

Pirelli & C

FY 2013 Conference Call

March 27th, 2014

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

SLIDE 3:KEY MESSAGES

Good evening ladies and gentlemen and thank you for taking the time to be with us.

2013 has been a sound year and provided a solid base for our Company. We delivered on the key value creation targets we set when we last met in November, and completed a significant first step towards our 2014-2017 plan.

- We outperformed the sector with an organic growth in excess of 8%-using our value levers.
- Return on Investment met our 20% target, sustained by resilient profitability and an efficient use of our assets, and net free cash flow was above the 200 million euro mark.

Our route to value continues along the path envisaged in our Industrial Plan:

- Resource allocation will concentrate on projects with the highest return potential, across businesses and regions.
- More specifically in the car business, we divided the market into rim sizes and regions and identified specific projects which will drive profitability improvement.
- On Premium, Geo-marketing tools are performing well and are now active in 14 markets.
- We are increasing our OE pull-through on replacement; we benefit from our unparalleled portfolio of homologations, now as large as 520 items, +10% yoy, as you probably saw at the Geneva Motor show.
- Smaller rim-sizes will benefit from an improved value proposition, low-cost sourcing and portfolio rationalization: in 2013 we dismissed 14 product lines in this range while adding only 8.

2014 has started off on the right foot. We are growing especially on the very high-end and gaining market share in the most relevant markets.

The outlook for the industry remains positive: value generation is becoming more and more a common goal:

- Free Cash Flow on sales is expected to increase from 4% in 2013, up to 5.6% in 2015
- Dividend payout will move up to 35% in the next 3 years (31% 2013 average)
- All players are targeting higher return on investments

At the same time the industry is expanding and moving towards adjacent businesses.

To be successful in this constantly changing scenario and benefit from the opportunities that will arise, companies need to have a long-term outlook.

Last November, we introduced our 2017 Industrial Plan. Within its framework, we presented our long-term vision of the market, the Key Industry Trends, our Business Model and the cohesive team members who, together with me, are changing Pirelli.

Our change occurred alongside a variation in our shareholding structure. Now, approximately 74% is free float (with International Funds accounting for 43% of share capital) and 26% held by Camfin.

Last week, Camfin partners reached and announced a preliminary agreement to be perfected envisaging the sale of the entire Pirelli stake held by Private Equity Clessidra and a partial stake held by the banks to Rosneft which is to become our long-term Industrial Partner.

Rosneft - the largest public oil company in the world – with revenue in 2013 of about 111 bln euro and 20.7% EBITDA, and more than 2740 gas stations - and three new U.S. and British Board Members to increase the depth of corporate governance experience, is used to operate pursuing a long-term outlook and is already an Industrial and Marketing Partner for Pirelli.

This Agreement will allow for a further long-term growth of Pirelli. Rosneft has already a strong partnership with Pirelli in Russia where Pirelli intends to create value and through this develop synergies with:

- Retail Networks;
- Fleets to increase sales, and Russian Logistics Operators;
- Purchasing and R&D, including innovative raw materials

Finally, Rosneft does business in emerging markets such as China, Asia, Africa and Central America and might therefore be a springboard for Pirelli in those Regions.

A deal streamlining our shareholding structure:

- the current Camfin's stake in Pirelli will be held by a newco, 50% of which owned by Rosneft (indirect 13% Pirelli), while
- the remaining 50% held by a company 80% of which is financed by a vehicle – Nuove Partecipazioni – which I will control and with no variations to Pirelli's current stake (indirect 10,24%), and
- the remaining 20% split into equal shares between two Italian banks through a partial reinvestment of their revenues from the sale.

Governance of the newco is equally streamlined:

The Board made up of 6 Members, 3 appointed by the Italian and 3 by the Russian partners.

The Board of newco will present the slate for Pirelli's BoD where the first one on the list is a representative of Nuove Partecipazioni who will be elected as Chairman and CEO.

Let us now see the pillars of Pirelli's Corporate Governance in the near future:

Board of Directors: 15 Directors, appointed through a voting slate mechanism. There are no changes compared to the current situation: 4/5 appointed by the Majority and 1/5 by the minority; we were already clearly beyond the requirements of Italian Law which states that only 1 Director will be appointed by minority, whereas Pirelli will appoint 3, and only 2 will be Independent Directors, whereas we will have 4):

- 12 Directors appointed by Newco (6 by Nuove Partecipazioni and the Italian Banks of whom 2 Independent Directors and 6 by Strategic Investor of whom 2 Independent Directors)
- 3 Independent Directors appointed by Minority.

Central role of the Board of Directors: any decisions including the Business Plan and Budget as well as Industrial Partnerships and/or strategic Joint Ventures with the favorable vote of the Majority of the Directors. Therefore, in case of disagreement between the main shareholders, our governance model recognizes the central decision making role of Independent Directors appointed by minority shareholders.

At least 7 independent Directors (all candidates to be designated by newco shall be managers or professionals of recognized international standing and experience with background in the management or administration of primary financial institutions or big corporations. Directors shall also confirm the absence of any conflict of interest)

Pirelli's Chairman and CEO shall be granted the powers and the authority concerning the current ordinary management of Pirelli and its Group. The Business Plan and Budget, any proposals regarding Industrial Partnerships or Strategic Joint Ventures shall be made by the Chairman and CEO of Pirelli to Pirelli's Board of Directors.

