PRESS RELEASE

PIRELLI: AIMS FOR WORLD LEADERSHIP IN THE PREMIUM SEGMENT IN 2015, UPDATED INDUSTRIAL PLAN AND VISION TO 2015 WITH NEW TARGETS FOR 2012-2014

INNOVATIVE MARKETING, STRENGTH OF BRAND, NEW PRODUCTS, LEADING EDGE TECHNOLOGY, OPTIMISATION OF PRODUCTION AND EFFICIENT GEOGRAPHICAL LOCATION AS DRIVERS FOR GROWTH

INCREASING INVESTMENT UP TO A VALUE OF 2.2 BILLION EURO FOR THE PERIOD 2011 AND 2015 (2.4 BILLION EURO INCLUDING INDUSTRIAL INVESTMENTS IN RUSSIA) COMPARED WITH 1.9 BILLION EURO FOR THE PREVIOUS PLAN

IN 2015, A CONSOLIDATED EBIT MARGIN GREATER THAN 16% (COMPARED WITH 8.4% FOR 2010) DUE TO FOCUS ON THE PREMIUM SEGMENT, USE OF PRICE/MIX COMPONENT AND GROWTH OF THE CONSUMER SEGMENT AND REPLACEMENT CHANNEL

PROFITABILITY WILL INCREASE IN ALL REGIONS, EQUALLY BALANCED BETWEEN EMERGING AND MATURE MARKETS, WITH THE BIGGEST CONTRIBUTION FROM EUROPE, AS THE BIGGEST PREMIUM MARKET WORLDWIDE

IN EUROPE IN 2015, 80% OF CONSUMER REVENUES WILL COME FROM PREMIUM SEGMENT

STRENGTHENING OF PRESENCE IN RAPIDLY DEVELOPING ECONOMIES: AFTER RUSSIA AND ARGENTINA, NEW MOTO PROJECT IN INDONESIA

IN THE CAR SEGMENT IN 2015, 64% OF PREMIUM CAPACITY WILL BE LOCATED IN NEW PLANTS

INCREASED CASH GENERATION COMPARED WITH THE PREVIOUS PLAN: DESPITE FURTHER INVESTMENTS, THE NET DEBT/EBITDA RATIO IN 2015 WILL BE OF APPROX. 0.4, ONE OF THE BEST OF THE SECTOR

ESTIMATED EFFICIENCIES FOR A TOTAL 250 MILLION BETWEEN 2012 AND 2014

'CONTINGENCY PLAN' READY IF THE 2012 SLOWDOWN EVOLVES INTO A CRISIS IN DEMAND

THE PIRELLI BRAND VALUED AT 2.27 BILLION EURO, WILL SUSTAIN GROWTH IN THE PREMIUM SEGMENT

Milan, London, 09 November 2011 – The Board of Directors of Pirelli & C. has approved the Industrial Plan and vision to 2015 and the updated targets for 2012-2014. The plan was presented today to the financial community by the Chairman and CEO of Pirelli & C., *Marco Tronchetti Provera, the Coo, Francesco Gori, Director of Research and Development, Maurizio Boiocchi, and the Director for Planning & Management Control, Maurizio Sala.*

THE PIRELLI PLAN IN BRIEF

"Pirelli **aims to become world leader in the Premium segment in 2015,** confirming the focused strategy presented in last year's industrial plan.
In order to achieve these objectives, Pirelli aims to focus on: **further drive on technological innovation which will create an unprecedented increase in the product range** able to satisfy both ever-more sophisticated demands of a mature market such as Europe and the increasing demand for Premium products in rapidly developing markets. The launch of 18 products is planned for the Car segment by 2015, taking this business unit to 57% of all sales generated from new projects. **As well as products and technology, Pirelli aims to optimise its production capacity and geographical presence with always newer plants (64% of Premium car capacity will be allocated to new plants) localised in countries with not only increasing demand but also favourable industrial costs.** The new on-going projects in Russia (car), Mexico (car), Argentina (truck) and the new plant to be opened in Indonesia (moto) are also included in this strategy. The **Moto business unit aims to consolidate its leadership position in the Premium segment, especially in Europe,** confirming its role as a technological innovator while maintaining high levels of profitability. **The Industrial business unit aims to achieve leadership based on technology aimed at the key markets with a focus on rapidly developing economies.**
The brand value, estimated at 2.27 billion Euro, will also support innovative marketing strategies aimed both at the consumer and trade, facilitating segmentation, market enlargement and creation of brand loyalty in the client base.
Due to a focus on the Premium segment, the use of price/mix component, growth of the Consumer and Auto Parts channels which are more profitable and less cyclical, Pirelli foresees an increase in revenues and profitability for 2015. The EBIT margin for 2015 will be greater than 16%, almost double the 2010 figure of 8.4% and one of the best in the industry. Profitability will increase in all regions with a balance between mature and emerging markets. In all regions, the impact of the premium segment will increase, especially in Europe. Indeed, in 2015, this region will generate 80% of Consumer revenues for this segment.
The strong cash generation foreseen from today to 2015 (3.2 billion Euro compared with 2.1 billion in the previous Industrial Plan) will consent not only to sustain a significant and increasing investment plan (up to 2.4 billion Euro compared with 1.9 billion Euro of the previous Industrial Plan), but also to further improve the already solid financial position by reducing the Debt/EBITDA ratio to 0.4 in 2015 (compared with 0.7% in 2010). Further contribution will come from an efficiency plan of 250 million Euro between 2012 and 2014.
In a market showing signs of deceleration, even though not at crisis levels, Pirelli has also prepared a **'Contingency Plan' to guarantee optimal flexibility** in managing any worsening of the negative trend".

