high-tech project and in line with Pirelli's 'green performance' strategy, the activities of Pirelli Eco Technology and Pirelli Ambiente, respectively operating in emission control technology and the energy and environment areas.

In the light of these factors, Pirelli has defined a new 2011-2013 industrial, with vision to 2015.

#### ***New Plan Scenario 2011-2013***

##### **The dynamics of the tyre sector**

The tyre sector, over the last ten years, has seen constant expansion: between the years 2000 and 2008 the average annual rate of growth in value was 9% while the decline of approximately 10% seen between 2008 and 2009, as a consequence of the global economic crisis, was recovered in 2010. Over the next five years, average annual growth in the sector is expected to be 7%.

In this context, Pirelli was the only operator, among the majors, to increase its market share, up 0.7 percentage points, thanks to constant product innovation and effective management of operations.

##### **The 'Premium' market: continuing growth and new opportunities**

The auto park is in constant growth, driven by demand from rapidly growing economies (RDE), and the park of cars with premium tyres, an area in which Pirelli is pre-eminent, is growing even faster. The market of vehicles (car and light car vehicles) with Premium tyres is expected to grow 5.2% between 2010 and 2015, while the auto park is expected to grow by 3.1%. In mature markets, as in growing economies, changes in consumer behaviours offer new business opportunities in that they re-define the 'Premium' segment, which is no longer solely associated with performance and luxury, but with products linked to issues of sustainability and safety, areas dominated by Pirelli due to its advanced skills and technology.

### **Tyre and automotive: two sectors with different dynamics**

Revenues in the tyre sector are based principally on volumes which are affected only in part by negative economic cycles: sales are strongly driven by replacement which at the market level accounts for 70% of sales in the car and light truck vehicle segment (over 80% in the truck segment) and for Pirelli over 75% of sales. This dynamic makes the tyre sector more flexible and less exposed to possible slowdowns in the auto sector and demand for original equipment. This guarantees the sector a higher structural profitability: the Ebit margin of the ten major tyre makers is estimated to be 7.3% in 2010, compared with 5.7% for the ten major auto component makers and 4.3% for the ten major car makers. The tyre sector is also less subject to volatility linked to raw material costs.

### **Greater importance to 'local for local': bringing production closer to demand is crucial**

The global economy can be defined, more and more, as a plurality of macro-areas divided by tariff and other barriers (technical requirements, product certification, additional costs linked to administrative import procedures). In these regions, which are constantly growing and are the engines of world growth, it is crucial to be present with local production facilities capable of meeting ever stronger local demand ('local for local' production).

### ***Pirelli today***

Pirelli today is already a **macro-regional player**, the leader in high growth Latin America and with a geographically competitive industrial presence. Today, 75% of its production is located in high-growth countries, with growing demand and favourable industrial costs. The company holds a **pre-eminent position in the 'Premium' segment**, has consolidated relationships with the most prestigious car marques and offers a **complete range of 'green' products**, which today already account for more than 36% of its sales.

With a brand value estimated by Interbrand of approximately **1.8 billion euros**, the **Pirelli brand represents a potential** to be leveraged and will become even stronger through its involvement with Formula One.

In the tyre sector, Pirelli is among the companies that invest most in research and development (approximately 3% of sales annually) with the aim of continual product and process innovation, and to take advantage of business opportunities linked to new technologies. The company is particularly attentive to material innovation, both in the field of renewable materials and of natural and synthetic rubbers, also through the development of partnerships. This also extends to the development of partnerships, as is the case in natural and synthetic rubber. Its **management is multi-cultural and young**: the 280 top managers that lead the company come from 15 nations and are on average under 46 years of age.

