

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

SLIDE 2: KEY MESSAGES

Good evening ladies and gentlemen and thank you for joining us at this Conference Call on 2014 half year results.

I believe that, based on the results just approved by the Board of Directors, the following key messages can be drawn:

Premium, our platform for value growth, exceeded our expectations worldwide. The OE market share increase we are experiencing, now above >20%, +5pp since 2011, is translating into replacement sales with a very high pull-through rate in marked items. In this segment, resilient in terms of pricing, we increased our marked homologation portfolio by more than 60 items per year in the last 5 years, becoming a clear market leader with a total homologation portfolio of more than 1700 items.

The Premium concept is a 'moving target': every time a new Premium car is launched, tyres of a larger size and new technological solutions are needed to set them apart in terms of quality standards.

- For mobility, we offer runflat, self- sealing Tyres
- For a better parameter monitoring, our cyber tyre technology connects tyres to the car control unit
- for consumption and comfort, we developed technologies such as ultra-rolling resistance and noise reduction
- for customers' specific requirements, we provide summer/winter/all season and tailor-made tyres...
- for 'perfect fit' with electronic drive-control systems, we co-design tyres with Premium car manufacturers, to device OE marked tyres

All of this fits in with our current Premium range, with different tyre sizes and lower unit volumes for each manufacturer. To lead in this segment, we must be focused on a fast portfolio renewal and extremely flexible manufacturing facilities. We distinguished ourselves from our competitors on the basis of these levers and assets and we accelerate our progress to fully seize market opportunities.

In the last six months, speed and flexibility of execution, combined with the value creation culture increasingly permeating our organization, allowed us to manage price/mix, raw materials, and high foreign-exchange-rate volatility in the best possible manner. With a positive impact of these three elements of approx. + 60 mln euro on the Ebit bridge, we are best performers amongst our peers.

At the same time, we keep improving our efficiency plan which fully offset input cost inflation.

As for our outlook for 2H 2014, despite the economic slowdown in some developing markets, the exchange rate volatility in some of them, and the strong reduction in the Car and Truck OE segment, the tyre industry once again turns out to be resilient and the main players keep on focusing on profitability and free cash-flow generation.

In this context, we are confident to achieve our 2014 targets. We are implementing short-term recovery plans in Latin America and new medium-term projects are under scrutiny.

At this point, let's quickly review our results to leave you more time for the Q&A session.

SLIDE 4: PIRELLI KEY FINANCIAL RESULTS

We delivered profitable growth, improved our positioning in the top product segments globally and were able to generate cash after dividend payment, making further progress towards our 2014 targets.

2Q Results show:

- Continued organic revenue growth due to the acceleration of price/mix, +6% (+4.6% in 1Q) and the best in the industry, as we reaffirm our commitment to value and focus on the most profitable market segments.
- Improved positioning in the Premium segment, with volumes up nearly 21%, in line with the first quarter, and a clear market outperformance in Europe, North America, Asia Pacific and Middle-East / Africa. While providing resilience to economic cycles, this segment is now 56% of our Consumer sales and more than 77% in terms of Ebit.
- Efficiency gains worth approximately 21 million euro and reaching 54% of our yearly target already in 1H 2014.
- Ebit growth at 12.6% year on year, with margin improving by more than 2 percentage points and approaching 15%.
- Net Income above 100 mln euro, + 31% yoy.
- Cash Flow Generation of nearly 190 million euro before dividends, due to strong Operating Cash Flow performance (~100€/mln in 1H 2013).

SLIDE 5: 1H PERFORMANCE BY REGION

On a regional basis, half year results were characterized by:

- Strong growth in our core Premium markets: Europe, Asia Pacific and North America.
- Positive progress in Russia, in line with expectations. Despite a decreasing market, we ended the first half with a market-share gain of more than 2 points in the second quarter, reaching around 12%, and a high single-digit profitability.

Turnaround is progressing with the winter product renewal:

- the new Pirelli Sottozero is available in a wide range,
- Pirelli Ice Zero has more than doubled its sizes versus 2013 and
- we extended range also for the studded Formula Ice.

In terms of industrializations, we are ahead of schedule in both Voronezh and Kirov plants and retail development continues supported by geo-localization the partnership with Rosneft.

- In South America, despite market contraction in OE (-19% YTD) and resilient Replacement (+4% YTD), we protected our profitability which is confirmed in the mid-teen range after a 1 percentage point drop in Ebit margin compared with 2013.

In this region, we proactively addressed the volume drop with an improvement in price mix which counterbalanced the headwind from raw materials and foreign exchange volatility and a greater focus on efficiencies. We are also defining specific plans to strengthen our positioning in the market and new efficiency programs to protect value also in the medium term.

SLIDE 6: PREMIUM: OUR GROWTH ENGINE ACROSS REGIONS

More specifically for the Premium segment:

- In Europe, which is our main Premium market, the positive effect of the OE Pull-through strategy continues. Premium replacement sales of Marked Tyres increased by 20% yoy in the first half and now account for about 50%.
- Winter market forecasts are positive. Negotiations in Central Europe on Winter pre-orders closed positively and in line with expectations for the year-end.

