Pirelli & C
FY 2012 Conference Call
March 12, 2013

Ladies and Gentlemen,
good evening and thank you for having joined us today in our Conference Call.

SLIDE 3: KEY MESSAGES

2012 has been a tough year for the Tyre Market. Against all macro-economic and industry odds, two macro-dynamics occurred:

- In **Europe,** the macro-economic crisis, initially confined to just a few, gradually spread to the central countries, with a clear-cut repercussion on consumption. **In 2012, the Car Tyre Business volume slumped by almost 41 million pieces** (-11% yoy) **versus 2011,** of which 35 million in the Non-Premium and almost 6 million in the Premium segment;

- The Nafta countries posted a growth of 2 million tyres in the Car Business (+1% yoy) as a result of a growth of 3 million tyres in the Premium and a loss of 1 million tyres in the Non-Premium segment;

- In **2012, Emerging markets, mainly APAC,** had a **volume increase** of **almost 27 million tyres (more than +4%) versus 2011**, of which **8 million tyres in Premium** and 19 million tyres in the Non-Premium segment.

In this scenario of a super-fast turnaround between the Old Continent and the emerging countries, **it was definitely quite an endeavor to strike the Ebit target set in our Plan, while maintaining the Net Financial Position and Working Capital under control.**

All this, induced us to make a fast change in our forecasts about our addressable markets. For 2013, we foresee a global low single-digit volume pick-up, with the Premium segment being the only driver of growth.

Therefore, we forecast **the Premium segment to grow 3 times more than the Non-Premium. Emerging markets are to be the engine of growth** in the Premium segment, and it is there that many opportunities for development can be seized.

Conversely, **in Europe, we should leverage the Premium OE positioning to improve our foothold in the Replacement Channel.**

In addition, given the macro-economic scenario ridden with uncertainties and currency volatility, we should accelerate cost reduction initiatives in the Regions, in the event the macro situation deteriorates further.

SLIDE 4: PIRELLI 2012 FY RESULTS VS TARGETS

The tough macroeconomic scenario, which progressively deteriorated during the course of the year and resulted in a sharp contraction of the European tyre market, affected negatively our top line.

Against this backdrop, we closed 2012 having achieved our challenging profitability, cash generation and ROI targets.

The major drivers of profitability improvement were:

- Geographic exposure,
- Our focus on the Premium Segment,
- A firm pricing policy, and
- An efficiency plan with savings worth 158 €/mln, or 32% more than our initial target.

The ups and downs caused by the crisis offered us the opportunity to speed up our plan to progressively get out of the Standard Segment and to restructure the Industrial Business in Europe. We are reconverting our Settimo Torinese Truck plant into Premium Car and are going to cease our Steelcord production in Germany.

Through a careful management of cash and inventory, we brought back our net debt to 1.2 billion euro, 1 time the Ebitda.

In summary, our Premium Strategy, efficient cash flow management and selective approach on investments yielded a return on investment of approximately 20% (19.2%), an increase compared with the 17% of 2011.

SLIDE 6. KEY FINANCIAL RESULTS

Let us briefly review our Q4 results.

In a market with an increasingly divergent growth profile in the different Regions, Pirelli 2012 results show the benefits of our geographic exposure, focus on the Premium segment and firm pricing discipline.

Product mix, value protection, efficiency gains coupled with a benefit from raw materials support profitability growth, with an EBIT margin up 3.2 percentage points and reaching 12.6% of revenues.

This profitability improvement was achieved despite the higher costs deriving from the transition of Settimo Torinese Truck plant into high Premium production.

The bottom line, net of extraordinary items, increased by approximately 50%.
This result includes adjustments on equity participations – mainly related to Mediobanca – and benefits from a tax rate of 25.7%, down 2.2 percentage points as compared with the previous year.

In the last quarter of 2012, cash generation was very strong with a Free Cash Flow of almost 700 million euro, in line with our expectations. This is due to the planned actions on inventories and working capital, as Mr. Sala will detail later on in the presentation.

SLIDE 7. 2012 REGIONAL TYRE PROFITABILITY DRIVERS

Let us now look into where exactly our solid performance comes from.

16% of our topline growth derives from RDE’s, accounting for 54% of total revenues.

Europe pays for the effects of a prolonged crisis which impacted the high-end of our sales.

Top-of-the-Range products are gaining momentum in Emerging markets posting a yearly growth of 69%.

Profitability was up 26% yoy, sustained by the strong growth of Rapid Developing Economies which make up 62% of total Ebit.

In South America, Pirelli confirmed its leadership and in APAC we benefitted from the increased local Premium production, stronger links with foreign OEMs and better brand recognition.