The support to the CEO and Management is confirmed by the fact that, if the CEO were to resign from his office, the Strategic Investor shall have the right to sell all of its shares in newco to Nuove Partecipazioni.

Only the approval of resolutions concerning share capital increases or decreases, mergers or demergers or liquidation shall be subject to previous consultation between Nuove Partecipazioni and the Italian Banks and the Strategic Investor at the level of newco, and always with a view to pursue the best entrepreneurial interest of Pirelli and of all its shareholders.

Board Committees:

- the Internal Control and Risks Committee: 3 Independent Directors;
- the Strategies Committee: 7 Directors (2 Nuove Partecipazioni and the Italian Banks, 2 Strategic Investor and 3 Independent);
- the Committee for Appointments and Succession: 4 Directors, two of whom Independent;
- the Remuneration Committee: 3 Independent Directors.

EXIT: Lock-up period (4th anniversary as of the execution of the Co-investment Agreement)

No transfer permitted except transfers between the parties.

After lock-up period activation of the “Trade Sale Procedure” in case of agreement between parties (Newco and Rosneft) taking into account the best entrepreneurial interest for Pirelli.

If the Trade Sale Procedure is not completed within six months, the parties shall be entitled to obtain the Pirelli shares.

DURATION OF SHAREHOLDER AGREEMENT: The Shareholders’ Agreement will have a term of 5 years, with tacit renewal for further three years unless a non-renewal notice is sent by any Party.

SLIDE 4: PIRELLI 2013 FY RESULTS VS TARGETS

Our results for 2013 reflect the still challenging global outlook for growth, with the European tyre market showing signs of recovery only in the second half, and a pick-up in Forex volatility in emerging markets.

This environment, however, did not prevent us from achieving our 2013 targets.

Our focus on high-value-added segments led us to Premium volume growth above 15% and a gain in market share in every Region. In addition, our balanced geographic reach translated into an organic growth in excess of 8%.

This, together with the successful execution of our efficiency program, on track with our targets for yet another year, allowed us to make up for the increase in FX headwind and confirm our high profitability.

Finally, strong cash generation was sustained by a firm grip on net working capital and a selective investment policy, which favored high-return, Premium projects.

SLIDE 5. PIRELLI KEY FINANCIAL RESULTS

A few words on the results of the fourth quarter.

A volatile FX environment limited our top-line performance, especially in South America and Middle-East Africa; profitability improved, however, as we executed the Premium strategy and confirmed our commitment to value.

We outgrew our main peers in terms of price/mix improvement and delivered 5% volume growth; a more benign raw material environment and our efficiency program led to the highest quarterly Ebit this year at 209 million euro, or a high 14% on sales.

This was achieved even if we sustained industrial and marketing costs functional to achieving a more agile and efficient production base, as well as better market coverage in the future.

The net income figure, lower as compared with the last quarter of 2012, reflects the valuation adjustments on both our equity participation in Prelios and the quasi-equity instrument “convertendo”, which we will come back to in a few minutes; I would like to stress that these items are non-cash and allowed us to keep rewarding our shareholders with a dividend worth 32 euro cents per share.

Cash generation was very positive, in line with the seasonality of our operations and our actions to manage net working capital; inventories for the full year are now in line with a level which we consider optimal, in the region of 16% on sales.

SLIDE 6. FY 2013 PERFORMANCE BY REGION

Our results on a regional basis show how, once again, the bulk of growth came from rapidly developing economies and higher value-added product segments. This confirms our vision and allows us to look at the future with confidence.

In 2013 emerging markets accounted for 56% of our total revenues, up from 54% a year ago. Even in an environment with rising forex volatility, we recorded a 4% revenue growth from such markets.

Despite the return to growth in the third and fourth quarter, revenues in mature markets were not as high as in 2012.

Our Premium sales are still enjoying a strong momentum: after a slow start of the year, sales of our top products picked-up steam and finished the year very strongly especially in emerging markets, with a +22% growth rate for FY 2013.

2013 profitability was overall stable as compared with 2012, with different regional dynamics.

Europe had a slow first half, with a contraction in demand which extended to Premium segments. The progressive recovery of the market and our efficiency measures brought us back to a double digit profitability in the second half of the year.

Trends in Russia reflected a slowdown in demand and rising competitive pressure in specific areas of the marketplace; our operations, moreover, are still moving towards an efficient production mix to serve local needs for extreme winter conditions. The business plan for 2014 is however progressing well, as we will detail later on.

2013 profitability advanced significantly in South America and Asia Pacific, owing to a strong performance of our Premium offering and the success of products tailored to local needs. Our partnerships with the best local OEMs contributed once again to advance brand recognition among top customers in Asia.

Ebit margin was up also in North America, where we are increasingly successful in assuring top service levels to customers sourcing from the Mexico plant, and in MEAI, despite currency headwinds.

SLIDE 7: PIRELLI NET INCOME FY'13 VS FY'12

2013 ended with a net result of 306.5 million euro.

While operating income was stable year-on-year, we booked higher financial expenses as well as an increased negative impact from equity participations.

18 million euro in higher financial expenses relate to a slightly higher average debt and our financing mix in currencies with higher rates than the euro.