To support this growth, a number of programs are already in place to consolidate our Premium leadership :

- OE Homologations: in the second quarter, over 30 new homologations were added to our portfolio which, in Europe, account for around 87% of our global homologation portfolio.
- Retail: increased market coverage and stronger support through tailored marketing initiatives for those outlets most exposed to Premium consumers with.

In North America, OE Pull-through is working well and we are benefiting from our past investments in the Original Equipment channel:

- Marked Tyre sales increased by 19% yoy and accounted for about 39% of Premium Replacement sales in the first half
- very good performance among the main Premium OEMs, in particular BMW with an OE share well above 40%

Meaningful improvement also in distribution coverage through our FasTrack program: a successful loyalty program that we started in 2013 and now accounts for more than 700 POSs, with increasing volume and solid premium mix (over 50% of volume is 18 inches and above)

In South America, we are driving the expansion of the Premium Replacement Market (today less than 6% of the Car tyre market and +17% yoy in the first half) leveraging on the evolution of regulations for green products and car market trends.

Finally, in APAC we are reinforcing our OE strategy. In 2Q, the positive effect of the link with European Premium brands was even better than in 1Q, with an improvement in market share strengthening our partnership with Mercedes, BMW and Volvo. OE Pull-through is working well, in the first half of 2014, the incidence of Marked Tyres on Premium Replacement Sales reached 45% (+4 percentage points vs. FY 2013).

SLIDE 7: PIRELLI NET INCOME 1H'14 VS 1H'13

Net Income in the first six months of 2014 was positive for 193.8 million euro, or 39 cents per share in terms of attributable income.

This is a growth of more than 43 million euro compared with the first six months of 2013, which is to say more than 29% yoy, above our percentage growth in Ebit.

This growth stems from our Operating Performance, which delivered nearly 48 million euro in additional Ebit.

Financial charges were lower by more than 11 million euro year-on-year, as they discount a slightly lower Cost of Debt, which now stands at approximately 6% and compares with a 2013 figure which included one-off charges linked to Foreign Exchange devaluation (worth more than 8 million euro).

Results from Equity Participations, negative 2.9 million euro year-on-year, mainly relate to valuation adjustments of our stake in both Prelios and Alitalia.

Finally, Tax Rate improved year-on-year at a seasonally high 37.4%, in line with our full-year target of 36%, but better Operating Results led to higher Tax Charges for approximately 14 million euro.

SLIDE 8: PIRELLI DEBT STRUCTURE AS OF JUNE 30, 2014

Pirelli's Gross Debt is worth approximately 2.5 billion euro, around 50% of which maturing from 2016 onwards.

Our main maturities come due in 2015 and 2016 and they will be refinanced in both banking and capital markets which are very supportive of our credit.

The liquidity margin of 0.85 bln euro includes 0.5 bln euro of Cash and Cash Equivalents.

Finally, the Cost of Debt stood at 6%, in line with the target of "below 6.5%", as announced to the market for FY 2014.

SLIDE 9: PIRELLI 1H'14 NET FINANCIAL POSITION

Let us now review the development of our Net Financial Position over the second quarter of 2014.

Net Cash Flow generation before dividends was 190 million euro, or 12.6% of our sales in the Quarter, almost doubled as compared with the first half of 2013.

Positive Cash Flow generation was mainly achieved through an improvement in Net Working Capital, as we cashed-in the seasonally high receivables booked in 1Q. Our Inventory also structurally improved, and now stands seasonally at approximately 17.5% on sales (equal to June 2013), also for the winter season preparation, and will be reduced, within year-end, to approximately 16.5%.

Investments totaled approximately 78 million euro, or 1.1x depreciation, in line with our full-year target which implies, as usual, higher Capex towards the end of the year.

Therefore, at the end of June 2014, our Net Financial Position amounted to approximately 1.9 billion euro; this value is in line with our Budget and will reverse back to meet our full-year target of approximately 1.2 billion euro at constant consolidation perimeter.

SLIDE 11: 2014 PIRELLI OUTLOOK BY REGION

Let us now review the evolving scenario we are witnessing in global tyre markets.

Although the overall picture remains unchanged and our targets are confirmed, I would like to address the updated assumptions versus our first quarter 2014 presentation.

In brief, we still see the global Car Tyre Market growing between 3% and 4% this year, the Premium Market confirmed growing three times more than Non-Premium, with the main differences being a pick-up in growth in Europe and a slower OE market in South America.

Our more optimistic view on Europe – with faster growth by 1 percentage point as compared with the previous Guidance given in May – is based upon better expectations for the Premium segment as well as improved Original Equipment markets in general. Even accounting for this growth, the European market is well below the expectations we had in our 2011 Industrial Plan.

Central European markets are performing particularly well and Winter pre-booking is positive, also due to favorable stock levels in the distribution channel.

Our value proposition and continued investments are proving successful in allowing us to benefit from this market growth, hence the improved outlook of high single-digit Revenue growth and mid-teen profitability for the Region.

In South America, while the Premium segment is still growing rapidly, the OE market has worsened in connection with the deteriorated macro environment and limited car production.

We will address this market more in detail later on, but we are confident in our ability to maintain a solid Profitability in the region, in the mid-teens, as Replacement demand is proving resilient – benefiting from the strong car park growth seen over the last 4 years. We can also rely on the wider distribution network and improved operating efficiency.