Profitability remains high in mature markets, with North America posting a significant improvement of the Ebit margin, reaching the mid-teen level; this is thanks to highly visible Premium domestic cars fitting our Tyres and our role of Development Partner with foreign Premium Car Manufacturers.

Europe profitability decreased slightly yoy as a result of the demand scenario we just described.

SLIDE 8. AN UPDATE ON RUSSIAN JV

Let’s now look at the development of our Russian JV.

Our past overall positive outlook has been confirmed.

New car registrations show a double-digit growth, mainly driven by foreign brands produced locally. Imports of cars from abroad are also growing, particularly the Premium vehicle segment, that from a low base is growing at a rate of approximately 30% compared with 2011.

The car park mix also benefits from the new registrations trend and this is reflected by the 5% growth in the Tyre market.

“A” and “B” brands are leading, and the top of the mix is improving. 17 inch tyres grew by 35%; whilst “A” and “B” winter tyres by 17%.

This positive scenario leads to an overall market value close to 2 billion euro. “A” brands have an 820 million euro share.

In 2013, we expect the positive trend to continue, although at a slightly slower pace. New car registrations are expected to grow by 3 to 5%, whilst the Car Tyre market by 2 to 3%.

Moving to the results of our start-up, we reached our latest industrial and commercial targets.

We already committed over 40% of our 200 million euro CAPEX Plan, and we expect to remain in line with our original Plan also in 2013. This has led to a capacity already installed of approximately 8 million tyres, to which we have to add a further 1 million Premium pieces in Voronezh during 2013.

Product industrialization will be further accelerated in 2013 to fully exploit the conversion to Pirelli branded products.

Our marketing targets for 2012 were exceeded. We accomplished our goal to be present in 800 stores. Out of this figure, 480 are Pirelli qualified Premium stores, which is well above our initial target of 320 points of sale. In 2013, we will keep on improving our commercial footprint, leveraging also on our recently launched “Premium store” concept.

Our strong commercial effort will be reinforced by a new winter studded product, specifically designed for Nordic winter conditions, and will be supported by a solid marketing campaign that will keep us among top spenders in the market.

Just as a reminder, starting from 2013 we will report Russian results as a whole, both JV and import sales.

SLIDE 9: PIRELLI NET INCOME FY’12 VS FY’11

2012 ended with a net result increase of over 27%, 85.6 million euro more than in 2011.

This result was achieved based on the solid operating performance of the Tyre Business as well as lower losses from minor businesses.

Changes in the assessment of our participations generated more liabilities compared with 2011, amounting to 34.9 million euro. This is mainly due to the devaluation of our shareholding in Mediobanca (-16.8 million euro) – that turned out to be needed given a market value which for over 12 months remained at an all-time low – as well as to a negative 20.1 million euro consolidation, based on the equity method, of our shareholding in RCS (5.3%).

The further 40 million euro financial charges are attributable to a higher net average financial debt, and the impact of the high Venezuelan inflation rate especially in the fourth quarter.

SLIDE 10 - DIVIDEND PROPOSAL

Both the sound operating performance and the financial structure (Net Debt/Ebitda ratio of 1x) led Pirelli & C. Board of Directors to propose the distribution of a 32 €/cent dividend for each ordinary share and 39 €/cent for each savings share to the Shareholders’ Meeting.

Such decision is consistent with the guidance, according to which approximately 40% of the consolidated net income is distributed.

Shareholders’ remuneration increased by more than 18% and implies a dividend yield of 3.6% on ordinary shares and 6.25% on savings shares vs. the 3% average of the 4 peers that pay out dividends (Michelin 3.4%, Continental 2.3%, Nokian 4.4% and Bridgestone 2.1%)

Dividends will be paid on May 23, 2013 (coupon detachment on May 20).

SLIDE 11: PIRELLI DEBT STRUCTURE AS OF DEC 31, 2012

Pirelli's gross debt is worth 2.5 billion euro, 73% of which maturing from 2015 onwards. This was the result of our recent diversification of financing sources, which now relies on capital markets for more than 30%.

In 2012, almost 300 mln Euro with tenors up to 12 years were placed on the international capital markets. This showed investors' interest in our name and credit.

Finally, our sound liquidity margin of 1.5 bln euro covers debt maturities until 2015.

And now I leave the floor to Mr. Sala who will give you details on cash flow dynamics and discuss the performance of the Tyre Business.

SLIDE 12: PIRELLI FY'12 NET FINANCIAL POSITION

Thank you Mr.Tronchetti and good evening everyone.

In our third quarter conference call, we went over the main actions we put in place to raise our cash flow generation and bring the Net Financial Position to 1.2 billion euro at the end of 2012.