To this, we add the FX devaluation impact for the Bolivar and the Egyptian Pound and financial earnings by Prelios booked in FY 2012.

Following the capital increase and the conversion of Prelios loan into equity and a quasi-equity instrument in the 2013, we now hold: 9% of the company's share capital an indirect stake of non-voting shares through the holding company Fenice Srl, and a so called "convertendo"..

Prelios will report FY 2013 results in April; based on publicly available information, we reassessed the value of our 9% equity stake accounting for the pro-quota loss of the company and equal to euro 12,8 mio. We also performed a fair-value valuation of the convertendo, recording an overall impairment loss of 44,3 million euro. The direct and indirect equity participation and the convertendo have a overall year end amount of euro 131,2 mio.

Tax expenditure increased by 12.1 million euro; excluding the impact from equity participations, our tax rate was 35%, better than our 37% target.

SLIDE 8 - DIVIDEND PROPOSAL

Sound operating performance and solid financial structure (Net Debt/Ebitda ratio of 1.2x) 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.

This is in line with the 2012 dividend, with a payout ratio of 43% on Net Income excluding the impact of Equity participations. Let me remind you that dividends are paid on Parent Company net income.

Dividends will be paid on June 18, 2014 (coupon detachment on June 16th).

SLIDE 9: PIRELLI DEBT STRUCTURE AS OF DEC 31, 2013

Pirelli's gross debt is worth 2.3 billion euro, more than 50% of which maturing from 2016 onwards. During the next 12 months we will refinance our 1.2 bln euro Revolving Credit Facility.

The liquidity margin of 1.6 bln euro includes 928 mln euro of cash and cash equivalent which reflect the business seasonality.

Finally, cost of debt stood at 6.2%, showing a decreasing trend in 2013 and remaining in line with the target of 6.3% announced to the market for the FY 2014.

SLIDE 10: PIRELLI FY'12 NET FINANCIAL POSITION

Delivering on one of our key value generation targets, this year our net cash flow was a positive 232.4 million euro before dividends and Prelios.

The fourth quarter of 2013 was particularly strong, in line with the seasonality of our cash cycle, and brought net debt down by almost 650 million euro.

The management of working capital was particularly effective during Q4, with a positive contribution of almost 690 million euro which brought the yearly figure to a positive 27.8 million euro. As a consequence, inventories came down approximately 2 percentage points on sales to the current 16%, a level which we consider optimal to assure the best service to our clients.

Finally, investments totaled almost 175 million euro in the quarter and were destined to improve mix and Premium capacity.

SLIDE 12 SECTOR OUTLOOK

Before going through our targets for the current year, I would like to spend a few words on how we see the main industry trends.

We expect the global tyre market, car and truck, to grow by about 3% in volume in 2014. This is in line with the assumptions of our Industrial Plan. Compared with what we thought in November, we do see a slightly better outlook in Europe; Latin America replacement is on track with our expectations, while the OE is lagging slightly behind.

Our 2013 results and the beginning of 2014 make us confident about the Premium tyre market; its superior growth profile at approximately three times Non Premium is confirmed, and Europe and Asia Pacific are particularly dynamic in this respect.

We do not envisage unusual pricing pressure this year. OE clients will benefit from cost matrix clauses, as expected, but global tyre makers will use pricing to make up for rising inflation in emerging markets.

Foreign exchange will represent a headwind this year for all global players, who will use all operational levers to limit its impact and protect cash flow generation, a clear industry focus.

SLIDE 13 UPDATE ON EXECUTION OF REGIONAL STRATEGY

Now with regards to our own targets, let us go through our markets one by one. The main differences since November are a stronger Europe and a slightly slower OE in South America.

- In Europe, the first two months of 2014 make us cautiously optimistic for the remainder of the year. Stock levels in this market, at year-end 2013, were better than the prior year both for summer and winter tyres..

Our results have been very positive so far in the year, with market share gains and good development of Premium; our homologation portfolio with top OE customers has started to produce benefits in the replacement market. Our key projects are on track: we are expanding our retail network, working on manufacturing efficiency and benefiting from the use of low-cost production sources (Turkey and Russia) due to the Forex environment. As a consequence, we expect low single-digit revenue growth and mid-teen margins, better than our November guidance.

- Our positive outlook for North America is confirmed. 2014 started well for us, despite the harsh weather. For the remainder of the year, we expect the Mexico plant to reach 2 million pieces of capacity, slightly above our previous target; our regional products, made in Mexico, are performing well and allowing us to improve our service levels with top customers. We confirm our targets of mid single digit revenue growth with a mid-teen ebit margin.

The start of the year has been positive for Russia, despite a slower market. We are well on track on our turnaround plan and are closing the gap on winter product range, as expected. Plant saturation is improving, we will have 60 new sizes available for our ICE Zero studded tyres (72 in total) for the

beginning of the season and OEM partnerships are in development, with a shift from legacy to Pirelli and Formula brands in line with plan. We are expanding our retail network focusing on shops with a high share of wallet. After the success of our flagship store in Sochi, in partnership with Rosneft, we are studying the possibility to open 10 more shops and to use part of Rosneft gas stations to open small shops.

We confirm our Russia targets, even after a conservative view on Forex.