Market growth expectations for the other regions have not changed significantly.

What we have seen so far this year, however, makes us more confident in market growth for the Premium segment in Asia Pacific, where we confirm our Revenue targets but will deliver better profitability through an improved Product Mix.

Successful deployment of our Premium strategy in selected markets of the Middle-East Africa region will allow us to achieve an Ebit margin in the high-teens, with unchanged assumptions as far as market growth is concerned.

While the Russian Car Tyre market is expected to contract in 2014 as compared with the previous year, our improved product offering and wider market coverage will allow us to outperform, gain market share and reach a profitability in the high-single digit, above our prior expectations. In addition, the shift from legacy brands to Pirelli is progressing above our expectations.

Concerning the well-known issue of US sanctions against Russia and possible implications of Pirelli or Pirelli Board Members, I believe it is important to share with you the legal opinion by a prominent international legal firm that we just received two days ago which states that *“under current US law, Pirelli is not in violation of the Office of Foreign Asset Control (OFAC) sanctions on account of the ownership interest of Rosneft and/or the presence of Mr. Sechin (and the other Rosneft designees) on the Pirelli board”*.

Lastly, we confirm our assumptions of a low-single digit Tyre Market growth in North America, where we aim at growing Revenues in the mid-single digit and reach an Ebit margin in the mid-teens.

SLIDE 12: SOUTH AMERICA

Now, I would like to focus on the actions we are putting in place to navigate the current challenges in the South American market.

As you are well aware, the macro-economic scenario has changed significantly over the last 2 to 3 quarters:

- high interest rates – the Selic now being as high as 11% - have depressed consumer demand and investments;
- high inflation – also due to energy shortage - has impacted on consumer and business confidence.

This notwithstanding, the Brazilian economy has strong fundamentals which reinforce our long-term plans for the Region: low domestic debt as a percentage of GDP, 50% of the average mature countries, and fast growing middle class, with 53% of the population now having a formal job, having access to credit and having acquired a car or a motorbike.

As for the Car Tyre Market, the OE channel is contracting in line with its cyclicity. Growth is expected to return in 2015, albeit at a mid-single digit rate and depending on Government support. The Car Market Mix is improving, and, with it, the quality of the tyre market, expected to include an increasingly high proportion of 17 inches and up tyres.

The Car Replacement Market is still growing, benefiting from the Car Park growth we saw in the last 4 years which will support tyre sales for the years to come.

The Truck Business is highly cyclical and discounts the reduction in governmental financing support. We are strongly exposed to the Replacement channel, which compares with a particularly challenging comparison base given the strong volume growth in 2013.

For the full year 2014 we expect a Replacement market down 3% but with the All-Steel segment still positive up to 2%.

We aim at counterbalancing the current market weakness by leveraging on our strengths:

- in Car OE, we are protecting our leadership by acquiring new homologations;
- in Car Replacement, we are strengthening our positioning through new services to Premium dealers and new product launches, maintaining our pricing leadership; Premium has a growing contribution in South America results: it is more than 6% of car volumes but nearly 4 times as much Ebit.
- Better market coverage through our integrated retail network counting more than 600 points of sale, out of which 130 are equities.
- On truck we will speed up the introduction of the new All Steel product platform 01 Series and we will focus on upgrading our current service offer to medium and large fleets. This will be done leveraging on our current partners, like Marangoni in Retreading and Autotrac in telematics services, as well as future partners
- Acceleration of our efficiency program, working both on de-complexity in order to make our plants leaner and reduce our SG&A expenses;
- Increased exports to adjacent markets where we are currently underrepresented and have the potential for strong growth.

SLIDE 13: FY 2014 TARGETS CONFIRMED

As mentioned, our overall 2014 targets are confirmed.

Revenues are expected at 6.2 billion euro with a different driver mix:

- 4.5% volume growth, almost 1 percentage point less than the previous guidance, due to the revision of our assumptions for the Industrial business;
- Stronger Premium growth leading to better price/mix; and
- An expected smaller negative foreign exchange impact.

The Consumer business is expected to show a stronger growth profile as compared with previous assumptions, mostly due to our performance in the Premium segment and overall in Europe and Asia Pacific.

This will compensate slower top-line growth in the Industrial business due to market slowdown in South America.

Profitability is confirmed at approximately 850 million euro, and Net Debt of 1.2 billion euro, before the Steelcord impact.

SLIDE 14: FY 2014 CONSUMER AND INDUSTRIAL TARGETS

More specifically on our two Business Units, we expect the Consumer business to show a higher revenue growth, driven by

- Volume, at more than 6.5% yoy
- Price/mix, now seen between +4.5% and +5.5% where the difference is essentially the mix improvement
- A slightly lower negative Foreign exchange impact

Profitability will improve to at least a 15% of the Ebit margin and will compensate for lower Industrial Ebit, due to:

- Volume drop of 2% yoy
- Lower price/mix improvement of around 1 percentage point, mostly due to lower price increases as compared with the previous assumption, consistently with the current raw materials and foreign exchange rate scenario

SLIDE 15: FY 2014 PROFITABILITY GUIDANCE CONFIRMED

Our Profitability Guidance is confirmed at 850 million euro after restructuring costs.