### ***Pirelli in 2015***

In 2015, **around 60% of Pirelli's production capacity will consist of plant and machinery launched in 2005 or after, and therefore less than 10 years old**. The company **will have facilities that are highly specialized in the 'Premium' segment and located in high-growth countries with favourable industrial costs**. The **geographic distribution of production facilities** will ensure a balanced presence between mature markets and rapidly growing economies (RDE), which together with Latin America will account for two thirds of the group's profits. The reinforcement of its position in these regions will reduce the company's exposure to possible economic downturns which could affect mature areas such as Europe and the USA, where, however, Pirelli will be able to take advantage of new opportunities stemming from the broadening of the Premium segment, as noted earlier.

Pirelli will continue to offer a **complete range of Premium tyres**, which are always being renewed and are capable of satisfying the specific needs of different customer types. Thanks to these actions, Pirelli will be transformed, as demonstrated by the expected **evolution of the composition**

of sales by segment, region, channel and plant age. In 2015, Pirelli expects that 73% sales will come from the Premium Car and Light Truck segment (66% in 2010) and 76% from the After Market (75% in 2010). Changing perspective, 57% will come from fast growing economies (RDE, Latam, Apac, Russia, Emea, equal to 52% in 2010) and over 60% from new sites or new machinery (30% in 2010).

### *The transformation of Pirelli in numbers*

Pirelli's transformation and growth will be supported by a **total investment of 1.9 billion euros between 2011 and 2015**, an increase from the 1.5 billion euros invested between 2006 and 2010. Almost all this investment (99%) will go to the tyre sector, to meet growing demand in the market, in particular in the premium segment, in a market in which production over-capacity is not foreseen.

### **Targets 2011-2013**

**Expected evolution of financial results:**

	<i>2010*E</i>	<i>2011</i>	<i>2013</i>	<i>Cagr 2010-13</i>
<b>Total revenues</b>	~ 4.8 bln	>5.15 bln	> 6.05 bln	> 8%
Of which 'green performance'	36%	39%	47%	
<b>Ebitda %</b>	>12%	13%-14%	15%-16%	
(after restructuring charges)				
<b>Ebit %</b>	> 7.5%	8.5%-9.5%	10.5%-11.5%	
(after restructuring charges)				

\*2010 data excluding Pirelli RE and Pirelli Broadband Solutions

The already sound **financial position** will see a further reduction in the **net debt/Ebitda ratio** which will narrow from an expected 1.1 at end 2010 to around 1.0 at end 2013 and to around 0.6 in 2015; while **debt** is seen below 700 million euros at end 2010, below 1.0 billion euros in 2013, and slightly above 700 million euros in 2015. The data include the payment of **dividends**, on the basis of a **shareholder compensation policy** which in the 3-year period envisages the proposal to the **Board for the distribution of around 40% of consolidated net profit**. To limit the volatility of financial costs, gross debt is today 65% fixed-rate and 35% variable-rate and the position will be further strengthened by 2015 through the optimization/diversification of financing sources (with possible recourse – as already announced – to capital markets) and the lengthening of maturities.

### *What Pirelli will not do*

The plan does not entail: **big M&A operations, capital increases, investment in capacity in the Indian market, non-premium production for original equipment or a multi-brand portfolio strategy.**

In the event of a market slowdown and consequent fall in demand compared with expectations as indicated in the reference scenario, Pirelli can implement **contingency plans** that are ready and offer two main options: deceleration of the investment plan (by region and by segment) and the reduction of production associated with further restructuring actions. With regard to **raw materials**, taking a predictable cost increase into account, the expected negative impact will be 200 million euros in 2011 and 300 million euros in 2011-2013. These impacts will be offset in part by greater efficiencies, respectively 80 million euros in 2011 and 200 million euros in 2011-2013.