- In South America, despite the high volatility of Forex, we confirm our view of a positive Replacement market, especially in Brazil. This trend is confirmed by the first 2 months of 2014, especially on Premium. On the OE side, volumes are slowing down following lower car production, and we assume a stable market for the full year.

We are putting in place all the levers to mitigate Forex headwinds and cost inflation; we are acting on pricing (first increase done in February in Brazil, January in Argentina) and efficiency to protect profitability. We are monitoring the developments in Argentina; so far the replacement market is stable and we are doing slightly better. The situation in Venezuela is critical at the moment, as you are well aware, and we are closely monitoring its developments. We are used to dealing with FX and political volatility in South America and prepared to take contingency measures. Topline organic growth target for South America is confirmed, but overall sales will be slightly down owing to FX headwinds. We confirm the Ebit margin target in the mid-teens.

Our view for Asia Pacific and the MEAI are largely in line with the targets outlined in November. In both markets Premium volumes are growing strongly, sustaining our Ebit. The higher FX volatility will have only a small impact on our sales in the Middle-East.

SLIDE 14 FY 2014 TARGETS UPDATE

Our commitment to create value in 2014 is unchanged.

The internal levers at the core of our Premium strategy are performing at or above our expectations, and will be able, in terms of profitability, to offset additional volatility in foreign exchange also helped by a more favorable raw material environment.

Organic revenue growth is now expected at a level close to the double digits; this is mainly thanks to faster Premium growth in Europe which will positively affect our mix. Our volume expectations are unchanged, since a firmer Europe makes up for slightly softer OE growth in South America.

2014 revenue growth is however eroded by higher FX headwinds. We assume a cautious scenario on Forex, discounting the present situation and additional devaluations for currencies such as the Bolivar and the Argentinian Peso. Sales growth is expected to ultimately amount to about 1%, or 6.2 billion euro.

In absolute terms, we confirm our Ebit target of about 850 million euro, after restructuring costs of about 50 million euro. Our Ebit target reflects additional forex translation impact, but benefits from better mix and a 45 million euro in lower raw material headwind.

There are no changes in our cash flow guidance: we will bring Net Debt down to about 1.2 billion euro and generate more than 250 million euro in Net Free Cash flow after less than 400 million euro in investments.

These figures do not currently factor in the positive impact of our Steelcord transaction, more than 200 million euro, to be finalized by year-end, pending regulatory approvals.

SLIDE 15 FY 2014 TARGETS CONSUMER E INDUSTRIAL

Now, let us quickly turn to our targets by business.

Ebit margins are revised upwards as compared with the previous guidance, both for Consumer and Industrial; earnings expectations are unchanged in absolute terms, but the top-line, especially for our Industrial business, given its exposure to South America, bears additional forex headwinds.

Price mix is expected to improve by an additional percentage point in both businesses, thanks to an improved outlook for our Premium products and technologically advanced Truck tyre solutions.

Now, I leave the floor to Mr. Sala who will review the results of our tyre business.

SLIDE 17: KEY TYRE RESULTS

Thank you Mr. Tronchetti and good evening everyone.

In the fourth quarter of 2013, our Tyre business displays:

- A slightly positive revenue growth despite the strong impact of Foreign exchange worth -9.1% (mainly in LatAM and Middle East), and
- A record 222 million euro in profitability, growing 10.8% year over year at 14.9% on sales after restructuring costs. This is an increase of 1.4 percentage points year over year

The recovery in Europe and the solid trend in Nafta and Apac allowed for a 4.9% volume growth in the last quarter of 2013.

Price/Mix improved by 4.3% year on year due to

- well-timed price increases in emerging markets to offset high inflation trends and
- strong mix improvement with Premium volumes up 27.5% compared to last year

SLIDE 18. PIRELLI TYRE FY13 OPERATING PERFORMANCE

The profitability trend reflects the improvement of all top-line drivers coupled with the execution of our efficiency program.

For the fourth quarter, positive development in revenue drivers compensated additional industrial and marketing expenses and the increase in depreciation and Forex. In particular, we outperformed our peers in terms of price/mix growth.

The raw material tailwind nearly offset the rise input costs, mainly related to labor in emerging markets.

In addition, efficiency gains totaled 74 million euro in the full year, of which 25% in Q4, in line with our target.

SLIDE 19: CONSUMER BUSINESS: PIRELLI PERFORMANCE

Let us now review the performance of our Consumer business, which accounted for 73% of total sales in full year 2013.

Our results are perfectly in line with the FY 2013 targets of revenues at about 4.5 billion euro and an Ebit margin before restructuring of 13.7%.

Consumer revenues in the fourth quarter were up 12% year-over-year before a strong 9.4% negative Forex impact. In Q4 we reached a record 15.7% Ebit margin before restructuring; this result benefits from the strong growth in Premium, +27% in volumes.

SLIDE 20: INDUSTRIAL BUSINESS: PIRELLI PERFORMANCE

Let us now move to our Industrial business, which closed the year 2013 with a record profitability in excess of 14% Ebit margin before restructuring, an increase of 2.1 percentage points year on year.

This is the result of both volume growth and price increases made during the year as a countermeasure to limit Forex volatility.