A more benign scenario in raw material prices as well as foreign exchange rates will allow us to compensate for:

- a lower contribution from volume growth, approximately 30 million euro, coming from the Industrial Business

The positive 15 million euro difference will finance higher investments in Premium growth, a market which is confirmed growing three times as fast as non-Premium, as we increase our marketing initiatives in relation to:

- F1 partnership activation,
- Premium retail and equity expansion projects with trade marketing activities and dealers support, and
- Premium and Prestige car dealers relationships, such as co-marketing activities and marketing partnerships

And now I leave the floor to Mr. Sala.

SLIDE 17: KEY TYRE RESULTS

Thank you Mr. Tronchetti, and good evening everyone.

The second quarter results of the tyre business continue along the profitable growth path started with 1Q, posting mid-single digit organic growth and 2 percentage points in Ebit margin growth.

Despite foreign exchange volatility and uneven growth profiles of regions and channels, these solid results make us confident we can reach our full year targets.

- Price/Mix was the main driver of top-line growth, +6% yoy, improving sequentially from 1Q due to strong development of Premium volumes – almost +21% - and a balanced approach to pricing.
- This allowed to mitigate the forex headwind on sales, -9.4% yoy, stemming from our business in South America as well as Russia and Middle-East Africa.
- Volumes were stable in 2Q, with an outperformance of Europe, North America and Asia Pacific, compensating for decline in South America, concentrated in our OE channel and Industrial Business.
- This leads to the overall sales figure being down 3.6%.

Quality organic growth and efficiency improvement allowed us to increase profitability by almost 23 million euro bringing our tyre margin to 15.2% of sales, 15.6% before restructuring.

SLIDE 18: PIRELLI TYRE OPERATING PERFORMANCE

Let us now turn to analyzing the internal levers which brought about a profitability of 229.1 million euro in 2Q 2014, an increase of 11.1% yoy:

- The effectiveness of our value strategy translated into a 31.5 million euro net gain deriving from:
 - 54 million euro price/mix growth, and
 - a small raw material benefit, 6 million euro

despite 28.3 million euro foreign exchange translation headwind.

Efficiencies, 21 million euro in 2Q, neutralized the quarterly impact of cost inflation and totaled nearly 49 million euro in 1H 2014, slightly above the pro-quota of our yearly target of 90 million euro.

Additionally, we increased our investment in Premium growth by 10 million euro in the first half of 2014, related to the mentioned marketing activities and retail support.

SLIDE 19: CONSUMER BUSINESS: PIRELLI PERFORMANCE

Our overall performance in 2Q rests mainly on the results of our Consumer business, worth 77% of tyre sales and showing organic growth of approximately 10% yoy.

This was achieved on the back of an improving price/mix momentum, +5.8% in the quarter, as we kept a value-driven approach to pricing and grew sales in:

- the Premium segment – with volumes up 20.9% - now worth nearly 56% of sales (+6pp yoy)
- in Mature markets, characterized by higher unit prices, now 57% of total sales (+4pp yoy)
- and in the Replacement channel: +1pp yoy at 74%.

Even after a heavy 8.3% negative impact of foreign exchange rates, Consumer sales were up 1.8% yoy.

Quality topline growth allowed for a strong increase in Ebit margin, at 16.1% before restructuring costs, +3.2 percentage points as compared with the second quarter of 2013.

SLIDE 20: INDUSTRIAL BUSINESS: PIRELLI PERFORMANCE

The results of our Industrial Business reflect a relevant impact of foreign exchange devaluation and a market slowdown in specific regions and product segments.

Foreign exchange devaluation translated in a 12.4% negative impact on sales, which decreased by a total of 18.1% in the second quarter.

This was partially offset by an improvement in price/mix, +6.5% yoy and better than the first quarter of 2014, as we executed price increases in Emerging Markets and introduced our renewed product and service offering.

Volumes were down by 12.2%, discounting an unfavorable comparison base - +20.6% in 2Q 2013 – a reduction in the lower added value X-ply segment (-20% yoy) and a contraction in Original Equipment manufacturing in South America.

Despite these factors, profitability was slightly up as compared with 1Q 2014 and Ebit margin stayed at 14% before restructuring costs, in line with our full year Guidance.

SLIDE 21: EFFICIENCIES

Our commitment to efficiency is confirmed.

The results achieved in the first semester, 54% of the FY 2014 target, build upon our track record of the last few years.

Our long-term plan envisages savings of approximately 350 mln euro, accumulating savings of 1% on sales each year, equally spread over 4 years.

More than 50% of the over 49 million euro savings achieved in the first half regarded raw materials, where we worked on:

- De-complexity, with a raw material portfolio streamlining and component standardization, and
- Waste/scrap reduction

The remainder are related to:

- Productivity improvement through de-complexity across plant (production planning of finished and semi-finished products), adoption of common best practices and cell organization
- Allocation to low cost countries by fully exploiting Truck delocalization and more competitive exports from locations with devalued currencies.

SLIDE 22: 2014 RAW MATERIALS GUIDANCE

Now, briefly on raw materials, increased visibility on the P&L for 2014 leads us to update our guidance.

