



PRESS RELEASE

**PIRELLI: THE FIRST ROAD TYRE DERIVED FROM
FORMULA ONE ARRIVES**

**WITH P ZERO SILVER THE COMPANY CONSOLIDATES ITS LEADERSHIP IN THE PREMIUM SEGMENT
THE PHASES OF TYRE PRODUCTION "TOLD" THROUGH AN ARTISTIC INSTALLATION WHICH REVEALS
ITS "INVISIBLE HEART": TECHNOLOGY, THE HAND AND CREATIVITY**

**PIRELLI STRENGTHENS ITS POSITION IN THE TOP-OF-THE-RANGE SEGMENT, THE MARKET'S MOST
PROFITABLE AND LEAST CYCLICAL**

**PIRELLI HAS INVESTED IN ALL THE MAIN AREAS OF THE WORLD 1.5 BILLION EUROS IN THE PERIOD
2006-2010, DESTINED TO BECOME 1.9 BILLION IN THE 5-YEAR PERIOD 2011-2015, OF WHICH OVER 500
MILLION THIS YEAR**

Milan, 8 September 2011 – The return of Pirelli to Formula One, for which the Italian group is exclusive supplier for the 3-year period 2011-2013, has placed the tyre at the centre of attention for sports' lovers and drivers around the world. Pirelli has demonstrated, also in virtue of the tyres required by the Formula One teams for this season, how tyres are fundamental in determining the performance of a car. An ever vaster public, gran prix after gran prix, has seen that tyres, sports ones and those destined for road use, are not simply "things that are black and round", but a fundamental and sophisticated component of the vehicle, capable of making the difference in terms both of performance and safety. A product which includes research, advanced technology and complex production processes, at the same time rich in manual activities and highly automated processes, of artisanal knowledge and hi-tech innovation.

To highlight all these aspects, illustrate the activities and strategies that are at the base of the planning, development and production of tyres "made in Bicocca" and to present a new tyre which is born of the experience in Formula One and destined for the premium market, Pirelli has chosen an original form of communication and an exceptional setting: the Hangar Bicocca, one of the most prestigious exhibition spaces for contemporary art at the international level.

The phases and components of the production process at the base of every tyre have been synthesized through a series of representations (graphic elaborations, films, multi-media installations realized by the art groups N!03 and Invernomuto) in an area of over 1,000 square metres. From the use of raw materials, to the phases of research and planning, from the manual skill of the

“sgorbiatori”, the tradesmen who carve tread prototypes, to the end product. The language of contemporary art becomes an instrument of interpretation, story-telling and dissemination of the processes of research and industrial production, to reveal to the general public that which at first sight does not appear and which Pirelli has called “The invisible heart of a tyre”. An industrial reality as fascinating as it is complex.

The decision to focus on the premium segment, in fact, requires Pirelli to develop and introduce onto the market products which are always more sophisticated in a macro-economic scenario of reference in constant and rapid evolution.

In this sense, the recent technological experiences gained in the Gran Prix represented a further opportunity, supplying indications and leads for Pirelli researchers in the development of a new high-performance tyre which broadens the group’s premium range: the P Zero Silver, the first road tyre derived directly from Formula One tyres, which is the latest offspring of the P Zero family with which it shares not only the name and aesthetic references, but above all the planning models and material technology and production processes. In particular, the modeling and relative data, gathered Gran Prix after Gran Prix, allowed for a faster development of the new tyre, reducing the time required from the two years normally taken up by this phase to only a few months, and to verify their performance in the laboratory, giving new competitive advantages to Pirelli: greater speed in the execution of new products and the availability of a process of planning tested at the highest sporting levels, particularly suited to high performance tyres.

The event, together with the presentation of the new tyre, took place today with the participation of Marco Tronchetti Provera, chairman and CEO of Pirelli, Francesco Gori, CEO of Pirelli Tyre, the economist Jean-Paul Fitoussi, Stefano Domenicali, technical director of Team Ferrari, Jenson Button, Team McLaren driver, and Severino Salvemini, professor of company organization at Milan’s Bocconi University and culture expert. In particular, the chairman of Pirelli illustrated the group’s strategy and more generally reflected on the role and competitiveness of the industry, also in light of the present macro-economic scenario. Domenicali and Button underlined the fundamental contribution that the tyres make to the performance of the cars and explained the interaction between tyre and car. Fitoussi illustrated what the role of a multi-national company could be and the significance of industry in the present context. Salvemini insisted on the evolution of the concept of product quality and the transformation of consumption.

The exhibition was also an occasion to underline the links between men, machines, production and markets; a combination of factors that becomes a protagonist, almost as an entity unto itself, of every industrial reality with a history and tradition. Where passion and reason, calculation and risk, vision, courage and pragmatism, find that right balance which is at the base of every great challenge and which literature, in particular, when industry is a theme, has been able to capture in some of its highest and most representative moments, some of which have been interpreted by the actress Licia Maglietta.