Organic revenue growth was a positive 2.2% in Q4, facing a challenging comparison base due to strong results in the last quarter of 2012 [organic growth Q4 2012 +6%]. Our exposure to South America and Middle-East Africa, more than 70% of our quarterly sales, meant a negative foreign exchange impact of more than 8 percentage points; this brought total sales down by -6.2% in total.

Against this backdrop, profitability held well and stayed above the 15% Ebit margin mark in the quarter before restructuring. The positive trend in raw material prices sustained the result and our reference markets, Latin America and MEAI, confirmed their above-average profitability. Finally, we continued along the path of performance improvement in Europe, sourcing products at competitive costs from our 100% low cost manufacturing base.

SLIDE 21. 2014 RAW MATERIALS GUIDANCE

Briefly on raw materials.

Recent Natural Rubber price trends led us to revise our FY2014 expectations down, to an average of 2,250 dollars per tonne; this is slightly above the current spot price.

We still expect Brent oil at about 110 \$/barrel (not far from the current spot price), while butadiene is expected to go down as compared with 2013, to an average of 1,100 euro per tonne, above the current spot price

The benefits of our revised assumptions are partially eroded by the negative impact of Forex; as already mentioned, we expect a raw material headwind of 75 million euro for 2014.

SLIDE 22. FY 2014 MAIN PROFITABILITY DRIVERS

Still on our expectations for the full year 2014, we now recap the main assumptions that make us confident to reach about 850 million euro of Ebit.

What has changed as compared with last November is a heavier headwind from foreign exchange rates. This will translate in a 60 million euro Ebit variance versus our previous assumptions.

On the other hand, we are ahead of our budget in terms of Premium volumes, which will add to Ebit, and we will benefit from 45 million euro in lower raw material costs.

All in all, these items sum up to zero and our Ebit target is unchanged.

This concludes the presentation and we are now ready to take your questions.

Questions and Answers

Philip Watkins – Citi – Analyst

I wanted just to ask, with the new asset investments from Rosneft, does this hasten at all the plans you have for expanding your distribution in Russia? I was wondering if you could perhaps give an update

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

Thank you. Yes – the answer is yes. As we mentioned, we already opened in Sochi one point of sales in a gas station. For the time being, it's very successful. We opened it just few months ago. We had a plan to open another 10 in the next months. We are starting with them, analyze of geo-marketing the places out of the 2,900 point they have in Russia.

And we also have plan to have larger-scale flagship in areas around Moscow and Saint Petersburg. We have to profit of the two seasonality of Russia to be located properly in order also to offer the storage for the season of the replaced tires.

So we have projects and we have our team working with the team of people and started immediately analyzing the Rosneft guys to the options we have on the table. It will take some time but definitely will be very helpful.

Philip Watkins – Citi – Analyst

That's great. Thank you. And also on the winter tires for Russia. I know, you've invested – you're expanding the range. I wondered if you could update us on the progress of that in terms of offering tires in the full market in Russia.

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

Yes. We are expanding the range of products. Last year, we were short in measures of different products. Now, we will launch for the next season, 72 measures of the new product. That means that we will be able to serve the market in the way that the market want to be served because we have competitors having large range of winter tires. And now, we're able to deliver Russia from Russia, Ice Zero, new products and our Cyber Tyres, that are key in order to penetrate the market. So, in a bad environment, we are delivering. This is really a good result compared to last year.

Gaetan Toulemonde – Deutsche Bank – Analyst

Good evening. I have three questions. The first one is you mentioned that you expect this year price and mix increase of 4% to 5%. Understood that you expect a small price increase and bulk of it is coming from the mix and clearly the premium side; but there might be a difference between Europe and emerging market regarding the pricing environment.

So is the pricing environment positive in Europe and in countries like Brazil or Russia when the raw material price might go up very strongly, can you increase significantly the price enough to compensate that? That's my first question.

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

Yes. We already did in Brazil, Argentina and Russia price improvements, and we continued the same policy. Taking into account that we can also balance thanks to raw materials, the effects of the erosion of the ForEx. So in these environments, as I was mentioning during the presentation, we see that the first few months of the year are in line with targets also thanks to the actions we are making in prices.

Gaetan Toulemonde – Deutsche Bank – Analyst

But if you talk about the small price increase in this 4% to 5%, and if the price are increasing significantly in those emerging market to offset raw materials, that mean that the pricing are negative in Europe, is it correct?

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

We don't see any major reaction in Europe. Prices in Europe have been eroded last year. As everybody knows, this year we see more stability. We don't see major changes in European market, at least also more sound than last year.

Gaetan Toulemonde – Deutsche Bank – Analyst

Okay. Two other quick question, the first one is that I know you want to sell your steelcord business to Bekaert, but there is no risk of antitrust in the potential sale of that business?

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

Yes. We made the analysis on the antitrust issues. We have one in Brazil that we are tackling. But we don't see major effect. There are also in Europe and Turkey. In Europe, we don't see any major effect and also in Turkey. Any other provision we have in our contracts, in our agreement as such, we consider we can overcome in a satisfactory way for both parties.

Gaetan Toulemonde – Deutsche Bank – Analyst

Okay. The last question is Russia. Can you update us a little bit on the situation because when I look at 2014, I mean, if I remember correctly, last year, the losses were approximately €10 million. But this year, we have a car market which is expected to be under pressure. The ruble has devaluated significantly. So you paid the raw material at the much higher price. Can you summarize a little bit the situation? And the question linked to that point is that, is there any risk that you might have to do some asset write-off in payments because of the value of your asset at the time you bode them under current situation with the ruble devaluated by 25%?