Maintaining a degree of cautiousness, we now expect natural rubber prices to average 2,100 dollars per ton in 2014, implying a slight increase from current spot prices.

We still expect Brent oil at about 110 \$/barrel, while butadiene is now expected at an average of 1,030 euro per ton.

The impact of foreign exchange is now seen at a negative 170 million euro, for a total raw material headwind of 35 million euro on 2014 Ebit, or 40 million euro better than previously assumed.

Questions and Answers:

Philip Watkins - Citigroup - Analyst

Yes, good evening. And thank you for taking my questions. Just firstly, in terms of the guidance, it looks like it was a good second quarter for you. The winter tire market looks like it's shaping up quite well from what I hear from your comments and your peers. And I was just wondering if the guidance EUR 850 million was perhaps a bit conservative, or is there anything I need to take into account? That was my first question. And I'll ask the second one after.

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

Okay. Thank you. So, I think we slightly changed the guidance because of different mix between industrial and passenger car tires.

But, we confirm we can deliver the targets we have set at the end of last year, thanks mostly to the better mix we have achieved everywhere and thanks to the investments we are making in the marketing structure, where we are having very good results in a pull through effect on replacement with the premium in car tires.

Philip Watkins - Citigroup - Analyst

Thank you. And the second question was on the ownership structure and Rosneft. I don't know if you might be able to elaborate at all on why the lawyers said that you wouldn't be affected by sanctions. I never thought you would be, quite frankly, but because it's a small shareholder. But, I just wanted to understand what specifically they said, why you wouldn't be encompassed by these potential risks. Thank you.

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

Just because there are around a number of information that are not driven by correct analyses of the sanctions, we asked an opinion in order to deliver the answer that we knew was there to answer those because of the governance of the Company is not affected by the shareholder structure at Camfin level.

But, anyhow, we wanted to have a formal answer by an American law firm just to make all our investor confident and comfortable.

Martino DeAmbroggi - Equita - Analyst

Thank you. Good evening, everybody. First question is on pricing environment, if you could split your comments between standard and premium products. I don't know if it's possible by region, but just to understand if there is additional pressure on the standard that could affect the standard performance because, at the end, consumer performance in terms of volumes was essentially driven by premium, while standards were down quite significantly in the second quarter.

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

I will ask Mr. Borgo to give the answer. As a general answer, the situation is so well balanced that we confirm the price effect by year end to be slightly negative, but full under control and no negative effect on the high end, where we are protecting thanks to the launch of new platforms or prices. So, the

effects on prices are in the high end offset by the launch of new product platform. But, anyhow, I leave the floor to Mr. Borgo.

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

So, good evening as well from my side. I think the price environment is overall flat with a different situation in the various areas.

In Europe, USA, and China, we see a slight decrease of the industry that is giving part of the raw material advantage to the value chain. But, as Mr. Tronchetti said before, it is a region where premium mix is so high that we are more than compensating the price by a higher mix. So, all in all, the average unit price is increasing.

Of course, in Russia and Latin America, pricing is balanced in Russia and Latin America, where the content of the premium is lower. The pricing is balancing the ForEx situation. So, basically, we are able in the market to keep the pricing or even slightly increase the pricing in Latin America.

So, we think as well that, because we see a better outlook in the second half, as Mr. Tronchetti mentioned before, thanks of the switch of the seasonal market to winter, we feel as well lower pressure on prices. And because the stock, generally speaking, is much lower than a year ago and we had a quite successful winter pre-booking, where, all in all, we are at 25% higher than a year ago.

Martino DeAmbroggi - Equita - Analyst

Okay. Thank you. The second question is on Russia. I saw in your slide number 11 you are reducing the projection for the revenues, while improving the EBIT margin guidance. If you could elaborate a bit more on this, if it's possible to have a more precise indication. Thank you.

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

So, the -- in Russia, now, we are profiting of the improvement we had in the factories in terms of new industrialization and the product mix we are launching in the market.

This is now matching more and more with a better distribution we have in the country, thanks to the agreements we made at the regional level with distribution and big players and thanks also to the support of Rosneft, we are starting distributing with them. This year, we'll have just five or six point of sales. But, it's helping us in making agreements with the wholesalers at the regional level.

And also, the OE level, we are benefiting of the mix of products we have and of the local production. So, all in all, we are accelerating the turnaround of the last year results. And that's why we are confident that, in an environment that is not positive at all, the mix of products and the distribution channel we have opened provide us better performances than expected.

Martino DeAmbroggi - Equita - Analyst

Okay. If I may, my last question is on the search of an Asian partner that you mentioned in previous conference and presentations, just to know if there is any step forward in this search.

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

Yes, we continue, and we are in touch with some players. And we are going deep into this matter. There is nothing consistent we can open to the market. But, we see that, looking forward, an

integration in industrial business is convenient for both parties to take into account some very good players, that is players in Asia, and has already good market there.

And so, we are going ahead, nothing urgent, something that has to be analyzed well before being deployed, but we continue consistently this analysis. And we are very attractive because of the markets we cover and because of the technology that we handle today.

