



PRESS RELEASE

THE NEW PIRELLI CONSUMER IN LATAM: INVESTMENTS IN THE 3-YR PERIOD 2018-2020 OF OVER 250 MILLION EURO, ALREADY INCLUDED IN THE 2017-2020 INDUSTRIAL PLAN

INVESTMENTS DEDICATED TO HIGH VALUE AND DIGITALIZATION OF PROCESSES

THE BAHIA FACTORY, IN BRAZIL, IS PIRELLI'S FIRST 4.0 HUB IN THE AREA *Digital Transformation, Smart Manufacturing and use of Big Data to increase competitiveness*

Feira de Santana (State of Bahia, Brazil), 22 March 2018 – Pirelli announces investments of more than 250 million euro in the next three year in Latin America – already included in the 2017-2020 industrial plan presented to the financial community last year for the IPO – in the context of its global strategy as a company focused on Consumer tyres in the *High Value segment*. The announcement was made by the Executive Vice Chairman and CEO Marco Tronchetti Provera, during the presentation of the 4.0 hub at Feira de Santana in the Brazilian state of Bahia, with the participation of Senior Vice President Manufacturing Francesco Sala and Senior Vice President Latam Region Paul Hembury.

In line with the group's strategy, the investments will be destined to the ongoing modernization of local production facilities – as demonstrated by the Bahia hub presented today – and the development of High Value (Prestige, New Premium, Specialty and Super Specialty tyres) also through the partial reconversion of Standard into High Value. This reconversion, to be implemented in the 3-year period 2018-2020, will represent about 20% of the region's High Value capacity by the end of 2020. The investments will allow us to satisfy the demand for high end tyres both in local markets and, in particular, in the Nafta area for which Brazil is one of the integrated sources of supply. In the last 4 years, Pirelli already invested about 250 million euro in Latin America – in line with the 2013-2017 industrial plan – for the constant technological upgrade of the factories, the adaptation of plant to new local *New Premium* production and the launch of the digitalization of production processes.

With revenues in the Latam area which last year grew by 11.1% to 915.7 million euro, today South America, where Pirelli has been present for over a century and counts five factories, represents about 17% of the group's total revenues (5.35 billion euro in 2017) and is one of the most strategically important macro-areas for the group.

The Feira de Santana factory, in the state of Bahia, is the most recent production facility of those belonging to Pirelli in the entire area. Constructed in 1976 and expanded in 2003 (following its entry into Pirelli's perimeter in 1986), the factory has always used the most modern machinery and advanced processes and recent years, particularly in 2017, saw its transformation into Pirelli's first 4.0 technology hub in Latin America with new digitalized processes and the use of advanced technologies. In the same way, also the other factories in the area are being progressively involved in the digitalization process and plant modernization, in line with the group's strategy.

"Latam has always been a key area for Pirelli. In particular, we have been in Brazil for almost a century, achieving an extraordinary level of brand awareness and knowledge of the market which enables us to capture consumer trends and offer products most suited to their needs in all market segments. The investments announced today will enable a further improvement in the production

standards of local factories, in line with Pirelli's High Value global strategy and with its digital transformation, which is an integral of it and which today is essential to competitiveness", **said Marco Tronchetti Provera, Executive Vice Chairman and CEO of Pirelli.**

"Pirelli is inaugurating a new phase in Latam with the introduction of new technologies, processes and advanced machinery which will allow us to meet the growing demand for products with high technological content which we can already see in the market, in particular from car makers with a local presence. Thanks to the digital transformation of the plants and the high end focus, Pirelli can further strengthen its leadership in the Latam market and in Brazil, where for years we have won the Top of Mind prize as the most recognized brand in all sectors", **said Paul Hembery, Senior Vice President Pirelli Latam.**

In Brazil, as in Europe and China, Pirelli is the leader in the Replacement market for New Premium tyres for cars (with rim of $\geq 18''$) and in Premium for motorcycles. Pirelli's presence in the country is supported by a commercial network of over **2,000 points of sale** (over 2,300 in all of Latin America and destined to grow to around **3,300** in 2020) of a total of around 14,600 worldwide. The **success of the brand** has also been underlined for years in the Datafolha Institute survey, where Pirelli, as well as being the most famous tyre brand in the country, is also the **Top of Mind** brand, that is the most well known throughout the male population of companies in all segments.

In Brazil, the High Value project began in 2016. The first part of the project was mainly developed in **Feira de Santana**, while the subsequent stage referred predominantly to the factory in **Campinas**. In the Latam region, *High Value* is represented in the production of all tyre types in the segment, with the exception of *Prestige* and *Velo* tyres.

The 4.0 factory of Feira de Santana between *Digital Transformation and Smart Manufacturing*

To meet the needs of the market in advance, manage the complexity of the business, constantly improve the level of service and effectively reach the end consumer, Pirelli is globally committed to a plan of transformation and renewal which aims at the digitalization of planning, production, distribution and consumer profiling processes. This plan includes four inter-functional programs: the **integrated forecasting Program**, which applies Data Science to offer greater demand predictability; the **Smart Manufacturing Program and Flexible Factory**, to respond in an ever quicker and more flexible manner to the requests of consumers, car makers and distribution networks; the **Supply Chain Program**, which aims to bring consumers closer to personalized services and the **Prestige Program**, focused on the Prestige end consumer.