THE YEAR 2011: PIRELLI EVER MORE A 'PREMIUM PLAYER', CONFIRMS LAST YEAR'S FORECASTED TRENDS FOR THE TYRE SECTOR

The strategies outlined in last year's industrial plan, and in particular regarding the focus on the Premium segment, have consented the achievement of important results already in 2011. **For the second consecutive year, Pirelli has managed to reach its target of profitability one year ahead of schedule:** a forecast consolidated profitability margin (EBIT) at end 2011 of approx. 10% compared with "less than 10%" forecast for the 2012 target in the previous plan. **This result has been achieved by the acceleration of key value strategies during this year of activity**: particularly, **focusing on the Premium segment and the progressive rebalancing of profitability in different geographical regions.** Driven by the success in the Formula 1, **the Pirelli's Premium market share in Europe represents the largest for this sector in the world, having grown approx. 13% in 2010 and 14% as of 30 September 2011. In the first nine months of 2011 premium volumes grew by 21.5% with a corresponding increase of revenues of 30%.** ***The development of Premium products — particularly the 'Winter' and Ultra-high performance product lines — has been accompanied by a progressive abandonment of less profitable products and the increased rationalisation of contracts pertaining to the Original Equipment sector.***

The underlying trends identified in last year's industrial plan have been confirmed:

- **growth is spurred by rapidly developing economies**
  In the period 2012-2015 the contribution of rapidly developing economies to the global economy is forecast to increase to 70% compared with 65% forecast for last year. The average annual increase in GDP for China, particularly in the period 2010 - 2015 is 8.4%, followed by South America (+4.6%), by the Middle East-North Africa (+4.9%) and Russia and the CIS area (+4.1%) compared with more moderate growth in mature markets such as the USA (+2.7%) and Europe (+1.7%). **Presently, difficulties are foreseen for the global situation which will create a slowdown in 2012 but not at crisis levels.**
- **the tyre sector is more profitable and less cyclical compared to the auto sector**
  Sales in the tyre sector, which are strongly influenced by the Replacement channel, **are more flexible and less vulnerable to eventual deceleration than the auto sector.** This ensures a higher structural profitability. The EBIT margin of the 10 main tyre manufacturers is forecast as of 31 December 2011 at 9% compared with 6.4% for the 10 main auto manufacturers (9.3% compared with a forecast of 6% for 2012). **Greatest profitability is found in the Premium segment**, where the profitability of the leading tyre manufacturers in this category for 2011 is forecast at 15.8%, compared with 10.8% for leading manufacturers of Premium vehicles (figures of 14.9% compared with 9.5% forecast for end of 2012). In the Replacement channel, which currently represents 74% of Pirelli sales, the high-end segment is increasing more than the total market rate, even with a deceleration of the market.
- **the Premium segment is always more widespread with Consumer and the growing Premium vehicles fleet**
  Thanks to the emergence of new models of consumption in rapidly growing countries more oriented towards high-end products **the Premium car park in circulation continues to grow more rapidly than the standard segment:** in particular, between 2011 and 2015 growth in this segment is forecast at an annual 4.7% compared with growth of 3.6% forecast for the non-premium car park. Similar results for the global market of Premium tyres which grew at an annual 9.4% compared with 1.8% in the standard segment in the period 2007-2011. In the period 2011-2015 a figure of annual 9.6% is estimated compared to 3.7% for the standard segment.
- **consolidation of 'trading blocks'**
  In a scenario of economic slowdown, 'trading blocks' are further consolidated **and protectionist measures are implemented (tariff barriers** or other measures such as technical prerequisites, certification of products, increased administrative costs attributable to import procedures) **which encourage the adoption of a 'local for local' strategy as a countermeasure.**

THE PIRELLI ACTION PLAN TO BECOME GLOBAL LEADER IN THE PREMIUM SECTOR IN 2015

Considering the results of 2011 and taking into consideration the macroeconomic scenario, Pirelli has decided to update its industrial plan with the aim of capturing a global leadership position in the Premium segment in 2015 by implementing the following actions:

- **new, leading edge products and technologies**: to date Pirelli can count on **40 years of experience in the Premium segment, on partnerships for Original Equipment with leading German Premium auto manufacturers** developed through the Pirelli R&D centre in Germany, on a **R&D budget entirely dedicated to this segment and on 1,200 full-time researchers worldwide**, doubled if considering persons involved in 'open innovation' projects in conjunction with research centres and universities or other auto manufacturers. **Pirelli also has consolidated agreements with 14 university research centres worldwide, numerous research projects in conjunction with suppliers and university research centres and over 100 partnerships with Premium vehicle manufacturers in the Original Equipment segment.** Due to these links, over 150 projects on materials, processes and software development are currently on-going. Even **Formula 1 represents an important driver for innovation**, especially in **modelling and mixing processes** which permit the acquisition of experience which is transferable also to standard road models. **Pirelli will focus on:**