Massimo Vecchio - Mediobanca - Analyst

Yes, good afternoon. Two questions from my side, if I may. The first one is on CapEx, EUR144 million spent in the first half. The industrial plan was looking, if I'm not wrong to something like EUR400 million. I was wondering if you can give an indication of where you can end up at the end of the year. EUR260 million spend in the second half in the current scenario seems quite a lot. But, of course, there may be some projects that justify that.

Second question is on the Steel Cord disposal, if you can give us an update on when you expect the closing after you got approval from the antitrust in Europe. Thanks.

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

The Steel Cord transaction is going ahead as it was planned. And before year end, between end November and December, we should finalize the deal. Everything is in line. And there are no surprises.

For the investment rate, we have a target around EUR380 million by year end. And considering the seasonality, we are on track with this target. So, there are no delays. And all is focused in new plant. And the CapEx we are more and more going close to the depreciation as it was planned and we -- as we had in the first quarter. But, we will remain in line with the targets.

Niels Fehre - HSBC - Analyst

Yes, thanks for taking my question. I just have two questions. On the premium business, on slide 6, you show here the organic growth rates per region. If I compare them to the first quarter, I see that Europe in the second quarter significantly cooled down versus the first quarter. The first quarter was up 16%, now in second quarter only at 10% probably.

But, on the flip side, NAFTA improved a lot from 7% in Q1 to something like 14% in the second quarter to arrive at 12% for H1. Can you elaborate here probably what are the different -- the reason for the different trends in the different regions, Europe versus NAFTA, in terms of premium growth? So, that would be my first question.

The second one is then for the full year. Having achieved now more than 20% premium growth in terms of volumes in the first half, I'm wondering why you are guiding only for 16% growth in the full year with a strong -- with probably a strong winter tire season ahead of us. Is that probably too cautious, or what's the reason here why we should see premium cooling down a lot in the second half versus the first half? Thanks.

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

Thank you. There are two reasons to answer to your questions. The first is that, second quarter of last year in Europe, there was a recovery on the premium segment. And first quarter was very low level. So, that growth as a comparison base, that is different.

And looking forward, second half, third and fourth quarter last year were better. And so, the comparison base, again, is much in favor of last year in the third and fourth quarter. And that's why the second quarter has been so performing because the comparison base was lower.

Niels Fehre - HSBC - Analyst

And on the US as well, or -- ?

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

-- Yes, in the APAC, the comparison is equal because it was -- the trend was without drops and ups, like it happened in Europe. The comparison base is more stable. And that's why we don't see this effect. Take into account also that Europe is affected by the winter seasonality that changes the perimeter year with year.

Niels Fehre - HSBC - Analyst

Okay, though. It's just comparison reasons. There's no other -- no cool down you see in the premium growth or something like that.

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

No, no, no, no. The growth continues. There is only a split related to seasonality that create these effects.

Thomas Besson - Kepler Cheuvreux - Analyst

Thank you very much. Two questions please. On winter tires, can you comment on the split in your sell-in business between the second and third quarter? Is it a fair comment to say that the industry has been more aggressive than in previous year, putting already winter tires in the distribution, or is that unfair, and we're going to see a bigger share of that selling in Q3 than Q2?

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

Yes, I think the winter season was slightly anticipated in some of the market because of the weather conditions. So, we had basically a shorter winter and saw the anticipation of the summer season, especially the sell-in. And consequently, the sellout was as well giving us a slightly different seasonality in the winter. But, having said that, we are expecting, especially in Europe and Russia, a positive winter season also because we are completing our [product range] with [Zero] and [Ice Zero] in Russia. So, we are confident we can reach the target we put in this review.

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

If I may add something, it's just a question -- we expect better seasonality because of the stocks. There hasn't been a major change in seasonality until now. So, we didn't anticipate much the winter season with the sales in second quarter. But, we expect to have a better sellout and so a better sell-in because of the low level of stocks.

Thomas Besson - Kepler Cheuvreux – Analyst

Okay. Thank you. My second question is a bit more long term -- or not long term, midterm let's say. You've adjusted your scenario for South America for this year. Can I ask you, what's your best view on

what we should expect for car OE, truck OE and car replacement and truck replacement in South America in 2015 please?

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

We see a market that continues to grow in the replacement. This is due to the sales of new cars in the last three years. So, the improvement that there has been in Latin America generally and specifically in Brazil will provide good seasonality for this year and next year. So, we do not expect drops in Brazil in the replacement market because of the car parc.

There has been 1.5 million new cars per year since 2009. So, in the last four years, we -- there is a bulk of new cars in the market that makes the replacement market quite sound, despite the situation of the original equipment.

Thomas Besson - Kepler Cheuvreux – Analyst

Okay. Thank you. Last question from me, please. Can you give us your latest perception of the balance between supply and demand in South America and Brazil in particular, please?

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

Supply and demand in Brazil, today there is no oversupply. There is capacity coming in. We expect to have a growth that should partly balance the reduction expected in imported tires because all the players that are investing have been importing a lot in the last few years.

Premium is growing. And that is the, let's say, the umbrella we have that covers the future. Today, the weight on volume is only 6%. But, it's growing two digit and is already in the replacement market, for us the contribution of Premium on Ebit is 4 times the one of volumes.. So, it's more than 25% of our total EBIT.