## INVESTMENT STRATEGY

### *The market scenario*

Between 2011 and 2015, tyre makers in the car segment will invest 15 billion dollars to increase production capacity – particularly in China (50% of the total) and in India (20%) – and output is expected to reach 1.5 billion units in 2015. The geographical distribution of production capacity will see growth in the Latam and APAC areas to 46% of total capacity in 2015 compared with 41% now, while the Emea + Nafta area will narrow to 54% from the present 59%. It is estimated that the truck segment will invest 10 billion dollars in production capacity between 2011 and 2015 – above all in China (40% of total) and India/Asia (40%) – and in 2015 output is expected to reach 164 million units. This segment will also see more capacity located in the Latam-Apac area which will account for 73% of total capacity in 2015 compared with 67% now, while the relative weight of the Emea+Nafta markets will fall to 27% from 33% over the same period.

### *How much and where will Pirelli invest*

Taking the market scenario and development of the various macro-regions into account, Pirelli foresees total investment of **1.9 billion euros, of which 1.2 billion between 2011 and 2013 and 0.7 billion between 2014 and 2015, to ensure the growth of its businesses and best exploitation of market trends.**

In mature markets these investments will be mainly geared towards improving the product mix and increasing efficiency. In these areas, the consumer segment will absorb 14% of total investment and 3% will go towards the industrial segment. The remaining investments will go towards increasing productive capacity in fast growing economies. Here the consumer segment will absorb 56% of total investments and 27% will go into the industrial segment.

In particular, in the consumer segment (cars and motorcycles) total investment will be 1.3 billion euros by 2015, of which 800 million euros by 2013 and a further 500 million euros by 2015. Production volumes will increase by 25% (from 56 million radial tyres to 70 million) between 2010 and 2013 and will rise by a further 15% (to 80 million units) by 2015. Investments will be divided between Italy (Settimo Torinese), the new plant in Mexico, Latam area, Rumania, China and the joint venture in Russia.

In the industrial segment (truck and agro) total investment will be 600 million euros by 2015, of which 400 million euros by 2013 and a further 200 million euros by 2015. Production volumes will increase by 20% (from 5.8 million units to 7 million) between 2010 and 2013 and will further rise by 15% (to 8 million units) by 2015. Investments will be focused in China, Latam, Egypt, Rumania (steelcord) and in Russia (agro) through the joint venture with Russian Technologies.

Pirelli will have a **total production capacity** of 77 million units in 2013 (70 million consumer and 7 million industrial), compared with 61.8 million units at the end of 2010 (56 million consumer and 5.8 million industrial). In 2015 total capacity will be around 88 million, of which approximately 80 million consumer and 8 million industrial.

*“Thanks to these investments, Pirelli will increase its production capacity focusing on the Premium segment in rapidly growing economies. It will consolidate its leadership in all market segments in Latin America, improve its product mix and efficiency while taking advantage of every opportunity stemming from the evolution of the Premium segment in mature markets and everywhere increasing the weight of the replacement channel with respect to original equipment”,* said the Chief Operating Office of Pirelli Tyre, Francesco Gori.

Alongside these investments, **revenues** are expected to grow from over 4.7 billion euros at the end of 2010 to over 5.1 billion euros in 2011 and over 6 billion in 2013, with an average annual growth between 2011 and 2013 of **8%** (5% average annual growth in volumes and 3% in the price/mix component). At the end of the 3-year period, **profitability** will be further re-balanced in terms of the geographic macro-areas. The **contribution to profitability** from **rapidly developing economies (excluding Latam)**, which today is below 20%, will rise over 20% in 2013 and over 30% in 2015. The contribution from **Latam**, today above 50%, will be above 40% in 2013 and over 30% in 2015. In **mature markets**, in conclusion, the contribution, today below 30%, will be below 40% in 2013 and over 30% in 2015.

In the 3-year period 2011-2013, Pirelli will implement an efficiency plan worth about 200 million euros mainly focused on the consumer segment and based on three pillars: production in countries with competitive costs, economies of scale resulting from investment in Premium capacity, and improved productivity.