Cash flow generation was strong, at 664 million euro. This was achieved through:

- An effective inventory management which brought down the ratio on sales to 18.2%, about 0.7 percentage points lower than at the end of September 2012 (and 1.7 percentage point lower than June) and in line with 2011 Year-end results.

- The collection of receivables, in line with the higher collection seasonality of the business due also to the new activities in Russia and Däckia distribution chain.

Investments were at 143 million euro, devoted to improve mix and Premium capacity.

Let us now review the performance of the Tyre Business

SLIDE 14. KEY TYRE RESULTS

In the fourth quarter of 2012, our Tyre Business displays:

- A high single-digit revenue growth, and
- A +23% profitability vs. the same period of 2011, with +1.6 percentage points in terms of return on sales at 13.2%.

The positive revenue trend benefits from:

- A successful value protection strategy to keep a firm price discipline in spite of a fiercer competitive pressure in the mature markets, and
- A business focus on segments and Regions with an organic growth profile above the market average.

Coupled with a sound performance of our business in North America, with a +12% yoy revenue growth in the fourth quarter, the Emerging Markets continue to be the key contributors of our growth, Asia Pacific in particular, growing 16% yoy.

Russian JV and Dackia distribution chain sales add on to the positive development of our growth with a +6.6% yoy increase (third quarter was 4.1% yoy). Our volume were negative by 1.8% year-on-year in the current quarter.

The volume growth of our Premium segment was in line with the previous quarter but short of our expectations due to the difficult economic environment in Europe which weighed both on the Southern and Central countries.

This slowdown of our high-mix sales affected the price/mix, which improved by 5.4 percentage points during the fourth quarter and was higher than +10% in the course of 2012.

SLIDE 15. PIRELLI TYRE FY12 OPERATING PERFORMANCE

Let us now turn to the main variables that were instrumental to achieving the 37 million euro profitability improvement in the fourth quarter of 2012.

The approximately 20 million euro price mix improvement compensated the slightly negative impact of both volume decrease and production slowdown.

Lower raw material cost had a positive impact, worth approximately 37 million euro. This more than offset all the other production cost increases.

Finally, efficiencies in the last quarter of 2012 were worth 48 million euro and brought 2012 overall efficiency to 158 million euro. Our savings were therefore slightly above the 155 million euro target, as we can see in greater detail in the remainder of the presentation.

Profitability was also affected negatively by additional restructuring costs, mainly related to the Settimo Torinese Truck plant reconversion into a Pure Premium Car Tyre plant, and the planned Steel Cord production shutdown in Germany (13 million euro).

This was compensated by gains deriving from the sale of non-strategic assets in Latin America worth 20 million euro.

SLIDE 16: CONSUMER BUSINESS PIRELLI PERFORMANCE

Let us now review the quarterly performance of our Consumer Business, with its 12% yoy revenue growth and a 13.4% Ebit margin,14.3% on a full year basis, in line with the target.

The Premium Segment clearly shows a double-digit revenue and volume increase vs. a -10% in the lower value-added Tyre Business.

On the price mix variable, this trend brought about a positive contribution, with a 6.4 percentage point improvement, which more than offset the overall volume reduction (-4%), a less severe reduction, though, than in the last quarter.

SLIDE 17: INDUSTRIAL BUSINESS PIRELLI PERFORMANCE

The Industrial Tyre market suffered more the economic downturn in 2012 and only partially rebounded later in the year.

This notwithstanding, 2012 revenues at 1.61 billion euro were on par with our target, and the same goes for the Ebit margin at 11.1%.

Now, I give the floor back to Mr. Tronchetti

SLIDE 19 MACROECONOMIC SCENARIO

In 2012, the macroeconomic scenario changed pretty much compared to what we forecasted in our 3-year plan and to the general expectations.

In Europe, the crisis started in the southern countries and spread to the rest of the Region, leading to a flat growth in 2012. More importantly, no significant recovery is expected in 2013, which is likely to close at zero growth again. In monetary terms, this trend becomes a missed opportunity to produce wealth in the years 2012-13 compared with the forecast of over 600 billion dollars made a year ago.

Conversely, the U.S. kept their growth expectations and will continue with a positive trend, although slightly slower in 2013.

Based on the mere observation of the diagrams, if we turn our attention to the Emerging Countries, we can see that most of the times, they have largely delivered their relevant growth expectations, in line with our old Plan. All in all, RDEs account for over 70% of the wealth produced in the last three years.

Also these countries are expected to experience a slightly slower pace of development in 2013.

In summary, we are faced with a world scenario where RDEs are still the engine of growth although slightly scaled down. The Old Continent is bound to remain up the wall.