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

First of all, we see that we can confirm the target. Last year, we lost more than €15 million. This year, we expect to have a mid-single-digit profitability and we expect revenues with a double-digit growth. In an environment, where we see the current market negative as everybody knows. So we have a better mix of products. We have better distributions. So we are starting capitalizing what we did. And so, the distribution has improved a lot and the key is manufacturing.

We have 72 sizes of Ice Zero Studded product while last year we had only 30 sizes. We confirm November guidance even in an environment that is weaker, with a ruble at 50 per euro. If the scenario will deteriorate further, we can change our product flows to take advantage of the weaker ruble.

And so, we can export from Russia to Europe at a very cheap cost. Today Russia is the best in terms of cost because the devaluation made Russia even more competitive that China and Romania. And we are planning to export some tens of hundreds – so some 300,000 tires from Russia. But anyhow, we confirm all our targets. We are increasing fast our market share. Thanks to the product portfolio and distribution that has been included. The management team is doing a good job.

Gaetan Toulemonde – Deutsche Bank – Analyst

Okay. So that's pretty clear that you're not too much worried about Russia. Thank you very much.

Martino Deambroggi – Equita – Analyst

Good evening, everybody. The first question concerns the performance of the Industrial truck business; can you give us any update on the deal in Asia?

Gregorio Borgo - Pirelli & C. SpA – General Manager Operations

Yes, good evening. The industrial market was quite positive in Europe. We had a good start-up of the market two weeks ago. And so, we are leveraging on this. And the main area of growth for us is Germany because we work in a different way. We leverage on our equity on Pneumobil and on the shop we integrated. And we have as well increased our direct presence to many, many German fleets, thanks to a package of the service offer that is very effective in Germany that is including fleet management, fleet checker, as well the Cyber Fleet.

The other important performance we have to highlight is in Italian market and in East Europe where the market is growing, and our growth is in line with the market. The market growth in East Europe was more than 20%. And I think all the industry in Europe is benefitting through a good price discipline and consistency. On top of these, the fact that we don't have a factory in Europe and the main sourcing for Europe is from Turkey, Egypt and China. We are taking an advantage on the devaluation of these currency. And so, our transformation cost is very, very competitive. So I think we have a good – very good setup in Europe in the industrial business.

Martino Deambroggi – Equita – Analyst

Okay. Thank you. I was also referring to the potential partnership in the Asian market for the industrials business. I was wondering if there is an update on this issue.

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

Yes. We are going ahead with survey we are making and with the contacts we have to analyze deeply the options on the table. We are also checking on the evolution of the regulation in the countries, mostly in China to see if there will be a larger room for technological partnerships. We continue these analyses because the quality of the product we have today and the production business we have could have a good fitting with an Asian partner, as I mentioned when we presented the Industrial Plan.

So there's nothing new. We continue the survey, and nothing in the short run in any case.

Martino Deambroggi – Equita – Analyst

Okay. And the change in the controlling structure with the entry of Rosneft doesn't change this strategy? I was wondering if Rosneft can help you in accelerating this process because in your initial speech, you were talking about the connections of Rosneft in China and other places. I don't know if there is some connection.

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

Yes, it will accelerate this process. This partnership it's adding value to us. Now we have on board an industrial partner that will strengthen our competitiveness in Russia and as a longer-term view, make us in a position to approach any potential partner or customers, with longer-term perspective and that's good to set long-term partnership also in the field of the industrial business.

Martino Deambroggi – Equita – Analyst

Okay. Thank you. And still on Russia, you are quite confident, but could you share with us the first two months' figures, just rough indications?

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

Well, for the first three months in Russia, we are in line with the target. The target, as I mentioned before, was to go from a negative EBIT margin, to a mid-single-digit margin for 2014. And the progresses we made in the factories are such that we can deliver better portfolio – larger portfolio of products. And so, the first two months, we had a double-digit sale volume growth year-on-year. And that is in a downturn market.

Market was down 6.5%, segment A&B were down 10.3%. So, in these environments, we are growing thanks to the distribution, improvement in the distribution, and thanks for the product portfolio we now produce in Russia. So, the efforts we made to support the staff out of the two factories are starting delivering. And our competitiveness now becomes effective.

Martino Deambroggi – Equita – Analyst

Okay. If I may just a question, during your speech, you talked about, sorry if I'm wrong, but contingency measures in LatAm, if needed. Are you planning anything?

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

Yes. So, first I mentioned before the increase of prices in both in Argentina and Venezuela. And we see growth in Brazil up 2% in the present, market that is confirmed. We see the weakness of the original equipment both in truck and in car; but a growth of our equities in which we're improving the sales dramatically.

And thanks to growth efficiency, we cope with the weakness of the Reais and we cope also with the weakness of the original equipment. So, we are offsetting the volatility of the ForEx. And the distribution is our strong point. So I think the actions we put in place are protecting us from the volatility of the market.