<i>Targets 2011-2013 by segment</i>	2010	2011	2013
<b>Revenues</b>	<b>&gt;4.7 bln</b>	<b>&gt;5.1 bln</b>	<b>&gt;6.0 bln</b>
% industrial	31%	32%	32%
% consumer	69%	68%	68%
<b>Margin / operating result</b>	<b>&gt;8.5%</b>	<b>9%-10%</b>	<b>11%-12%</b>
% industrial	33%	31%	30%
% consumer	67%	69%	70%

#### ***New production facilities: Mexico, Settimo Torinese, Russia project***

The plan **calls for the construction of Pirelli's first plant in Mexico, full operation of the Settimo Torinese and entry into the Russian market.**

In **Mexico**, Pirelli will invest 210 million dollars over the next two years for the construction of a new plant to produce High-performance and Ultra High-Performance tyres for cars and light commercial vehicles. These will be for the internal market but above all for export to markets in the Nafta area, in particular the USA. The new facility will be operational from 2012 and will have a production capacity of about 5 million units in 2015. The new factory, which will be in addition to the other 7 plants Pirelli already has in Latin America, will employ about 700 workers when running at capacity and will feature the latest Pirelli production technology. In the course of 2011, Pirelli will also inaugurate the **Settimo Torinese hub**, which will be the group's most technologically advanced and efficient facility for the production of ecological, High-Performance and Ultra High-Performance tyres. This new production hub outside Turin, which has required an initial investment of 155 million euros, incorporates measures that will ensure the maximum reduction of environmental impact and energy consumption and will apply the most modern technologies developed by Pirelli, including the evolution of Pirelli's robotic tyre production system (Next Mirs) and the precision system for the production of compounds (Ccm). When fully operational, the annual production capacity of the new facility, which combines two Pirelli plants already located at Settimo Torinese, could exceed 3.5 million units, exclusively Premium. It will employ over 1,000 workers.

#### ***Pirelli strategy by geographical area***

Through the investments described earlier, Pirelli will ensure the optimization and balance of its production footprint to guarantee coverage and growth in the strategic areas already indicated, through the following strategies:

## EMEA

**Increase production capacity to focus on Premium segment; equipment; consolidation of leadership in the motorcycle segment; launch of production in Russia.**

**- market scenario**

Between 2010 and 2015, consumer segment volumes in the Emea area are expected to grow by 2.1% to 501 million units, while the industrial segment volumes are seen growing 3.7% to 35 million units.

**- growth strategy**

In this geographic area, Pirelli sees an increasing focus on the high-growth Premium segment to satisfy the increase in volumes, in line with the evolution of the market. The company also intends to consolidate its leadership in the Moto segment and launch production in Russia concentrating on Winter and Agro tyres.

These actions will lead to a **average annual revenue increase of 6% between 2010 and 2013 (to about 2.8 billion euros) and lift the Ebit margin from “mid single digit” to “double digit” by 2013.**

## NAFTA

**Increase production capacity to focus on Premium segment; launch of Mexico plant**

**- market scenario**

Between 2010 and 2015, volumes in the Nafta consumer segment are expected to grow by 3% to 370 million units, while volumes in the industrial segment are expected to grow by 2.6% to 24 million units.

**- growth strategy**

In the Nafta area, Pirelli will focus on the Premium segment (consumer) and a specialized distribution channel. The growing volumes and mix improvement in favour of the Premium segment will also be supported by the launch of the Mexico plant, destined to supply the markets of the Nafta area and the USA in particular.

These actions will deliver **average annual revenue increase of 8% between 2010 and 2013 (to around 520 million euros), assuming an usd/euro exchange rate of 1.40, and lift the Ebit margin from ‘single digit’ to ‘double digit’ by 2013.**

## LATAM

**Consolidation of leadership; increase ‘local-for-local’ production**

**- market scenario**

Between 2010 and 2015, volumes in the Latam consumer segment will grow 6.5% to 98 million units, while volumes in the industrial segment grow 6.8% to 14 million units. In this geographic area, Pirelli is the market leader and only tyre producer with a complete offering in every segment.