So, that growth in which we are playing, as we play everywhere, a leading role, protected in that scenario, so from the distribution we handle directly, make us comfortable that, even an increase in volumes delivered locally to the market will not affect the growth in profitability in the replacement market for us.

Alexander Haissl - Credit Suisse - Analyst

Hi, good evening. This is Alex Haissl, Credit Suisse. My first question will be on currency. In the first half, you've lost some EUR48 million on EBIT. And what you guide for the full year would imply that it's getting worse. Given recent currency trends, how likely is it that the impact from currency in the second half is basically the same than what you have seen in the first half?

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

We expect to have a slight lower effect because of the, let's say, level of the real is today a bit lower -- a bit better than what it was expected in the first half. We have a target that is between 8.5 and 9.5. But, for details, I will leave the floor to Mr. Sala, keeping in mind that what we have been able to do in the first half and we continue to do is to balance positively between price mix, ForEx, and raw materials. So, that's the game we play. And in this game, I think we have been and will continue to be the best performer, thanks to the mix. But, Mr. Sala, please?

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

Coming from the translation, the ForEx impact on EBIT is coming from the translation of the previous year results in countries that have different currencies than euro and the same historical previous-year result expressed in euro with the current exchange rate. So, it depends the impact in EBIT according to the different mix of results that we did in the different countries in the different quarter.

So, for instance, also if the second quarter impact in term of net sales, in terms of exchange rate devaluation was lower than the first quarter, the impact on EBIT was higher because of the [fair debt] absolute value of EBIT in the second quarter was higher, second quarter 2013 was higher than first quarter 2013.

And also, the component of the result in the second quarter of 2013 was [higher] in South America. This is what happened in the past.

For the future, what we forecasted is concerning exchange rate. We took a certain cautiousness in the exchange rate. So, we reduce by 0.5 points the impact negative on sales versus the previous guidance. But, we took certain cautiousness because we included certain further devaluation in Brazil for the Brazilian real, certain [further] devaluation in Argentina, and certain further devaluation in Venezuela.

So, we took an average for the full year 2.35 for the real, 9 for the Argentinean peso, 11.5 for the Venezuela (bolivar). And this will drive, according to our assumption, an impact on EBIT of EUR110 million. So, first quarter, almost -- first half, almost EUR50 million, second half EUR60 million, taking into consideration also the growing result that we had in second half of 2013.

Alexander Haissl - Credit Suisse - Analyst

Okay. That's clear now. So, there is a degree of cautiousness. That's clear.

My other question is on Russia. Have you seen towards the end of the second quarter any changes in particular for A and B class tires in June? Has there been any improvement in the market?

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

The improvement has been in our product mix portfolio. So, we launched this year a large portfolio of items in the winter season. And the effects will be seen in the next months, both on studded tires and non-studded tires. So, we deliver more than 100 sizes of the new lines we are launching. And that is providing us a better performance compared to last year.

Alexander Haissl - Credit Suisse - Analyst

Okay. My second question would be on the price mix in the -- on the consumer. You had almost 6% in the second quarter. And for the full year, you guide 4.5% roundabout. What is going to change in terms of price mix in the second half? And sorry if I didn't get the answer in your presentation.

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

I leave the floor for the details to Mr. Borgo. But, it's always the comparison base that is reducing the gap.

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

See, as we said before, the price mix is different market on market. And also, in the area where there is a higher percentage on the premium product, I think there is a little bit more pressure on the price mix, even if in the second half we are thinking that, thanks to the fact that there is not a big stock on the winter, this pressure on prices is going to be lower than in the first half.

As far as the other area that is basically Russia and LatAm, where there is -- let me say the ForEx issue, as we said before, we think we are keeping the price or slightly increasing the price to compensate the ForEx movement. So, we don't see any major change in the price mix in the second half.

Alexander Haissl - Credit Suisse - Analyst

Okay. Thanks. And my last question will be on pricing Europe. Clear that the European market is running ahead of expectations. Do you see any risk of import pressure, or is that not an issue at all right now?

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

No, we -- on the European market, as we said before, we are confident for the growing the business, especially in the central part of the Europe. So, I mean in the part going from Belgium until Poland, thanks, as we said, to a better winter season to lower stock.

Of course, the fact, we are now consolidating the investment. We are down one year ago in buying some point of sales in Germany. This is giving us better market coverage and more speed.

And I think, as well for us is improving as well our situation in Italy, where despite to a pretty high market share we have in the premium segment, we are -- thanks to a better -- thanks to, let me say, the exploiting of (inaudible) marketing, a better coverage of the market, we are still increasing our presence, even in the Italian market. So, I don't see -- we don't see any major risk for the second half of the year in Europe.

Gaetan Toulemonde - Deutsche Bank - Analyst

Good evening, try to be short. I have only two question. The first one is the volume growth in the first half was 2%. You're still guiding for 5% for the full year, which underlined higher growth in the second part of this year. Any specific region were you expect that growth to accelerate, because 7% in the second half is not a small number?

And my second question will be on premium. But, maybe we can go on after another one.