    - the strength of **its own Research network**, fully integrating regional centres with the Milan R&D centre;
    - **leadership in innovative materials** through the study of polymers, fillers and chemical agents;
    - **leadership in green materials** with research into biomaterials (rice silica, natural rubber from sources alternative to the rubber tree) and recycling. The use of natural rubber from alternative sources will allow greater flexibility in coping with any scarcity of raw materials;
    - avant-guard **modelling through simulation** will permit further reduction the in 'time-to-market' period, will improve project quality and will increase performance in line with the highest requirements;
    - **development of production processes** (e.g. the new generation of Mirs, robotic processes exclusive to Pirelli, or the extension of the Ptsm process which is the evolution of the Ccm - Continuous Compound Mixing System);
    - **electronic tyres** (e.g. the microchip incorporated in the Cyber Tyre, which identifies different road surface conditions and relays important information to the vehicle).

Consolidation of product excellence will result in different degrees of improvement depending on the type of tyre in terms of rolling resistance, reduced weight, performance per kilometre, braking power on wet and dry surfaces, reduced CO2 emissions and durability. **The ability to use all these levers in tyre manufacturing (materials, processes, construction, modelling) will permit not only the improvement in the product performance but will also increase efficiency, estimated at 75 million Euros between 2012 and 2014;**

- **optimisation of production capacity and geographical presence**: a productive presence in rapidly developing countries will allow Pirelli to take advantage of the opportunities of these economies and satisfy local demand by implementing a 'local for local' strategy, to reduce the effects of protectionist measures imposed by different 'trading blocks', to favour competitive industrial costs and to stabilise fluctuations in global monetary exchange rates.
  Pirelli aims to develop a 'local for local' strategy by adapting its production in function with the typology of regional demand, thus benefiting from lower logistics costs, better level of service and lower levels of stock in transit. 'Local for local' production will also permit lower industrial costs for plants in rapidly developing countries. In this perspective, Pirelli is well-positioned and ready to benefit from further advantages generated from new project development such as Russia (car), Argentina (truck), Indonesia (moto);

- new models of consumer marketing/distribution and brand strength: **Pirelli has chosen to add consumer marketing to its traditional industrial levers,** which has permitted "segmentation" of the Premium client and the analysis of clients' needs and behaviour when purchasing. **This is translated into stronger client proximity and consolidation of brand loyalty through the application of new innovative product communication instruments, digital marketing and CRM activities.** Furthermore, Pirelli will launch an affiliation programme in its existing sales points and will open new 'Pirelli stores' in the major international cities. Already a powerful and well-known brand name at an international level, **Pirelli aims to use the advantage of its brand as a driver to favour growth in the Premium segment. The Pirelli brand has been estimated by Interbrand at a current value of 2.27 billion Euros, with an increase of 26% compared with 2010, half of which is attributable to the presence in F1.** This represents one of the prime motivations to purchase products bearing the long P logo. In the coming years, measures will be taken to increase this brand value to assist growth in all markets. According to the Interbrand figures, **the Pirelli brand is 15% more effective than other brands in the choice of tyre purchases** mainly due to the consumer's perception of a Premium brand particularly appreciated for its sporting, glamorous and prestigious image. Marketing expenditure is forecast to double in future to increase the brand's fame in all key Premium markets, optimization the allocation between advertising and digital marketing and creating strong synergies between tyres (Pirelli), Fashion (P Zero), the Pirelli calendar and Formula 1.In particular, **participation in Formula One activities is estimated to create visibility of the Pirelli brand with media value worth 300 million Euros at an 'mid range value' with its greatest effect on sales in the Premium segment, which have already increased by 30% in the first 9 months of this year.**

All of these activities will be conducted through a new and optimised management organisation, taking into consideration the transformation of Pirelli into a 'pure Tyre company' and the increasingly varied matrices created by different business units and geographical macroareas. **The new organisation will overcome any differentiation between the 'corporate' and 'tyre' areas by reducing the management chain**, improving the definition of management roles and maximising management effectiveness. **This new organisation will also include the creation of an "executive office" for the strategic overseeing of all activities. This will be constituted by the Chief Executive Officer, Marco Tronchetti Provera, and the Chief Operating Officer, Francesco Gori, to whom all business structures will be channelled,** to allow greater rationalisation of the operations of the different business units and geographical macroareas.

PIRELLI IN NUMBERS: EBIT MARGIN AND ROI INCREASING STRONGLY

In 2015 Pirelli will register an EBIT margin greater than 16%, almost double the 2010 figure of 8.4%, one of the best in the sector, and a return on investment of approx. 30%, almost three times the figure of 11.5% of 2010. The actions envisaged by this plan **will also permit consolidation of the financial structure, reducing the debt/EBITDA ratio to 0.4,** compared with 0.7 in 2010. **Due to increased cash generation, this ratio will be achieved even considering investment costs of 2.2 billion Euros and the Russia project and the distribution of 800 million Euros in dividends.**