**- growth strategy**

Pirelli will leverage its brand leadership, which will be further boosted by its presence in Formula One. The company aims to improve its product mix in all segments and increase capacity in the area. On the commercial front, Pirelli can count on a solid and loyal network among its local assets.



The launch of the Mexican plant to serve Nafta markets will free-up production capacity in Latam for the local market, with an increase of 'local for local' production and additional cost efficiencies.

These actions will bring **average annual revenue increase of 10% between 2010 and 2013 (to over 2.22 billion euros)**, assuming a usd/euro exchange rate of 1.40, and a substantially stable Ebit margin ('mid two digit').

## **ASIA-PACIFIC**

**Increased production capacity at the Chinese hub with focus on the Premium segment; hub to produce top of the range tyres for all segments and also for export**

### **- market scenario**

Between 2010 and 2015, volumes in the Asia-Pacific consumer segment are expected to increase by 7.2% to 536 million units, while volumes in the industrial segment are expected to grow by 7.6% to 91 million units.

### **- strategy and actions**

Pirelli will further focus on the Premium consumer segment in the Chinese market, with an investment programme that will increase production capacity to meet growing local demand. By 2013, in particular, capacity in the truck segment is expected to increase by 40% and capacity in the car segment by 100%.

In this context **the Chinese hub, which will produce the entire high-end product range (truck, car moto e steelcord)**, will export not only to the Asia-Pacific region, but also to the Middle East-Africa and Nafta regions.

These actions will bring **average annual revenue increase of 20% between 2010 and 2013 (to 470 million dollars)**, assuming a usd/euro exchange rate of 1.40, and an improvement in the Ebit margin from 'single digit' to 'double digit' by 2013.

## **BUSINESS UNIT GROWTH STRATEGIES**

### **Consumer**

#### **Business Unit Car**

**Focus on the constantly growing Premium market; increased production capacity (+30%) by 2015; increased rate of plant and product renewal**

### **- Market scenario**

The park of cars fitted with premium tyres, as shown by the data provided earlier, is growing constantly and at a faster pace than the market. This trend, common to all geographic areas, is also confirmed by new car registrations: between 2010 and 2015 the Premium segment is expected to grow 9.6% compared with an increase of 5.6% for total registrations (5% for non-premium). Between 2011 and 2015, while total tyre market volume is expected to grow by 4.3% to 1.5 billion units, estimated Premium growth will be 6.5% and the segment will represent about 12% of the whole (non-Premium is estimated to grow 4%). The company which is already focused on the Premium segment, will continue to boost its presence in this sector.

#### - **Strategy and actions**

Pirelli's car **product portfolio** has already been simplified, renewed and aligned to consumers' needs in the various car segments. This portfolio will be further renewed and optimized (as a portion of total sales, new products will rise to 30% in 2013 and 28% in 2015 compared with 25% in 2010). With a view to making the offering even more innovative, competitive and "green", as a percentage of total sales "green" products will rise to 50% in 2013 and 61% in 2015 (from 35% in 2010).

The entry into **Formula 1 and the launch of a series of related commercial initiatives** will contribute to revenue growth and a consolidation of the brand.

The **capacity increase** in areas with high growth and competitive industrial costs, together with the constant updating of plants, the average production capacity of which will increase by 30% by 2015, will increase competitiveness and give all areas the most advanced technology. In particular, the **geographic rebalancing** will lead to increased '**local for local**' production from **83% to 89%**. Production from **new plants** will rise to 39% in 2013 and 52% in 2015, compared with 30% in 2010.