SLIDE 20 CAR MARKET SCENARIO

If we move to the total Car Tyre market, the situation is similar: facts evolved away from our forecasts, with a growth gap in 2012 estimates of almost 90 million pieces, especially in mature countries.

The Premium Segment confirms its resilience and its overall share of the total market remains as forecasted. However, the relative importance of Premium in RDEs is growing, whereas among mature markets Europe once again leads the downturn, which on the whole lost approximately 15 million pieces compared with the estimates factored in the 2012-14 Plan.

In 2013, we believe that the total Tyre Market will go back to a positive trend after a slight contraction in 2012, limited to less than 1%. The growth will be scaled down compared with the past and once more through the “stronger drive” of RDEs growing more than three times as fast as mature markets. Worth noting is the partial recovery of Premium growth in mature markets, adding 5 million pieces this year.

SLIDE 21 TRUCK RADIAL MARKET SCENARIO

In this slide, we take a look at the total Truck market. In 2012, estimates were confronted with a reality of weaker Asian markets, with no impact on our sales, due to our limited presence in this Region.

The other cause for the drop in emerging markets is the well-known slowdown in South American OE. In this market, we continue to advance in the high value-added segment of All Steel, gaining share in the Replacement segment.

Conversely, in the mature countries, the growth in North America offsets the drop that was once more recorded in Europe.

Based on our new forecasts, we expect a recovery in 2013, also in the case of the Truck market with similar growth rates in both the mature and emerging Regions.

SLIDE 22. 2013 Outlook by region

Our 2013 pillars basically are:

- In the **mature markets**, improving our position in the Replacement channel through our stronger presence in the OE;
- In the **emerging countries**, optimising the many growth opportunities in the Premium business, and
- Continuing to quickly and flexibly manage our costs through a **constant monitoring of our breakeven in each Region**.

Let us now zoom into the Car Market in the different Regions and the set of actions that will deliver our targets in 2013.

In the challenging **European** market, most of our attention goes to the segment where added value is highest and where we are strengthening our position through the new products being launched.

The widening of our product portfolio and the production ramp-up in Mexico are the basis for the positive outlook in the **NAFTA** region in 2013. High profitability achieved in 2012 is confirmed, with a revenue growth profile within a low single-digit range.

We have already highlighted the details of our business in **Russia**. Our production and marketing plan for 2013 will permit a revenue growth exceeding 25% which will be coupled with an improvement of our Ebit margin.

In 2013, our leadership in **Latin America** will be confirmed through new actions on distribution, to capture the strong growth momentum of Premium demand and keep a good profitability in the region.

In the **MEAI** region, Premium sales are expected to grow at a good pace through the support of the upward market trend and a greater selectivity in the segment with lower technological content. Product mix gains will allow a profitability increase, although revenues are expected to be about stable.

In **Asia Pacific**, the outlook for our business is definitely positive. In 2013, we will continue to increase and strengthen our presence in the retail business and will continue to capitalize on the increasing local OE homologations, through our partnerships with all the European Premium Car Makers.

SLIDE 23: 2013 CAPEX: ACCELERATING CONVERSION TO PREMIUM

In the last 2 years we have already invested 1.1 billion euro, half of our 2011-2015 CAPEX Plan.

In line with the demand forecast for 2013 and available capacity, we have adjusted our Investment Plan.

We will accelerate our conversion of standard capacity into Premium. As you may remember from our last call, in 2012 we cut 4 million pieces of standard capacity in Europe, 50% of which were converted into High Mix. In 2013, we are continuing this action by cutting another 5 million pieces of standard capacity of which 4 million will be upgraded to Premium.

At the same time, we will add 2 million pieces of new Premium capacity in low-cost countries such as Mexico, China and Romania.

This adds to 6 million pieces of additional Premium capacity in 2013, almost 70% of which obtained by conversion of standard capacity. In 2012, the ratio between converted and new capacity was 40%.

Our Premium capacity will reach 33 million pieces in 2013, accounting for 48% of Consumer, located mainly in low-cost countries (63%) and in our new plants (60%).

This capacity not only largely covers current demand, but also any possible market rebound.

As a result, the 400 million euro available for investments may well fit the capacity enhancement for the current and part of next year, the new start-up projects, as well as other projects for mix & quality improvement in mature plants and maintenance.

SLIDE 24. PIRELLI 2013 TARGETS

Based on the scenario described above and in consideration of the different market dynamics, in 2013 we expect a volume growth between 3 and 4% with the Premium segment increasing by 13% to 14%.

Our Price Mix is expected to grow between 4 and 5%.

Negative the impact of Forex, due to the weakening of South American and Middle Eastern currencies.