Updated consolidated targets for 2012-2014

		*2011*E*	*2012E*	*2014E*	*Cagr 2011-14E*
Total revenues	(in Euro)	< 5,8 bln	~ 6.7 bln	~ 7.7 bln	10%
Growth rate			16%	10%	
of which Russia			*~6%*	*2%*	
of which volumes		*+3%*	*2%*	*3%*	
of which Premium		*+23%*	*+20%*	*+17%*	
with a price/mix ratio		*~18%*	*8%*	*5%*	
EBITDA %		~ 14 %	15%÷16%	19%÷20%	
EBIT %		~ 10%	11%÷12%	~15% ÷ ~16%	
of which Russia			*mid single digit*	*14 ÷ 15*	

As seen in the table, **Pirelli envisages an annual increase in total revenues of 10% concentrated in the Premium segment due to its strategy of selective growth and the application of a price/mix component.** Volumes will grow 3% annually, with a +17% growth in the Premium segment.
A focus on this segment will produce a constant improvement in the mix which remains one of the fundamental drivers for the increase in profitability envisaged by Pirelli together with the increased impact of the Consumer and Replacement channel which are more profitable and less cyclical. By 2014 the Consumer segment will represent 75% of total sales, with an increase of 5 percentage point compared with 2011. **At the same time, a more selective strategy towards Original Equipment will be adopted with a focus on key Premium clients.** The Replacement channel will show an increase from 74% to 79%, with a 5 percentage point increase similar to that of the Consumer segment.

This strategy will allow Pirelli to register growth in total revenues in 2012 of 16% (10% excluding Russia) **and an EBIT margin between 11% and 12%,** anticipating by one year the previous industrial plan; **by 2014 an EBIT margin between 15% and 16%, with an average annual growth of 25%** and a contribution derived from the Consumer sector equal to 82%, a 6 percentage point increase compared with 2011.

Updated target for Tyre 2012-2014 by segment (Consumer and Industrial)

	2011E	2012E	2014E	Cagr 2011-14
Total revenues (in Euro)	>5,7 bln	~ 6,7 bln	~ 7,7 bln	10%
% industrial	30%	27%	25%	
% consumer	70%	73%	75%	
Ebit margin	~ 11%	11%÷12%	15%÷16%	
After Restructuring expenses				
% industrial	24%	21%	18%	
% consumer	76%	79%	82%	

For the Tyre segment (Consumer and Industrial) **in 2011-2014 an average annual growth of total revenues of 10% is envisaged** with sales in growth for approx. 7.7 billion Euros at the end of this period, **of which 25% deriving from the Industrial sector and 75% from the Consumer sector**.

Thanks to the focus on the Premium segment and the continued improvement in efficiency, **the EBIT margin after restructuring expenses is envisaged to grow from an estimated approx. value of 11% at the end of 2011 to 15%÷16% in 2014,** with 18% deriving from the Industrial segment and 82% from the Consumer segment.
Pirelli envisages doubling its EBIT during the three-year period 2012-2014: considering an "index value of 100" for the 2011 EBIT, the 2014 EBIT value is estimated at 195, of which 110 generated from the Premium segment.

Internal efficiency will permit compensation of inflation and costs, while a careful pricing policy will compensate for the increased impact of raw materials and the impact of fluctuation in monetary exchange rates.

These are the prime targets for the various segments

Consumer

	2011E	**2012E**	**2014E**	**Cagr 2011-14**
Total revenues (in Euro)	4.0 bln	~4.9 bln	~5.8 bln	13% (10% exclude. Russia)
% moto	10%	10%	10%	
% car	90%	90%	90%	
Ebit margin After Restructuring expenses	**~ 12%**	**12.5%÷13.5%**	**16.5%÷17.5%**	

During the three-year period 2012-2014 **the average annual growth in total revenues in the Consumer segment is estimated at 13%** (10% excluding Russia). **Also in this case, it will be the Premium segment which will drive the other segments with growth in all regions, both in mature markets and in rapidly developing economies where there is a growing demand for Premium products.**
Profitability, estimated at around 12% in 2011 (two years ahead of the target set in the previous industrial plan), **will grow further to reach a level between 16.5% and 17.5% in 2014.**
In the Consumer segment the EBIT is expected to increase more than twofold in the same three-year period: considering an " index value of 100" **for the 2011 EBIT, the 2014 EBIT value is estimated at 210.**

Industrial

	2011E	**2012E**	**2014E**	**Cagr 2011-14**
Total revenues (in Euro)	1,68 bln	1,75 bln	1,89 bln	4%
% agro	12%	13%	13%	
% truck	88%	87%	87%	
Margin on operating earnings After Restructuring expenses	**~ 9%**	**9%÷10%**	**11%÷12%**	

A focus on the Industrial segment in the emerging markets, which represent 77% of sales for this segment, **will consent greater resilience to any reduction in market demand. Despite the political situation in the Middle East and Africa and the recent slowdowns in some markets, profitability for 2011 is estimated at only one point less than the figure presented in the previous industrial plan: Pirelli aims to recuperate this reduction in the three-year period** and to reach a level of profitability between 11% and 12% by 2014 which represented the 2013 target of the previous plan.

The improvement in the EBIT envisaged for the Industrial segment is based on increasing efficiency and on careful management of the price/mix component to compensate for the

increased costs of raw materials and other general costs: considering an "index value of 100" for the 2011 EBIT, the 2014 EBIT value is estimated at 145.