#### Business Unit Moto

**Focus on Premium segment in Europe and North America; consolidation in all segments where present in Latam; launch production in China**

#### - **Market scenario**

In the Moto market of Europe and the Nafta countries, the trend is expected to evolve positively compared with the last five years: in Emea, after a volume increase of 0.3% from 2005 to 2010, growth between 2011 and 2015 is expected to be 1.1%, while in the Nafta area, after a decline of 1% between 2005 and 2010, a recovery of 2.1% is expected between 2011 and 2015. In Latin America, which saw growth of 7.6% between 2005 and 2010, an increase of 6.8% is expected between 2011 and 2015. Underpinned by an extraordinary string of Motorsport victories, the Moto business unit already holds a solid market position. It is the leader in Europe and Latam and can draw on both the Pirelli and Metzeler brands.

#### - **Strategy and actions**

The Moto business unit will continue with its focus on '**Prestige Premium**' segment in **Europe and North America**, while in **Latin America** it will continue to leverage the brand in all market segments.

The business unit **will broaden its geographic presence**. Current production in Brazil (conventional tyres) and in Germany (radial tyres) will be accompanied, **beginning from 2012, by new production capacity in China of one million radial tyres**. In synergy with existing Pirelli plants, this will allow the group to better satisfy demand from the Asian replacement market and to depend on 'local for local' production to supply original equipment for Japanese producers. The Moto business unit also aims to grow through **ad hoc marketing strategies** targeting personalization and e-commerce.

#### - **Targets Business Unit Moto**

**Revenue growth to 420 million euros in 2013** compared with estimated 360 million euros in 2010 (+5%), **Ebit margin will be steady at double digits**.

#### **TARGETS CONSUMER SEGMENT (car + moto)**

**Revenue growth to over 3.5 billion euros in 2011 and over 4.1 billion euros in 2013**, compared with 3.3 billion units expected in 2010. **Ebit margin between 9% and 10% in 2011 and between 11% and 12% in 2013**, compared with approximately 8.5% expected in 2010.

## **Industrial**

### **Business Unit Truck**

**Increase production capacity in key geographic areas (at the end of the period 91% will be located in fast growing economies), especially 'local for local' (85% of production in 2015); 55% 2015 sales will come from new products**

#### **- Market scenario**

The market for truck tyres in the next five years will confirm the positive trend of the last five. After an average annual growth rate in volumes between 2005 and 2010 of 2.6%, for a total of 164 million units, for the next five-year period we expect to see an average annual growth rate of 3.2%, for a total of 193 million units. This is expected to go hand in hand with the increasing importance of radial tyres versus conventional ones: 85% of total volumes in 2015 compared with 75 % in 2010. The penetration of radial tyres into emerging markets will continue to support an annual growth rate for the "All Steel Radial" truck tyre market of 5.8% for the five years, above the 3.2 total market average. Pirelli is already the leader in important Rapidly Developing Economies (RDE) such as South America and North Africa, it ranks second in Southern Europe and in the near East, is rapidly growing in China and expects to enter Russia with a local production capacity.

#### **- Strategy and actions**

The truck business unit aims to consolidate its product positioning through constant attention to innovation, a focus on the Premium segment and the concepts of "green performance" and "customer lifecycle value". In 2015, in particular, 55% of sales volumes will come from new products (introduced in the preceding three years) compared with the 45% in 2010. Research will continue to reduce rolling resistance and achieve total product life of approximately one million kilometres in the "long distance" segments. Pirelli also has highly advanced 'steelcord' technology with 90% of production located in countries with competitive industrial costs. The "non captive" market will account for 40% of sales.

The truck business unit will meet growing demand by increasing production capacity in existing plants located in fast growth geographic areas.

With total investment in the Industrial segment (truck and agro) of 600 million euros (400 million euros between 2010 and 2013, and 200 million euros between 2013 and 2015), capacity will grow from 5.8 million units in 2010 to 7 million in 2013 (+20%) and 8 million in 2015 (+15%). Of total production, 85% will be 'local for local' and 91% will be located in fast developing economies.

In particular, by 2013 capacity is expected to increase in Mercosur (+30% truck, +20% agro, +10% steelcord), in Egypt (+30% truck), in China (+40% truck and new steelcord plant fully operational by 2011) and Russia (new plant operational by 2013 in the agro segment).