Chris Smith – Barclays – Analyst

Hi there. Just one question from me. Just on your guidance on car tire market in Europe. You've got up 3% year-on-year. I'm just wondering given we're plus 1% year-to-date for the market, the replacement market in Europe, and the comps are getting tougher, how do you see that developing over the course of the year? Do you see a significant ramp in volumes later in the year? Just wondering how the profile looks? Thanks.

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

We see that the expectation for the beginning of the year, where we are in – the seasonality of the summer is a bit over the expectation. The stocks, as I mentioned before, were lower than last year -end 2013. And so, now we are profiting, sell-out is doing well. So we see this trend to continue. Then, looking forward to the winter season, stocks were low, end of last year. That's why we are confident that 2014 should continue the way we saw it, the beginning of the year, in both seasonality, both in summer and wintertime.

Now in case we are doing a bit better and to the actions that we have taken last year in key countries like Germany and Italy, and so we think that we have a stronger briefing in the distribution, and that's why we are confident that we can support the positive trend we see today, the good service.

Stephan Puetter – Goldman Sachs – Analyst

Thank you very much for taking my question. Actually, only two housekeeping items, I guess. The first one, when I look at the very detailed guidance you give us always on FX, raw materials, cost inflation, etcetera, it sort of implies that you expect volume price and mix to contribute about let's call it €400 million to the profit improvement this year. Is that a fair calculation? And maybe you can give us a little bit of color of how you think it's going to split between volume and price mix.

And then the second question, also again a bit of housekeeping, on the raw material guidance, obviously in dollar terms, the rates of – or the raw material prices are very low. So can you give us a bit of flavor of how you would split this minus €75 million on the currency impact, in particular I guess in Brazil, and on what the benefit I guess is from the lower rates in dollar terms? Thank you.

Gregorio Borgo - Pirelli & C. SpA – General Manager Operations

Okay, I will start from the price mix. As Mr. Tronchetti said before I think the markets are growing in the first month more than expectation and we are gaining market share in the Premium. So this is happening more or less in all the area of the world, in Europe for sure but as well in NAFTA, APAC and as well in Russia as we see it. So we have, let me say, a very positive impact on the Premium segment, as well thanks to a better brand mix.

Russia is one of the example of these. We are selling. We are growing more in Pirelli and decreasing a little bit our appraisals in the C branch.

So we have, all in all, a very positive brand mix and as well as very positive mix inside the Premium. And especially thanks to the fact we have a very positive start-up with BMW in Germany much better than one year ago as well because the stock, as mentioned by Mr. Tronchetti are much lower, this is helping to have a very important gain in the market share in this segment in Europe.

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

We already gave the guidance in the slide 21, so practically what we forecasted for the full year 2014 is for natural rubber \$2,250 per ton, which means really which is above the current stock price. The daily average in the month of March till today is \$1,120 per ton. So we are talking about a number that is definitely still higher than the current number.

Then when we talk about Brent oil, we are in line with the assumption, and butadiene, \$1,100 is also in this case higher versus the current stock price. We prefer to stay cautious and to confirm the fact that considering the view of the volumes that we have seen, the raw material costs could increase versus the current stock price. So looking inside the impact on Brazil, the devaluation of the real will represent an effect negative in the cost of raw material in reais. And this is one of the first element that we have to compensate in terms of price increases, and this is what we are doing starting already from February and we will progress during the year according to the exchange rate devaluation and to the raw material cost movement following our pricing policy in these countries.

Edoardo Spina – Exane – Analyst

Good evening. Thank you for taking my questions. I have three. First one is on North American tire markets for the consumer markets. I understand as being a bit weak generally, and I wanted to ask you if the changing weather, the better weather is already showing up in better sales or car production in the month of March.

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

Thanks to the mix of the products we have and thanks to the improvement in distribution, first months in U.S. performed in line with our targets. And so, we didn't see any effects. Our people were able to balance these bad weather effects with a larger distribution in areas where we strengthened our point of sales presence in second half of last year, like in California, where we added 250 point of sales in our net in the second part of last year. And so, all this is balancing the weather condition. And looking forward, we are confident we continue the same trend.

Edoardo Spina – Exane – Analyst

Okay. Thank you. And the second one is on Prelios, the impact that could have in 2014. I understand the company is yet to report, but do you have like a general guidance for us for the impact on Pirelli?

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

We made an evaluation of Prelios, on the official figures of the company. And the evaluation was made by an Italian evaluator and we don't see major risks taking into account that we devalue to 130 our participation. And so, we don't see major effects in the coming months for what we know until now.

Anyhow, we have our portfolio of activity that can more than rebalance possible or potential value decrease. So, we don't see the extra evaluation for the time being. But in case there will be some, we are more than safe considering what we have in the pipeline. Anyhow, the trends we have are not negative, and the devaluation made was confirming the evaluation of the convertendo after the devaluation we made.

Edoardo Spina – Exane – Analyst

Okay. Thank you very much. And the last one on tire pricing. Because you sound I think a bit more positive than some competitors, especially Continental for Europe especially and maybe U.S. Can you maybe tell us if there is a different Pirelli behavior like you're able to keep more pricing, or there is a different segment, maybe dynamic in Premium is better than the rest? I don't know, I'm just wondering. Thank you.