As a consequence, total revenues are expected to increase by 4 to 5% to 6.3 - 6.4 billion euro.

For 2013, we forecast a stable or slightly increasing margin versus 2012 with Ebit ranging between 810 and 850 million euro, after 30 million euro restructuring costs mainly in Europe.

While I refer you to Mr. Sala for the technicalities, I would like to stress that profitability in 2013 is discounting our efforts to improve Pirelli competitive edge for our future, as well as to improve our production efficiency.

In line with the 2012-2014 Industrial plan, 2013 is the year when Pirelli goes back to producing Cash Flow to the extent of 200 million euro before dividends, 3% of revenues.

Net financial position will be below 2012 level excluding the transaction of Prelios credit line into equity-like instruments.

SLIDE 25. CONSUMER AND INDUSTRIAL TARGETS

This slide summarizes our targets by Division

In both the Consumer and Industrial Businesses, profitability is due to increase. The top line is expected to grow between 4 and 5%.

And now, I leave the floor to Mr. Sala again who will guide you through our 2013 profitability and cash flow drivers.

SLIDE 26. 2013 MAIN PROFITABILITY DRIVERS

Thank you Mr. Tronchetti.

In 2013, EBIT is expected to grow between 4% and 9%, depending on the range of volumes and price/mix growth.

Profitability improvement, led by top line growth and efficiency gains, is discounting the actions we are taking and the investments we are making for our future.

- In line with our strategy to reinforce our Premium position and to seize growth opportunities in RDEs, we are increasing our marketing budget and commercial costs by 40 million euro for both mature and emerging markets. We aim at making our Brand and products more visible, expanding our presence in fast growing market as China, and be closer to our end users.
- Industrial costs are increasing by 25 million euro due to the already mentioned projects. Some of them are already impacting the profitability of the first quarter (around 10 mln €).
- Ebit is also affected by a 50 million increase in depreciation due to both the recent investments and change in the perimeter (15 million €) due to the new acquisition.

Raw material tailwind will be absorbed by the other input costs, with a balance of -65 million euro.

Finally the currency translation impact on Ebit results: -40 million euro due to the recent devaluation of the Bolivar (-46% vs. dollar) and Egyptian pound (-15% vs. euro), as well as the Argentine peso (assumed at 7.55 vs. euro, -30%) and the Brazilian Reais (assumed at 2 reais vs. US, -4% yoy).

SLIDE 27.2013 Efficiency

Our Efficiency plan is progressing rapidly. We ended 2012 with 158 million euro savings, 38 million more than the original target, coming from:

- production allocated to low cost countries (+23 million euro) and
- to G&A and fixed cost reduction (+19 million euro).

For 2013, we expect to generate additional 70 million euro of efficiency gains through:

- actions on raw material use
- productivity-enhancing programs, consisting of process review and introduction of new equipment
- production cost reduction following the increasing exposure to low-cost countries (80% of the total production, 2 percentage points more than 2012)
- G&A rationalization

SLIDE 28.Raw Materials

Briefly on raw materials.

Given the current market environment, we expect Natural Rubber to be on average above current price (2.900 $/ton) at around 3.000 $/ton.

Brent is expected to cost 110 $/barrel (in line with its current spot price), while butadiene is expected to go marginally down compared to 2012 on average (increasing versus the 1.460 €/ton as current price).

Raw material tailwind is partially eroded by the negative impact of Forex.

SLIDE 29. 2013 NET CASH FLOW GENERATION: STARTING TO REAP THE BENEFITS OF OUR PAST INVESTMENTS

In our 2012-2014 Industrial Plan, Pirelli was expected to start generating cash. Our target is now to achieve more than 200 million euro in Net Cash Flow before dividends and Prelios impact in 2013.
The attainment of this goal will be possible through our operating performance (Ebitda improvement between 70 and 110 million euro).

Operating working capital is expected to absorb around 50 million € in cash. We will maintain our inventories under control with a ratio on sales slightly below the current level of 18%. We will keep a tight credit policy across countries.

In line with our Industrial Plan, pension funds contribution will amount to 40 million euro.

Tax rate is confirmed to be 35%, while the cost of debt will reach 6.3% due to exposure of debt to currencies with interest rate higher than the euro that will drive higher hedging cost.

Thank you for your attention and I leave the floor to Mr. Tronchetti.

Now, ladies and gentlemen, we may open the Q&A session.

Monica Bosio - Banca Imi - Analyst

I have three questions. First of all, thanks for the guidance for 2013.

I was just wondering if you can give us some flavor on the first quarter of the year? Do you expect the similar trend in volumes and in price mix for the first quarter in comparison with the full-year or maybe the first quarter will be tougher and more difficult, both in term of volumes and price mix.