The updating of production in various plants – Settimo Torinese, Brazil (Feira de Santana, Santo André, Gravataí), Egypt, Turkey, China – will mean that 50% of installed capacity will be less than ten years old by 2015 and the average plant size will be increased by 25% between 2010 and 2013, and by 40% by 2015.

## **Business Unit Agro**

**New investment in Brazil and Russia; consolidation of leadership in Latam; more selective presence in Europe; single production platform for radial tyres in all markets**

The agro business unit has two markets of reference: Latin America and Europe (Europe plus CIS). Both areas present high rates of growth and the Latam market will grow by an estimated 4% to 1.7 million units (radial and conventional) between 2010 and 2015, while the Europe/CIS market will grow by an estimated 2.1% to 1.4 million units (radials).

### **- Strategy and actions**

To meet the growing demand for agro tyres, the business unit will use a single radial production platform - in terms of technology, production processes and product techniques - in all markets. Production capacity will be located in fast developing economies.

The business unit will thus be more competitive in terms of costs and more flexible in terms of operations ("local for local" supply, speed in meeting demand, facility of exchange between the sources of production to satisfy demand).

These actions will require 2010-2015 investment of 70 million euros, mainly in Brazil, excluding Russia. In Brazil, production capacity will increase by 20% by 2013 (+30% in 2015), while radial tyres will be produced in Russia by 2013. These actions will allow the agro business unit to maintain leadership in Latam for original equipment and replacement for radial and conventional tyres, and to qualify as a partner of reference in original equipment and replacement in Cis, while maintaining a selective presence in both the replacement and original equipment channels in Europe.

### **- Targets Business Unit Agro**

**Revenue growth to 220 million euros in 2013** compared with an estimated 180 million euros in 2010, and an annual average growth rate of 8%. Ebit margin sound double digit.

### **TARGETS INDUSTRIAL SEGMENT (truck + agro)**

**Revenue growth to over 1.6 billions euros in 2011 and to over 1.9 billion euros in 2013** compared with 1.4 billion estimated in 2010. The Ebit margin is expected to be approximately 10% in 2011 and between 11% and 12% in 2013 compared to over 9.5% estimated for 2010.

## TECNOLOGY AND R&D SUPPORTING GROWTH

Pirelli today has one **research centre in Italy and 8 application centres in the world**. The R&D sector counts more than one thousand engineers, with more than 60% coming from countries other than Italy.

The weight of the company's investments will be maintained at around 3% of annual for the next three years, one of the highest levels in the sector. This will result in a total portfolio of over **4,500 patents**, and a capacity to renew the portfolio of premium original equipment products in under four years and to have **the full range of tyres produced without highly aromatic oils by 2013**.

The exchange of information and technology between the different tyre business sectors and the ongoing collaboration with important University research centres and leading car makers ensure the group has the technology to develop advanced products, tested with success in the main motorsports and transferred onto the road to serve specific client needs.

Through research, Pirelli has been able to develop over time products with low rolling resistance and with ever greater use of **biomaterials**. From the engineering standpoint, development times have been reduced significantly and thus product costs. In production processes, the application of **avantgarde systems like Mirs** (a robotic tyre production process exclusive to Pirelli) and the innovative compounds system **Ccm (Continuous Compound Mixing System)** allow the development of products through high quality systems that are also highly flexible. Pirelli is also at the cutting edge in the production of the **Cyber Tyre**, the intelligent tyre able to transfer information to the vehicle that is fundamental for driving stabilization and safety.

Continuous research and the continual development of these activities will allow the company to introduce innovations and technical discontinuities by 2015 that will be of key importance in the production and design of the tyres of the future. In this sense, Pirelli is working on the development of new materials derived from the application of **nanotechnology, biomaterials and modified polymers and on innovative processes like new generation Mirs (next Mirs) and Ptsm which represents the evolution of the Ccm compounds system**.