P Zero Silver, from the track to the road

As a tradition for the Italian group, which has always developed products for the road also thanks to sporting experiences, P Zero Silver transfers to all drivers the main innovations introduced by Pirelli into the process of development and production for Formula One, a process that during the season has guaranteed a constant and speedy evolution of the product offered to the Teams.

What the P Zero Silver shares with the tyres of the Gran Prix is the modelling process, that is the phase in which the tyre is imagined and developed with the aid of sophisticated mathematical models, the technology of development and production of compounds, and the construction process. In particular, the new tyre will be produced at the Settimo Torinese industrial and technology hub, the Pirelli group's most advanced research and manufacturing plant in the world, where all the compounds for Formula One are currently produced, to be then assembled at the Sporting hub in Izmit, Turkey.

The latest offspring of the P Zero family (*more information in the attached table*), which guarantees performance, greater durability and lower environmental impact, will be on sale in a limited edition from Spring 2012 and was developed to respond to the ever more differentiated needs of the highest market segment, increasing the Italian group's premium range and consolidating its strategy of further growth in that segment in all geographic areas.

Pirelli's premium strategy

The greater focus on the premium market resulted in first half sales, also boosted by the participation in Formula One, rising in the segment by over 30% compared with the same period a year earlier. In particular in the first half of this year group high-end sales rose from 60% to 65% in **Europe**, which represents the biggest market for this segment in the world. The premium segment, which is the part of the market with the highest margins, is seen growing also in the coming years at a speed more than double that of the total tyre market. The high end segment, in fact, has shown in recent years a less cyclical performance than standard products, emphasizing the less cyclical nature of the tyre sector in general compared with the auto sector.

In the decade 2000-2010, the world auto market grew at an average annual rate of 2%, passing from 56 million cars sold to 69 million, while the tyre market grew at an average rate of +2.8%, passing from 925 million euros to 1.22 billion euros. The high end auto segment grew over the same period by 2.8%, bringing its quota of total sales from 11% to 12%, while premium tyres grew by an average 4.7% per year. The different speeds of the car and tyre markets become even more evident in the years when the market contracted. In 2009, the tyre segment experienced a sales decline of 10% while auto sales fell by 22%.

The combination of these factors which see the tyre industry differentiate itself from the auto segment and the premium segment grow at a faster rate than the total tyre market, is destined not only to be confirmed in the coming years, but to become more intense. The high end tyre market, in fact, benefits from the ever greater diversification of the demands of the end consumer. In mature markets, as in growing economies, the evolution of styles of consumption offers, in fact, new

business opportunities, as they redefine the premium segment, associating it no longer solely to performance and luxury, but to products always more linked to questions of sustainability and safety, areas well presided by Pirelli thanks to its avant-garde skill and technology. This last piece of data was also confirmed in recent research carried out by one of the most authoritative tyre sector magazines *Neue Reifenzeitung* and presented to the Association of German automakers (Vda). This research, which collects the tests on tyres carried out around the world by certification authorities and sector press, underlines Pirelli's first place in the reduction of a tyre's rolling resistance, with a consequent reduction of fuel consumption and therefore of harmful emissions, and in the improvement of performance in the wet, an essential factor for safety. Further, they influence the broadening of the high-end tyre market, not only the growing and always more differentiated demand for high performance tyres, a consequence of the greater spread of high cylinder cars and SUVs, there is also an increase in the demand for winter tyres and tyres of low environmental impact. The phenomenon of the spread of "green" tyres is linked not only to ever more stringent rules, but also the change of consumer sensibilities towards ecological issues.

The traditional positioning of Pirelli in the highest market segment makes the Italian group one of the leaders at the world level in the high performance tyre sector and number one in the prestige segment, that is the one destined for marques like Aston Martin, Bentley, Ferrari, Lamborghini, Lotus, Maserati, McLaren and Porsche.

Pirelli's global strategy, responding to the evolution of markets

To maximize its growth strategy, Pirelli relies on an efficient and strategic distribution of its production sites in the different areas of the world and on continuous investments in research and development which allow the group to anticipate and deal with the continuous changes in the international scenario with the maximum efficiency.

This investment, which annually amounts to around 3% of the total sales of Pirelli Tyre and place Pirelli at the top level of investment in this area, allowing the company to use technologically advanced plants and systems of production, such as Mirs and the computerized system for compounds (CCM) among the most evolved in the tyre industry worldwide, and to continually innovate its range of high performance products, not only in the auto sector but also in truck and motorcycle, increasing competitiveness in all markets.