Investments

These actions of the plan will be sustained by investments in growth as outlined in the previous plan presented in November 2010.
In the five-year period 2011 - 2015, Pirelli plans to invest a total of up to 2.2 billion Euros (more than the 1.9 billion Euros of the previous plan).**These figures exclude the resources destined for the Russia project,** of approximately 200 million Euros in industrial investment (mix and quality) between 2012 and 2014 (not included in the previous plan). **Including the Russia project, total investments to 2015 are therefore 2.4 billion Euros. The Russia project also entails financial investment for the asset acquisitions (55 million Euros by 2011 and 167 million Euros by 2012).**

In 2015, Pirelli will have a production capacity of 74 million pieces in the consumer segment to which 10 million pieces envisaged from the Russia project must be added. The Industrial segment will have a capacity of 6.8 million pieces.

The Efficiency Plan

In the period 2012-2014 an Efficiency Plan equivalent to a total of 250 million, of which 120 million in 2012, which is twice the figure envisaged in the previous plan, and the remaining 130 million distributed over the period 2013 - 2014. This level of efficiency will be achieved by measures aimed at raw materials (use of alternative raw materials, reduction in the consumption of materials, waste and weight reduction), by improving labour productivity (optimisation of production processes, introduction of best practices in all plants, new plants designed to optimise efficiency), the reduction of fixed general and administrative costs by increasing allocation of production to countries with more competitive industrial costs.

Increased cash generation

Between 2011 and 2015 cash generation superior to that envisaged in the previous plan are expected: 3.2 billion Euros compared with 2.1 billion Euros. Despite increased investment costs, the planned distribution of a total of 800 million Euro in dividends and the investment in the Russia project, these increased results will produce a net Debt/EBITDA ratio of 0.4 in 2015, which is one of the best in the sector. Expected improvement in operating results and careful management of the working capital will also contribute towards the cash flow.

Improved Net Financial Positioning

Pirelli aims to close the year 2011 with a passive net financial position of approx. 700 million Euros (close to 750 million including investments in Russia). In 2012 total cash flow, including investments of 450 million Euro, will more than compensate for the financial and fiscal costs, which determine a net passive financial position lower than 750 million Euros, excluding investments in Russia and the distribution of dividends. **In 2012** Pirelli expects to invest approx. 250 million Euros to complete the acquisition of assets in Russia and to improve the market mix. **The net financial position at end 2012 including Russia (before distribution of dividends) will be passive for less than one billion Euro, with a net debt /EBITDA ratio of 1.**

The evolution of the financial position to 2015

Considering also the acceleration of investments in Russia, **the net financial position at end of 2013 is estimated at lower than 1.1 billion Euro,** with a debt /EBITDA ratio of approx. 0.9. **Between 2013 and 2015, the further increase derived from the rise in total revenues,** estimated at

2.1 billion Euros compared with 1.3 billion Euros in the previous plan**, will take the financial position in 2015 to a value of 0.6 billion Euros, with a net debt/EBITDA ratio of approx. 0.4** (respectively less than the 0.7 billion Euro and 0.6 in the previous plan).

These figures take into account a **shareholder remuneration policy** for the three-year period 2012-2014 which envisages that it be proposed to the board to distribute approx. 40% of the consolidated net profits. **Already today the structure of the gross debt is 70% at a fixed rate and 30% at a variable rate, with 65% of the debt payable after 2014**. Also thanks to the expected recourse to capital markets, a further extension of maturities is foreseen and a diversification of the sources of financing and the reference currencies.

A 'Contingency Plan' as a flexible response to the evolution of the global situation

To respond with maximum flexibility to economic trends – also taking into account the difficult current situation – **Pirelli has prepared a 'contingency plan'** to be activated if any significant slowdown is shown in the demand for Original Equipment (-10%), a market decrease in the truck sector (-20% annual by volume) or sell out drop over 10%. In the eventuality that this occurs then **Pirelli envisages to act on its investments (with a flexibility of 20% compared to the figures indicated in the plan), on labour costs and on the efficiency plan** (with a reduction of the 'costs programme' for growth included in the plan and other costs).

THE PREMIUM STRATEGY BY BUSINESS UNIT

CAR SEGMENT IN 2015

Pirelli aims to achieve market leadership in 2015 by:

- **developing marketing activities targeting Premium customers**. Pirelli will further segment the Premium clientele with the goal of becoming the point of reference in the decision making phase of acquisition, through initiatives aimed at the consumer and trade. Spending on marketing activities will more than double between 2012 and 2014. All resources, programmes and internal levers of the business unit will be focused on the Premium segment;

- **further broadening of the Premium offering and the development of products capable of satisfying different driving needs,** in line with the growth of the different variables of Premium vehicles and the evolution of consumer models. **The range of products will be widened with unprecedented offerings**, declined through the P Zero, Cinturato, Scorpion and Winter series. **Product innovation will be further accelerated, with the launch of 18 new projects in 5 years compared with 16 in the last 10. By 2015, 57% of sales will derive from new products and the number of products belonging to the Premium category will grow by 28% between 2011 and 2015. Particular attention will be dedicated to Winter** products with the aim of satisfying growing demand: **sales and capacity in this segment are expected to grow by 40% by 2015** (around 90% including Russia) and an increase of the offering (Studdable, Ice, Sottozero, Scorpion Ice);

- development of partnerships in original equipment to support technological leadership and aftermarket activities;

- **by 2015 the Premium production capacity in new plants in rapidly growing economies will increase. In 2015, over 60% of Premium capacity will be located in new plants and 69% will be in countries with competitive industrial costs.** Of the business unit's investment, around 80% will be destined to volumes/quality/mix;

Car targets

The revenues of the Car segment are estimated to grow from an expected 3.5 billion Euros in 2011 to 4.3 billion Euros (including Russia) in 2012 and to 5.1 billion Euros in 2014: at the conclusion of the period the Premium segment will account for 58% of sales compared with 50% in 2011.