In particular, the **car sector**, in the period 2011-2015, will see: the development of technological solutions focused on 'green performance' in the RDE; the production of ad hoc products, differentiated on the basis of specific demand in the various geographic areas; the development of the Pzero tyre product line as the top product in the Ultra-High Performance segment. This will all be done through the application of sustainable solutions, also in engineering processes, the introduction of innovative reinforcing fibres in the development of tyres and the introduction of second generation of the Cyber Tyre.

In the **moto sector**, in the period 2011-2015, Pirelli foresees: further availability of exclusive technologies, faster product renewal aimed at anticipating the needs of consumers, the strengthening of technological partnerships with the main motorcycle makers, the use of experience in Motorsport as a technological driver of innovation and the development of the Cyber Tyre for this segment. This will all result in a higher performing and safer product portfolio.

In the **industrial sector**, in conclusion, in the period 2011-2015, Pirelli foresees: the development of products that will enable greater fuel savings and longer life (up to a million kilometres), greater speed in product renewal, the availability of high-tech production platforms in fast developing countries. These results will be possible thanks to new steel cord materials and structures, the use of biomaterials and innovative reinforcing fibres, the registration of over 30 patents relative to structure, material and compounds innovation, new green solutions for trucks and the use of the Cyber Tyre also in this segment.

## **PIRELLI WILL CREATE VALUE THROUGH SUSTAINABILITY ...**

For Pirelli, sustainability and corporate governance lead and contribute to the achievement of the Industrial Plan's goals and to value creation.

In particular, between 2011 and 2013, Pirelli will launch a **new action plan of environmental, social and economic sustainability**.

In its **production systems**, Pirelli will continue to increase the use of raw materials with low environmental impact and processes that will bring by 2015 a **reduction of 35% in the consumption of water and 15% in energy, with a cut in CO2 emissions of 15% compared with 2009**. This roadmap defining and controlling the group's **energy policy** will also be supported from 2011 by the full operation of the new technology hub at **Settimo Torinese, the world's most eco-efficient tyre factory** which will also be a model for Pirelli's other production facilities.

On the **social front**, existing plans for safety in the workplace will be further enhanced through programmes, reviewed each year, of prevention and training in the plants, while in the **human resources** area will introduce policies to increase equal opportunity in management and favour better quality of life both inside and outside the company. Sustainable management will be extended to the **supply chain** also through audits conducted by independent external bodies that will verify that suppliers meet the standards required by the group. In the context of **relationships with local and international communities**, cooperation with government and non-government authorities will be strengthened with a view to sharing sustainable development initiatives, as was done in the case of the UN refugee commission cooperation projects

This year, for the fourth consecutive time, Pirelli was confirmed world sustainability leader in the 'Auto Parts and Tyre' sector of the Dow Jones Sustainability Stoxx and Dow Jones Sustainability World indices. The areas of **excellence** recognized were **corporate governance, code of conduct and self-regulation, quality of working environment, sustainability of the 'supply chain' and the development of human capital**.

As a consequence, Pirelli is today widely held in the portfolios of socially responsible investors in Europe and North America (approximately 6.0% of the market float).

## **...AND CORPORATE GOVERNANCE**

Pirelli's corporate governance is based on three elements: the centrality of **the Board of Directors in defining strategic direction and the supervision of management**, an effective **risk management** process, and a **top management compensation policy strongly linked to value creation in the long term**.

With regard to risk management, Pirelli has seen to it that the governance of risks that could interfere with or jeopardize the achievement of the company's objectives, that is, that could impact strategic business assets, is treated as an integral part of the industrial plan development process contributing, for example, to the definition of targets.

The incentive plans involve all group managers and are closely linked to medium/long term objectives. To begin with, over 35% of managers' compensation is variable and of this over 70% is connected to the achievement of financial targets in the 2011-2013 industrial plan.

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