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

Yes, I think, for sure, there were -- we still will keep growing even faster in the second half, will be Asia-Pacific. As we have seen before in Asia-Pacific, let me say, driven by China, we were increasing our presence in the premium. And so, we were keep developing the sales.

Of course, as we said before, we are expecting as well a resilient market, a resilient replacement market in Latin America. So, I think, especially in the car replacement, thanks to the fact that we are consolidating, as mentioned before by Mr. Tronchetti, our presence in the equity, we have more than 130 point of sales we own out of 600 point of sales monobrand. So, I think we are going to as well grow there.

We are expecting as well a better contribution from the industrial business, not only in Europe, where the market was growing in the first half of the year, but as well from other region. I think we have opportunity especially in the Middle East-Africa. We are speeding up the operation in Egypt. And we are growing as well in the area of the Gulf. So, I think these are the biggest opportunity right in front of us, both for consumer and industrial business.

Gaetan Toulemonde - Deutsche Bank - Analyst

Okay.

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

I think the information that could help you is that the penetration we have in the market is improving because of the pull through effect, thanks to the growth in original equipment we had in last few years in the premium segment in every region.

Adding to this the fact that we implemented our action in the market with new point of sales and comparing the budget we presented in industrial plan that would have had a, let's say, by 2015, 9,000 point of sales branded Pirelli globally, we are ahead of target. And this year-end 2014, we will have more than 9,000 already, 9,350.

So, that means that we cover better the different regions. And we can penetrate better and profit better of the pull through effects. The acceleration you see in the mix, premium, all that stuff, comes from the better penetration we have that make us in a position to profit of the pull through effect better than in the past.

Gaetan Toulemonde - Deutsche Bank - Analyst

Okay. My second question is regarding the premium tire. If you could help us to put a little bit those numbers in perspective because I had in mind that the growth rate of the premium was much more 7% or 8%. So, growing by 20% plus is definitely significantly more than the market.

So, is there any specific recovery in Europe or in some other region to explain such a strong performance? So, what I would like to go to get is that your performance vis-a-vis the market. And the second thing is that I remember in the past that the growth rate -- and it's probably a little bit visible, too, when we compare the revenue growth and the volume growth of the premium, probably more growth in OE and therefore some better visibility for the coming years in the replacement. Can you help us to better understand those numbers? I hope I'm clear.

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

So, we continue with the trend we presented in London November last. We are catching a point percent market share globally on the premium segment. That is what we are doing thanks to the penetration we have with the original equipment globally.

So, we were underrepresented in the replacement market compared to the share we have in original equipment. Now, we are catching up in a market that grows as we confirm three times the growth of the global market. So, that's the area in which we continue to grow. And the premium growth is ahead of plan, thanks to the consistent growth of market share, mostly in Europe and APAC.

So, we are accelerated. That's why we have EUR15 million of investment in marketing. That's why -- so, we are capitalize the effort we made in developing branded Pirelli a new point of sales. That's why

we are ahead of the plan in implementing our penetration of the market. And we will reach a year in advance the targets of the industrial plan in terms of point of sales.

So, year end, we'll be having, as I mentioned before, more than 9,000 point of sales. That was the target we used to have for 2015. So, all these provide us the bulk of opportunities we are delivering to the market. It is happening on the original equipment side and acting in the market, being better represented in each market with new point of sales branded Pirelli.

Gaetan Toulemonde - Deutsche Bank - Analyst

Again, to better understand the future, do you have a significantly higher market share in the original equipment premium today than the replacement, or -- ?

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

In premium segment, we are underrepresented compared to the market share we have today in original equipment. It is definitely an opportunity we have in North America, where we are underrepresented. So, we can catch opportunities.

In Europe, we are catching up a bit this year. But, we are still far from the 20% we have in the original equipment premium with the larger car manufacturers.

In Asia-Pacific, we have a presence with the original equipment that we will capitalize in the next years. We are growing faster than any competitors in getting new homologations with the original equipment. And that's the name of the game for us. And that's the opportunity we have in the replacement market.

That is why we are investing in accelerating the process of penetration with new point of sales because we see that the growth we had in the last few years, and we are having even this year and looking forward even the next years in the original equipment, is providing us better opportunities in replacement. So, that growth will continue.

Gaetan Toulemonde - Deutsche Bank - Analyst

Okay. Last question on that. There is a very significant price gap between 17 inches and 18 inches and above. When you grow by 22%, is it more on the 18 inches, or is it more on the 17 inches?

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

Of course, it is in favor of the 18 inches. And the fact is that 18 inches will become the real premium within the next few years. Today, we value the 17 inches and up premium. This is true in Russia. This is true in Latin America. This is less and less true in Europe and North America.

In North America, there is also the 18 inches for so-called pickups that is not premium at all. So, I think any market has its own specific differences. What is clear evidence is that the 18 inches and up is and will be in the future the premium segment, at least for the next few years. 17 inches is going to become a commodity in next years.

Operator

That will conclude today's question-and-answer session. I would now like to turn the call back to the speaker for any additional or closing remarks.

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

So, thank you. We have come to an end of our conference call. We thank you very much for your attention. And for whom of you has not yet gone on holiday, have a nice holiday to all of you. We will be, in any case, here to protect your investment. Thank you.

Operator

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