Gregorio Borgo - Pirelli & C. SpA – General Manager Operations

What we have done there, as mentioned before, we have a very good homologation portfolio and very strong supply. So this is giving us a better pull-through than our peers. And so, we are having, especially in Europe, a different price positioning between the market tire, these are the tire that we are selling in replacement for BMW, Audi, Mercedes, Land Rover, Volvo, so on and Jaguar. And this is helping us to have a higher price discipline.

I think another important thing especially in Germany is to grow in our point of sales because having an equity, having our own shops is helping us to stabilize as well prices.

Thomas Besson – Exane – Analyst

I've got a few questions left. First, on the guidance, can you please confirm whether this guidance already includes the expected disposal of your steelcord business to Bekaert or is this guidance result the impact of the disposal?

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

In our guidance, there is nothing related to the transaction. I just mentioned that we expect to close the transaction by September next after having passed by the antitrust authorities. And we don't have – not even in the economic side or in the financial side, nothing in our guidance. And in case everything will go right, and we don't have any reason to expect not to be like this, we will have an effect of more than €200 million in the financial side of the cash. And in EBIT terms, we should have a positive result on the profitability.

Thomas Besson – Exane – Analyst

Okay. Sorry, maybe I was not clear. Is your net debt guidance assuming that the deal takes place or not?

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

It will improve. Our net debt will go down €200 million in case – at least €200 million.

Niels Fehre – HSBC – Analyst

Yes, thank you. I have only one question left. I think you mentioned that the A&B segment in Russia is down 10% in the first two months. In your presentation, you write that you expect the premium market in Russia to be flat and the total market to be down only 1%. Can you confirm that data, or is that related to Pirelli performance? Thanks.

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

I confirm that we said it. In the first two months, Pirelli have been positive with a double-digit sale volume growth. In a downturn market and the market total is down 6.5% and the segment A&B are down 10.2%. And in better environment, we grew double digits. That's why I'm confident that the reliability of our products and distribution we set can provide us the opportunity to deliver what we have in our plan for this year.

Niels Fehre – HSBC – Analyst

So, just for the full year, the market outlook for Russia, do you expect that in the full year, the A&B segment will be flat or negative? Because first two months have been negative, so I guess, full-year market will be also negative, or do you assume that the market will be flat?

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

We expect a negative market for full year. That's right.

Jose Asumendi – JP Morgan – Analyst

A few questions, please. The first one, your efficiency guidance for the year for FY 2014 looks a little bit cautious to me. Can you just remind us what are the drivers behind that cost savings target that you have for the year? And could you comment a bit on the capacity utilization or the utilization of your plants across regions and where do you see the biggest upside to utilize that area of plants?

Gregorio Borgo - Pirelli & C. SpA – General Manager Operations

So let's start from our capacity and I will start from the Consumer business. Our total capacity was growing of 2 million that were 2 million of premium, so it's going to reach 72 million this year. And we are as well converting 2 million from standard tire to premium, so total year capacity is plus 2 million but plus 4 million in the premium.

And if you think always talking about the Consumer business, we have almost 80% of our capacity in low-cost country, and we have a premium weight on our total capacity of 62% and a premium in the low-cost country of 63%. So we think that with this industrial base, we can perform the target in efficiency and decomplexity. For the first two months, I think we are in line, so we have exactly the speed we foreseen in London. And as well if we look at the forecast at the year-end, we are basically on line with this.

The main drivers are, like you say, a reduction of the active components in the products. We are improving a lot in the product turnover and so in the allocation planning as well we are working in the process to minimize the machine variability. We have consistent improvement in productivity. And as well another key driver is the scrap reduction that is working extremely well both in the high-cost and low-cost factories.

Jose Asumendi – JP Morgan – Analyst

Thank you. The second item, please. Could you just give us some comfort, please or some guidance by how much do you need or do you plan to increase prices in Latin America and how long does it take to basically feed those prices into the market?

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

In Argentina and Venezuela, the price increase are two digits and in Brazil is one digit. So, that's the move we are making in the market.

Jose Asumendi – JP Morgan – Analyst

You feel comfortable that with your price increases you're going to be able to offset the headwinds?

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

Yes, we are confident and we are doing this. In Brazil, we are also in a position where we are increasing the sales through our own equities, and so we can protect better the prices. And so, we have the largest own equity structure in Brazil and we are leveraging on it. So, we are doing this in a satisfactory way. Anyhow, the slowdown, as I mentioned before in Brazil, is obviously in the original equipment. In the professional car tires, there is also starting a bit of slowdown in the truck business. And the performance fees, we are having in Europe, in Asia, whether we do in the other regions such that we balance also the slowdown of the original equipment in Brazil even looking forward.

Jose Asumendi – JP Morgan – Analyst

Okay. And then finally, please, on Russia, could you give us an update on from the manufacturing state of your plants, is there anything else you need to do on the manufacturing side in order to improve the profitability, or I am getting this right, it's all basically distribution related?

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

In Russia, the best achievement we are having is the number of sizes we can deliver to the market for the winter season and we are progressing well for the Pirelli brand. And decomplexity in Kiev is doing well. So, all in all, finally, these factories are becoming efficient then we have also the opportunity to export outside Russia to Europe with profitability that is a double-digit profitability, thanks to the low cost also related to the ruble devaluation. So, that's why we are positive and we are confident we deliver the turnaround we are progressing in Russia.

Conference Call Operator

That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.