The EBIT margin of the Car segment will pass from an expected 12% at the end of 2011 to 13-14% in 2012 and reaching 17-18% at the end of 2014. There will be a noticeable increase in the weight of the Premium segment in the total sales of the various geographical areas: in particular, it will rise from 68% in 2011 to 78% in 2014 in Europe, from 41% to 53% in the Middle East and Africa, from 58% to 71% in the Apac area, from 55% to 66% in the Nafta area and from 13% to 21% in Latam. In Russia, the decline from 41% to 27% is linked to the integration of the legacy volumes of the acquired assets. Russia, Mea and Latam present a great potential upside which Pirelli aims to reap beyond the plant's time horizon.

THE MOTO SEGMENT IN 2015

In the moto segment, the total tyre market is envisaged to grow by an average annual rate of 5.3% between 2011 and 2015, with particularly strong growth in the radial segment.

In 2015, Pirelli aims to consolidate its leadership through the reinforcement of its role as technological innovator, the growth in Asia of the Premium segment and the maintaining of high levels of profitability.

Regional strategy

Thanks to the strength and complementary nature of the two brands in the segment (Pirelli and Metzler) and the continual renewal of the respective product ranges, the plan foresees significant growth in all regions: from Nafta, with its focus on the custom and radial segments, in Asia-Pacific, where in 2012 production of radial moto tyres will begin in China; in Europe where the aim is to consolidate the leadership already achieved. Also under way, is the finalization of a joint venture in Indonesia with PT Astra Otoparts Tbk aimed at the production of conventional motorcycle tyres destined for the Asean markets, where further growth is expected, and for export.

Expected investment in the moto business unit over the period 2012-2014 will be over 60 million Euros (excluding the Indonesia project) and increasing capacity to 13 million pieces in 2011 and

16 million pieces in 2015, with an average annual growth of 5%. In 2015, 88% of production will be in countries with competitive industrial costs, with an increase of 8 points from 2011.

Moto targets

Moto segment revenues are expected to grow from an expected 420 million Euros at the end of 2011 to 480 million Euros at the end of 2012 and 570 million Euros at the end of 2014, with an average annual increase of 10.5%. The EBIT margin in the Moto segment will rise from an expected 17% circa at the end of 2011 to around 17.5% at the end of 2014.

THE INDUSTRIAL SEGMENT IN 2015 (Truck, Agro, Steelcord)

In the Industrial segment, the radial truck tyre market, in particular, between 2011 and 2015, is expected to grow in volumes by an average of 5.1% per year to 165 million pieces at the end of the period.

Pirelli aims for a technology based leadership in key markets, with a focus on rapidly developing economies, and from the development of fleet assistance with ever more personalized services. **In the truck segment, the introduction of all new products based on latest generation SATT technology is foreseen.** This technology was created by Pirelli and has become the standard for low profile ranges. It enables longer tyre life and the optimization of wear levels, in **Agro, radial tyres will be introduced in South America. 80% of sales are expected to derive from the Replacement channel.** In conclusion, Pirelli aims to strategically exploit its know-how in steelcord technology (the metal ribbon used in tyres).

Regional strategy

In South America, where there is growth in tyre imports due to a lack of local capacity, **Pirelli recently announced plans for the construction of a new plant of radial truck tyres in Argentina. In the Emea area,** where growth is driven by Turkey and Egypt and the European market is typified by stringent labelling regulation which will reduce competition from low cost imports, **Pirelli expects to introduce in this area the 01 series, which will fully respond to new European regulations, and an increase of production capacity in Egypt. In China, which represents the major truck tyre market in the world, demand is shifting towards longer wearing tyres rather than low price tyres.** In this area, the strategy foreseen is one supporting retread tyres and a focus on service and assistance to fleets and vehicle concession holders.

The investment foreseen in the truck+agro segment, in the period 2012-2014, is over 400 million Euro and will deliver a capacity increase from 6 million pieces in 2011 to 6.8 million pieces in 2015, with an average annual increase of 4% for radial tyres, partially balanced by a reduction of conventional ones.

Industrial targets

Revenues in the industrial segment are estimated to grow from an expected 1.68 billion Euros at the end of 2011 to 1.75 billion Euros at the end of 2012 and 1.89 billion Euros at the end of 2014, with an average annual increase of 4%. The EBIT margin for the segment will rise from around 9%, expected at the end of 2011, to 11-12% at the end of 2014.