The second question is regarding the situation of the dealer working in Central and North Europe. Can you give us an update? Are you seeing some pricing pressure also on the premium segment, maybe on the lower end of the premium segment. Because my feeling is the dealer network is rather full.

And the third question is on the weight of premium in Latin America. I've seen that a premium market in Latin America has increased significantly. Can you give us the weight of premium on total tire market in Latin America and in Brazil, Thank you.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

First quarter we be weaker than last year. Last year was a very good quarter, mainly in Europe. What we can see until now is that Europe is weaker than last year. The rest of the world is in line with our expectations. So, no negative surprises from the other regions. But we expected Europe to be weak in this first quarter.

The dealership, we continue our policy to strengthen our franchisee agreements globally and also in Europe. We continue to strengthen our position in Brazil and in Europe we have a selective approach and we are satisfied for the results we have.

Going to premium, premium continues to show the strength in the different regions of the world. As you can see, our expectations in 2012 were underestimating the growth of the rest of the world and were overestimating the premium in Europe. We see that this is a trend for two reasons. One is that the growth in the other regions is faster than expected. The second is that we talk and talk about the recovery in Europe, but there is no recovery in Europe. And so we don't see any room or any reason for a good premium market in Europe.

Monica Bosio - Banca Imi - Analyst

Just to follow-up on the first quarter. I understand that it will be weaker than the last year, but my question is it will be weaker than the full-year 2013 target, maybe the volumes will be weaker and the price mix as well. And then we can see a recovery in the second and going forward.

And on the premium, my question is on the weight of premium in Brazil. I remember that it used to be in the region of 14%. I'm not sure if you can just confirm me this figure.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

First quarter is expected weak for two reasons and is already in our plan in Europe for two reasons. One is that last year first quarter was very strong and we don't expect any good news. Second, nothing has happened that could push up the demand in Europe in the first quarter. So we feel comfortable with the figures we have because the other regions are growing at the shape we expected.

Answering to the Brazilian question, the market last year was around 9%. Our position was around 15%. So we were, we are and we will be stronger than the market in the premium segment in Brazil. The trend is very interesting and continues the same way. So this is the picture as of today.

Philip Watkins - Citi - Analyst

I had three questions. The first one, I'm just looking at the presentation and I think you're indicating that you're seeing pricing as being relatively flat for 2013. I was wondering how confident you feel about that because when I listen to peers, they're talking about sort of minus 1% to minus 2%.

The second question is about 2014 targets. I don't know if you're willing to say anything at this stage, I know you have an investor day later on this year, about whether those are still achievable in terms of 15% to 16% of EBIT margin.

And finally, just for Mr. Sala actually, on page 15, I didn't quite hear it, which was around what sort of positive impacts in the fourth quarter of EUR20 million related to the sale of some assets. I just couldn't hear it and I wanted to try and get some clarification on that point.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

In 2012 pricing - as we have seen quarter-by-quarter - were less and less affecting the results. And year-end was flattish.
For 2013, we see it is flattish, there is more pressure that can happen in Europe. But the rest of the world is compensating. That is the beginning of the year, but I think we're just trying for the entire year.

Maurizio Sala - Pirelli & C. SpA - Head of Group Planning and Control Department

Concerning the question on page 16, in the various analyses you can find last quarter 2012 versus last quarter 2011 with a negative impact on restructuring costs minus EUR13 million coming from the restructuring in Settimo Torinese truck with the closure of the production of truck and re-conversion that will take place in the next period to a true premium car factory.
And in the depreciation-other costs, which in totally represent a negative impact of EUR14.2 million, this is included EUR20 million positive for the sales of lands, buildings, not core in Latin America. So again, the impact of the more higher restructuring costs and this one positive event is neutralized in the last quarter.

Philip Watkins - Citi – Analyst

So that EUR20 million positive happened in the fourth quarter of 2012. Is that right?

Maurizio Sala - Pirelli & C. SpA - Head of Group Planning and Control Department

Yes, it's right.

Philip Watkins - Citi - Analyst

I'm sorry, I didn't quite get the question around the 2014 target that you had before, just for Mr. Tronchetti. Do you still think that's achievable at this stage?

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

Sorry, you're right. We were mentioning before that we'll have our representation of our industrial plan the 8th of May in London. And so there will be a disclosed our targets for the next three to five years.

Niels Fehre - HSBC - Analyst

I only have two or three questions left. The first one is again on pricing. I'm wondering, so as you mean flat pricing globally? What is then exactly again the reason why are you seeing some pressure on your margins in consumer tires with premium outgrowing again whereas the there are no pressure coming from the pricing or from the volume front.