In the period 2006-2010, Pirelli invested a total 1.5 billion euros in all geographic areas, differentiating the type of investment based on the needs and the characteristics of single markets. This strategy is destined to intensify over the period 2011-2015 with investment foreseen at 1.9 billion euros, of which over 500 million already by the end of this year. The group's investments are distributed in **Europe**, **South America**, the **Nafta** area, **Far East**, the **MEA** area and **Russia** and have followed two objectives, each complimentary to the other: increasing production capacity of the premium range in all markets and the localization of the greater part of that additional capacity in areas of fast growth, in order to satisfy the rapid increase of demand.

In Europe, where 760 million euros have been invested since 2006, Pirelli has rationalized its industrial presence, aiming to improve productivity and competitiveness of the sites and enriching the

premium range, both increasing the range of high end tyres and developing innovative solutions, like the Cyber Tyre, the intelligent tyre capable of “reading” the road and of adapting the car’s performance to the continuing change in driving conditions. The growth strategy in Europe is focused in certain countries in particular: in Germany where investments have brought a development of plant efficiency at Breuberg, which hosts the production of high performance tyres for cars and motorcycles; in Italy, where the Settimo Torinese hub has been established, for which the group invested around 160 million euros; in Rumania, where since 2005 investment has been 300 million euros for the car and steelcord plants in Slatina, destined to reach 450 million by 2014.

The premium strategy adopted by Pirelli in the **Nafta** area is similar, where the group counts on the Mirs plant in Rome, Georgia, and on the new industrial hub in Guanajuato, Mexico, destined to satisfy all the markets of this area, with a production capacity foreseen at 5 million pieces per year by 2015. The Mexican plant will allow in this way the South American plants – a part of whose production is today aimed at **North America** – to concentrate on local demand.

This local-for-local strategy takes on particular relevance in Brazil. The major South American market has, in fact, undergone profound social and economic changes which, together with a strengthening of its currency, impacted industrial costs, which are constantly rising, and favour, at the same time, the expansion of the middle and well-off classes in the country and the local premium market, which until now had been little developed. Satisfying the growing demand for high-end tyres permit the group to recoup those points of profitability possibly lost as a result of diminished industrial competitiveness. Not by chance, Pirelli recently began production also in **Latin America** of ‘green performance’ tyres, which will be a part of the premium range and by 2015 will account for 50% of local production.

The other “engine of the world” which combines favourable industrial costs with an explosion in demand is China, where some of the major car makers are increasing their production with the opening of new plants. The rest of **South East Asia** and **India** present conditions of capacity and industrial costs which are favourable, but do not yet represent an entry market because of their lack of infrastructures capable of permitting the development of demand that would justify investment in this phase.

In **Russia**, to satisfy growing local demand, Pirelli signed an agreement with Russian Technologies to acquire production plants from Sibur Holding for car tyres for a total production of 11 million pieces by 2014. This production, which will focus on winter tyres, is destined to the markets of **Northern Europe** and the countries of the **CIS**.

The evolution of the macro-economic framework and the central role of industry: the crisis as opportunity

During the course of the event “the invisible heart of a tyre” and the presentation of the P Zero Silver, particular attention was given to the rapid evolution of the world economic scenario and assets. A picture emerged in which the current crisis of the western model can find a way forward, transforming itself into an opportunity, only through the construction of new economic systems which

are more virtuous and which, among other things, are able to bring manufacturing back to the centre of economic strategies, which have for too long been dominated by financial markets.

This evolution was developed, in its main economic and social implications, by the economist Fitoussi who underlined the changes which have taken place in the European and international economic scenario and the consequences for manufacturing industry. “The products have changed but also the manner of producing them – Fitoussi said. “And the centre stage is being once again occupied by the value of work and the development of relations between new technologies and manual, artisanal skills”.

Art and industry, the role of labour

Today’s event also brought out the traits that art and industry have in common. First of all, the ability to put together different elements: manual work, the ability to imagine the future and creativity. And it was for this reason that Pirelli chose to present its new tyre in a space like the Hangar which was transformed from an industrial structure to a place of contrast between different cultures and for the elaboration of new art forms. A link between art and industry, man and machine, captured also in great literature, as shown in the readings of Licia Maglietta (*see attached documents for the texts*).

Between art and industry, that which is more attentive and socially responsible, there exists another profound link: the capacity to understand and anticipate cultural and social change, in a reciprocal exchange of sensibility and language. “Art – as stated by Severino Salvemini – has the long view on the evolution of world scenarios and the relationships between people and captures its least visible signals. The companies that know how to create relationships of listening and participation with contemporary art have a greater chance of seeing in advance the signs of change in the culture, customs, needs and values of man and adapt to the evolution of markets: an additional tool for competitiveness in a world that is changing.”

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