PIRELLI IN THE WORLD

EUROPE: THE WORLD'S BIGGEST PREMIUM MARKET

In Europe, already the biggest Premium market in the world, **all the Consumer businesses will be focused on this segment: by 2015 the revenues derived from this segment will represent 80% of total revenues in the car segment and 79% of the moto segment. The business mix will shift in favour of the Consumer segment, which will contribute 90% of revenues compared with 85% now, compared with a decrease of the Industrial segment from 15% to 10%.** All the businesses (car, truck and moto) will benefit from the increase of production in factories with more favourable industrial costs. **The new high technology plants will be totally dedicated to the production of 'special' tyres (more than 18 inches) for Premium cars.**
The car segment will direct distribution and sales always more towards Premium excellence; the truck segment will see an improvement in cost structure and the launch of new products; the moto segment will maintain leadership in Premium with a more competitive cost base.

Target

In Europe, Pirelli expects revenues to rise from the 2.2 billion Euros estimated for the end of 2011 to 2.6 billion Euros in 2014, with an average annual growth of 5.5%. The EBIT margin is expected to grow from a low teen to a high teen level. If EBIT in Europe in 2011 is 100, it is expected to grow to 175 in 2014.

THE RUSSIA PROJECT IS READY TO BEGIN

Russia represents a rapidly expanding market with strong growth in the Premium segment, particularly Winter tyres, and a high level of replacement. Many competitors have limited production capacity in the area, with the consequence of high tariffs on imports. **The agreement with a strong partner like Russian Technologies**, which also entails the sharing of country risk and financial commitment, **allows Pirelli to acquire an already operational industrial base with a high quality workforce** which will enable anticipating the production of Pirelli brand tyres rather than the construction of the new factory ex novo.
The production capacity will be located in two plants, Kirov and Voronezh. The latter, in particular, specializes in high end tyres, with an output of two million pieces in 2012 to reach four million in 2014. In 2015 it will produce solely Pirelli brand tyres. **The investment in this plant is expected to be 100 million Euros in the period 2012-2014. A further 100 million Euros will be destined to the Kirov plant over the same period**, the capacity of which will be approximately 6.5 million pieces already in 2012 and will be progressively converted to the Pirelli brand (over 60% by 2015). Of Pirelli's sales in Russia, 80% will be locally produced by the end of 2015.

Target

In 2012 the expected revenues from the Russia project will be around 300 million Euros, reaching over 500 million Euros in 2014, with profitability at the end of the period expected to rise between 14% and 15% from mid single digit in 2012. Cash generation is expected to be positive in 2014, less than two years from the moment of acquisition.

NEW MOTORCYCLE TYRE FACTORY IN INDONESIA

As part of the strategy to reinforce the position in rapidly developing economies and also to satisfy local demand, **the plan calls for the construction of a factory in Indonesia, Pirelli's first in the country, for the production of motorcycle tyres destined for the markets of the Asean and Export markets. The plan**, for which a Memorandum of Understanding has been signed, **is now**

being finalised and calls for a partnership between Pirelli, with a majority position (60%), and PT Astra Otoparts Tbk, an Indonesian leader in the production of auto sector components.

The new factory will require a total investment of 90 million US Dollars starting in 2012 and spread over three years. Production is expected to begin in 2013 and be fully operative by 2016, with an annual production capacity of seven million motorcycle tyres.

THE ROLE OF LEADER IN SOUTH AMERICA

Pirelli is number one in South America thanks to its leadership in Original Equipment in all segments and first position of its brand. It aims to consolidate this regional leadership by:
- introducing new Premium products, the demand for which is destined to grow thanks to the increase in the production of SUVs and medium-large pickups in the Mercosur area; the opportunities due to the growth of the premium segment in Original Equipment; the expansion of the direct distribution network; benefit from greater production capacity in car and motor, previously destined to exports in the Nafta area, which will be progressively served by new factories in Asia and Mexico; the launch of a new radial truck tyre factory in Argentina.

In particular, in **Brazil,** Pirelli has 50 own points of sale in the most economically dynamic regions and aims to double the number by 2012 through acquisitions and organic growth.

In **Argentina** the new plan for the construction of a radial truck tyre factory will entail investment of 300 million dollars and the launch of production at the end of 2013, with a capacity of 700,000 tyres a year by 2016 destined to satisfy the growing demand for radials in Mercosur. This will allow Pirelli to become market leader in all truck segments, and to have production with competitive industrial costs and logistical advantages.

Targets

In the period 2011-2014 revenues will rise from 1.96 billion Euros in 2011 to 2.5 billion Euros in 2014, with an average annual growth of 8.4%. The Ebit margin is expected to be mid-teen over the period.

GROWTH IN THE APAC AREA

In the Apac area (Asia-Pacific) Pirelli is also focused on the Premium segment, in particular in the car and moto markets, benefitting in Original Equipment the growth of production investment of Premium automakers in China, leveraging Formula 1 to reinforce the brand in the region, continuing to invest in and reinforcing the network of point of sales in China (from fewer than 1,000 in 2011 to over 3,000 in 2014).

Target

In the period 2011-2014 revenues will grow from 370 million Euros in 2011 to 690 million Euros in 2014, with an average annual growth of 23%. The Ebit margin is expected to grow from low single digit to double digit by 2013.

GROWTH IN THE MEA AREA

In the Mea area (Middle East and Africa) Pirelli has two competitive production facilities for the car and truck segment. Capacity will be freed up from mass market Original Equipment to increase the more profitable Replacement segment. It will reinforce the retail sales network and franchising in key markets and improve the product mix.