And then the second question is on trucks. I think I've seen 16% margin in Q4 before restructuring in the truck division, but still you're only guiding for 12% in 2013. And having the big raw material tailwind in mind, what is exactly the reason why you are so cautious here on your truck margins in 2013? Do you have to get here also some price discounts or what's happening to your truck margin?

And the third question just on Russia. If you can update us on your revenue target in 2013. Is it still EUR300 million as you have mentioned in some of your older presentations or do you have to capture targets lightly because you slightly under performed in 2012? And what is also your margin target from the Russian market?

Maurizio Sala - Pirelli & C. SpA - Head of Group Planning and Control Department

The last quarter margin on track was affected by the positive mix price -- mix effect coming from the activities with the new 001 new product that we developed and we are selling in the country and with a reduction in the natural rubber costs, linked with price which remains stable.

Niels Fehre - HSBC - Analyst

Okay, but still the question is then why is that not sustainable, right? Why are you targeting only for 12% margin then?

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

On a yearly basis, we see an improvement. So Mr. Sala was explaining why we have last quarter with that improvement, but looking on a comparison base year-on-year, we see an improvement thanks to a strong market in Latin America. And so we are confident about truck improvement. But we cannot compare what happens in the last quarter with what is happening now and in next quarter.

Maurizio Sala - Pirelli & C. SpA - Head of Group Planning and Control Department

If I may add also one more explanation. Take into consideration that in Latin America the industrial business weight is very high. So, the impact of the oneoff positive effect were just at the end in the fourth quarter and with a good impacting in that business.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

Then going to turnover, we see Europe flattish, as I mentioned before. But Russia is growing. Asia and Latin America are growing. So we are confident that this improvement is coming from emerging markets. So we underlined the mature markets will be flattish and there will be high single-digit growth in the emerging markets. So that's our vision. And the beginning of the year is confirming this trend.

Martino De Ambroggi - Equita - Analyst

Three questions. The first is on slide number 26 because you mentioned additional efficiency, flexibility if market deteriorates. Could you quantify the magnitude of these potential actions? That was the first one.

The second is on Russia because it's clear you are delivering results, which are below what you initially expected. So, I was wondering what is not working as you initially expected in Russia? Is just a matter of time in order to get the initial targets or there is something structural that makes this target much more difficult?

And third is still on the price mix. I understand it is basically entirely mix plus 4% or 5% that you expect for this year. What's the profitability we can assume for the mix effect for the current year?

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

Starting with the last question. Price mix in 2013 would be mixed. With mix considering the price would be effective in some countries on some regions like the UK you have to compensate the devaluation of the currency or in Brazil.

Martino De Ambroggi - Equita - Analyst

Can we talk about 30% contribution of mix for each percentage point. What's roughly the contribution you expect for the mix effect on EBIT? Just out of indications.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO
If you are talking about global contribution, margin is more than 35%.

Martino De Ambroggi - Equita - Analyst
Okay, perfect.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

Back to Russia. Russia, every quarter last year we update market about evolution. We accelerated process of investing in the factories and we reduced the volumes of the standard segment too in Kirov down more than 2 million pieces. Now after having finalized the investments on a mixing area, this was the key area of investment in both Kirov and Voronezh, we would have a ramp up of production. We will go back to volumes in the standard segment and we will start delivering in the premium segment because of the production in Voronezh.

So, we expect the mix to growth in Russia. All in all is a delay of 12 months, related also to market condition. I have to say that now in the standard segment we are obtaining in the region equipment better condition in Russia.

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So in terms of market, I see only good news. I see a delays of 12 months in delivering the results. But any action we take is consistent and I see the market still very interesting for us.

Martino De Ambroggi - Equita - Analyst

Okay, in terms of additional efficiency flexibility?

Maurizio Sala - Pirelli & C. SpA - Head of Group Planning and Control Department

Efficiencies we did in 2012 accounted for EUR158 million. So, EUR38 million more than the regional target. And in the last quarter we forecasted EUR45 million, we did EUR48 million more, so we are continuously working on the issue. In our budget we included EUR40 million of cost increase for marketing and commercial costs, which are supporting the program for the growth. Depending on the growth that they will measure month by month we will manage this cost increase. And then we will research further efficiencies in all the actions we did in 2012. The only thing that I can say now is that we are strongly committed to working all day showing all the items to find efficiencies if the market will be lower.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

So, all in all the issue is Europe. In case in Europe there will be lower volumes, we are ready to reduce our cost structure, more than G&A and marketing budget.

Stephan Puetter - Goldman Sachs - Analyst

Actually a couple of questions if I may. The first one is if you could just share with us what percentage of your business is on price escalation clauses? So where do you basically pass through lower raw materials to OE manufacturers?

Then secondly, I would like to dig a little bit into your comment on slide 26 about additional marketing and commercial costs. Can you elaborate a little bit on what you mean by investment in premium growth and increased proximity to end users? And maybe correlated to that the question does it signal that you are planning further dealer purchases? Is this to some extent a bit of a change in your distribution strategy? You want maybe want to own a higher proportion of your distribution? Or am I totally wrong?

And finally if you could help us with some guidance on the interest line and also what you expect in terms of the equity contribution in 2013.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

So first prices. Two examples. One is the UK where there will be a price increase. And second is Brazil where we are ongoing price increases.

Commercial costs mostly lean to the premium policy in China and North America. There is nothing related to buying any new network. It's only below the line in advertising campaign to support a business in regions where we see room.

The contribution from equity for the time being is nil. We don't see any contribution coming from the equity participation. The problem with some minor participation and not to lose the entire value. And that is why we made the evaluation, very deep evaluation in this balance sheet so there is little room to go down more than what we already have done.

Interest rates we expect to have an average cost of 6.3%, as you can see in slide 29

Stephan Puetter - Goldman Sachs - Analyst
Okay, just one follow-up on the pricing. My question was what percentage of your business has got price escalation clauses? So where do you automatically pass on lower raw materials or get

the benefit of higher raw materials with your customers? So for example with the car manufacturers or the truck manufacturers, what percentage of your business -- is this -- can we see this across the board of your entire OE business or is it only a portion of that?

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

We see a price increase in Latin America in all segments. And that is due to the weakening of the currencies and also to the demand that is growing fast. I already mentioned that the UK whether use of the currency for players and announced price increase starting 1st of February. So these are the two main areas. And Japan, also due to the weakening of the currency is another area where we see price increase.

In the original equipment, we have so for the cost matrix that is related to the raw materials, has affected positively last year, we feel more or less neutral.

Michele Baldelli - Exane BNP Paribas - Analyst

I have two questions. First of all, when will be the start of operations to shift the premium products to Russia? So, a sort of timing and schedule to bring all the production locally.

And then on the startup costs in 2012, for the new plants could you provide a rough figure about how much expense in 2012 about startup costs?

Third question is about Mexico because I'd like to know how many volumes will be produced in Mexico in 2013. And these volumes, where you will get it from, Europe, Brazil or China?

And the last question is about the costs of marketing you increased by EUR40 million. But was the total amount of costs for marketing and commercial costs that you had in 2012 relative to this increase?

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

So the startup costs in Russia have been EUR35 million. The expected production in Mexico is for 2013 is 1.3 million pieces. The marketing cost will be 4.5% of sales, +40 million yoy which depends on growth because it's concentrated in Europe, US and China.

Michele Baldelli - Exane BNP Paribas - Analyst

Could you provide us some detail of the volumes that will be shifted in Russia or in Mexico? Where they are produced today?

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

The production we are going to produce in Voronezh in Russia came from Romania.

With the increasing production in Mexico we will reduce imports from Brazil. This is a very convenient move because now we have the growth in Brazil that can be supported switching the production to the local markets.

And there was another question you made before about distribution in Russia: we reached in 2012 800 point of sale and we will add in 2013 another 100 point of sales.

Michele Baldelli - Exane BNP Paribas - Analyst

And another one as well about the timing of the shift of the production in Russia. If it is a step up in, let's say, at the beginning of this year or it's a gradual process.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

It is gradual of course. We should produce in Voronezh about 700,000 pieces this year of Pirelli branded. So that's the figure. And we expect to have a boost also because of the mix of production we make in Voronezh. So we made a number of industrialization and we will have a better service thanks to the distribution channel we set during 2012.

Edoardo Spina - Morgan Stanley - Analyst

I have very quick question. I'm sorry, but I missed your guidance on the net equity line, if you could just repeat that.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

When we mention equity, well equity participation and probably you are talking about the equities on distribution channel. Is that your question?

Edoardo Spina - Morgan Stanley - Analyst

No, sorry, on the profit and loss. Just the line that this year was affected by the RCS. And what guidance can you give for 2013 now? Not on the dealership.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman, CEO

For the equity participation, as you have seen, on one end we made a devaluation where we don't see any major needs of other devaluation.

Regarding minor business we see an improvement on the P&L. We expect to have a net effect of about EUR20 million compared to the EUR28 million we had in 2012.

Ladies and gentlemen,

We have come to the end of our conference call.

We thank you very much for your attention and we are looking forward to seeing you in London on the 8th of May for the presentation of our 5-year Plan.