Targets

In the period 2011 to 2014, revenues will rise from 530 million Euros in 2011 to 600 million Euros in 2014, with average annual growth of 4%. The Ebit margin is seen at mid teen over the period.

GROWTH IN THE NAFTA AREA

In the Nafta area, Pirelli foresees growth through the capacity of the Mexican factory (car) which, with an initial investment of 210 million Euros, will produce around 5 million pieces a year, predominantly Premium, by 2016; production will predominantly be destined to supply German automakers in the United States and the sports models of American makers. The Mexican factory will allow for the halving of imports in the area.

Targets

In the period 2011 to 2014, revenues will grow from 580 million euros in 2011 to 710 million euros in 2014, with an annual average growth of 7.1%. The Ebit margin is expected to grow from low single digit to double digit by 2013.

PROFITABILITY BY REGION: GEOGRAPHIC REDISTRIBUTION AND GROWTH TARGETS

At the end of the three year period 2012-2014, **profitability will be further balanced between geographic macroareas. The contribution deriving from rapidly developing economies** (excluding Latam), **today below 20%, is expected to grow to over 20% in 2014. The contribution from Latam, today over 40%, will fall to above 30% in 2014.** In conclusion, **mature markets with a contribution of over 40% today will rise to almost 50% in 2014. All regions present operating results higher than the previous plan: in particular, mature markets will represent approximately 50% of profitability, thanks to the acceleration of the Premium segment and increased efficiency.**

Profitability (EBIT) by area is expected to grow at an average annual rate of 50% between 2011 and 2014 in rapidly growing economies, where the introduction and development of Premium tyres will be the growth drivers of profitability; **of 10% in Latam, where profitability remains steadily in double digits; of 30% in mature markets,** where the marked increase in profitability will be supported by new opportunities to broaden the Premium market and greater efficiencies.

INTANGIBLE ASSETS

Beyond its brand, Pirelli also leverages other intangible assets: Sustainability and Corporate Governance. These assets contribute to the achievement of group growth, underpinning the creation of value and contributing to the company's reinforcement in the Premium segment.

In the period 2012-14 Pirelli will intensify its environmental, social and economic sustainability plan, launched in 2011. The main goals of the new plan are process and product innovation, both oriented to the reduction of consumption and of harmful impacts on the environment and the dissemination of the sustainability values of Pirelli along the entire value chain, from suppliers to final customers.

In production processes, Pirelli is committed to using systems which by 2015 will deliver a 70% reduction in the specific drawing of water and a 15% reduction of specific CO2 emissions compared with 2009. In 2011, these values were already reduced by respectively 29% and 5%.
Regarding products, over the next three years the group aims to intensify the useof raw materials of low environmental impact and to further improve the safety and eco-sustainable features of the green performance tyres, extending the benefits to the Latam, China, US and Mexico markets.

Regarding social responsibility, particular attention is paid to the safety in the workplace through prevention plans and on-site training, with the challenging goal of reducing workplace accidents by 60% from 2009 levels. In 2011, the first effects of this plan were already evident with a reduction of 26% from 2009. Further, ethics, diversity, leadership and dialogue and welfare will be at the centre of programmes of personnel enrichment and with a view to developing individual attitudes and skills, following an investment in training which aims to grow and reach an average of 7 days per employee (from the 6.3 in 2011.) The activity of monitoring will continue of social and environmental sustainability of the supply chain, also thanks to the new system of IT management.

The company management and sustainable development model will be at the centre of the integration of the new production realities in Mexico, Russia and Indonesia.

In the context of the relations with local and international communities, cooperation with governmental and non-governmental authorities will be strengthened so as to share initiatives aimed at sustainable development and in particular, regarding road safety..
Thanks to these policies, **Pirelli was recognized in 2011 for the fifth year running as the world sustainability leader in the 'Auto Parts and Tyre' sector within the Dow Jones Sustainability Stoxx and Dow Jones Sustainability World indices.** Pirelli's **corporate governanceis founded on four factors: the centrality of the Board of Directors in the definition of strategic direction and the supervision of management; the management remuneration policy** linked to the creation of value; **a succession process that guarantees the maximum transparency in the implementation of group strategy, an effective risk management processes.** In particular, to ensure the autonomy of the Board of Directors in the carrying out of its functions, **Pirelli governance requires that 90% of its components be independent** and that all shareholders, minority and majority, be represented. **Furthermore, the board is supported by an Audit, Risk and Corporate Governance committee and a Remuneration committee, both composed exclusively of independent board members. From this year, Pirelli governance requires two new bodies: the Strategy Committee and the Committee for Nominations and Succession.** The latter body has the purpose of monitoring internal human resources and verifying their attitude in assuming roles of primary responsibility, as well as defining the characteristics needed to cover these roles for the purposes of eventual external searches in case of "emergency changes". **Pirelli implemented one year ahead of the required deadline a regulation which requires approval by shareholders for matters pertaining to the company's remuneration policy. Pirelli defines its system of incentives in such a manner as to**

align the interests of the management with those of the shareholders, through the institution of a strong link between retribution and performance at the individual and group level. As a consequence of this system, over 35% of the retribution of group managers is variable and of this, over 70% is linked to the achievement of the financial targets of the industrial plan.

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