The involvement of the **Feira de Santana factory in the Smart Manufacturing and Flexible Factory program** has already led to its transformation into a true 4.0 factory, a technological hub for the production of *High Value* tyres in South America, as is already happening at the Campinas plant in the state of Sao Paulo.

At the cutting edge in terms of processes and product development, the Bahia hub thus contributes to the constant increase product efficiency in Pirelli's world. Its digitalization process has brought the factory smart manufacturing allowing it to improve results through the use of *big data* and the ability to intervene rapidly to resolve problems. In particular, thanks to the work of over 20 professionals who developed many *apps* to support the work in the factory, Feira de Santana has become a solidly agile and flexible workplace, in which work is done with tablets which overcomes the need for fixed positions, making processes faster. The digitalization of information and intersection of gathered data, further, allows the machines to give not only feedback on the performance of the process under way, but also to predict the results (*feedforward*) or on a problematic context on the basis of historical data (*machine learning*). The use of *cloud computing*, of *open source* instruments and online programs which analyze data to carry out future predictions, in fact, are the other elements which are essential in dealing with the

complexity and speed of the world linked to manufacturing and which make the Bahia plant one of Pirelli's most technologically advanced.

The new Pirelli at the global level

After the process of transformation which led to the separation of the *Industrial* business, Pirelli is today not only the sole tyre maker specialized exclusively in the Consumer business (tyres for car and motorcycles), but also a maker with a distinctive positioning in *High Value* tyres made to reach the highest levels in terms of performance, safety, silence and road grip.

In 2017 *High Value* represented for Pirelli **57.5% of revenues at the global level**. The goal is to reach 63% in 2020. In the context of the *High Value* segment Pirelli is today the leader in the Prestige sector, with a market share above one third of the global market in terms of volumes, and in the radial sector in the Replacement market for motorcycle tyres.

The *High Value* segment includes the following categories:

- **Prestige:** tyres planned and developed in partnership with car makers in the Prestige Auto segment (traditionally marques such as Ferrari, Lamborghini, Maserati, Bentley, Bugatti, Rolls Royce, Porsche, Aston Martin, McLaren and Pagani) and the object of specific homologations;
- **New Premium:** tyres with rims equal to or above 18 inches, primarily but not exclusively destined to cars belonging to the Prestige Auto and Premium Auto segments (traditionally such marques as BMW, Mercedes, Audi, Alfa Romeo, Jaguar, Land Rover, Infiniti, Lexus, Lincoln, Acura, Cadillac and Volvo). Until the end of 2016 Pirelli identified tyres with rims equal to or superior to 17 inches as Premium. From the first half of 2017, Pirelli redefined the Premium tyre perimeter as tyres with rim diameters equal to or above 18 inches, changing the name therefore into New Premium;
- **Specialties and Super Specialties:** tyres with a very high level of technological content for cars of every class, for specific applications (for example Run Flat) or personalization (for example "Color Edition" tyres), regardless of rim size;
- **Premium Moto:** tyres for high end motorcycles which ensure high levels of performance.

At the global level, these categories are flanked by products and services for the Velo world (bicycles), to which Pirelli returned last year, and connected vehicles. **Pirelli Connesso™** is an example, the car tyre fitted with a sensor that, through a cellphone *app*, is able to update the user on the wear, pressure and temperature of the tyre and also to offer personalized services, such as car valet and remote assistance. The bicycle tyres and Pirelli Connesso are not available in Latam for the moment.

More recently, for the Original Equipment channel, Pirelli presented its **"Cyber Car" at the 2018 Geneva Car Show**, technology that tracks the functional parameters of the tyre and transmits them to a vehicle's on board intelligence which can then adapt the ABS and check stability for a safer and better performing drive. Already in experimental tests with car makers, the technology is ready for use and by the end of the year will be available for the first time on both electric and traditional models.

And thanks to consolidated partnerships with the most prestigious car makers, Pirelli today has the **biggest range of High Value tyres, with over 2,160 homologations** (of the total of over 2,740 on December 31, 2017). Pirelli's High Value products will receive the greater part of R & D investment: in 2017, in fact, over 90% of total R & D spending went towards *High Value* products, equal to 6.5% of the relative revenues, one of the highest levels among the world's principle tyre makers. With 19 factories in 13 countries and a total capacity at the end of 2017 equal to about 76 million car tyres, **already today over half (55%) of Pirelli's production capacity is suitable for the production of High Value tyres.**

Pirelli

Founded in 1872, Pirelli is a company with a brand known around the world for its cutting edge technology, capacity for innovation and the **quality of its products**. With 30,000 employees and 2017 sales of about **5.35 billion euro**, Pirelli is among the main producers of tyres and related services in the world and the only one entirely dedicated to the Consumer market, which includes **tyres for cars, motorcycles and bicycles**. Pirelli is a Pure Consumer Tyre Company focused in particular on the market for **High Value tyres** and is constantly engaged in the development of innovative products able to meet the most specific needs, as occurs with **Specialty and Superspecialty tyres**. This is also thanks to the constant investment in new competencies and new business functions like Consumer Marketing, Digital, Data Science, Cyber and Velo. Pirelli's technological excellence is also the fruit of the innovations and skills derived from sporting competitions, an area in which the company has been active for over 110 years. At the moment Pirelli is involved in **over 460 sporting events** in the auto and motorcycle sectors and, since 2011, has been the exclusive supplier to the **Formula 1 World Championship**®.

Pirelli in Latin America

Pirelli has been present in **Brazil** for almost **90 years** (1929) and in **Argentina** for **108** (1910). In **South America**, the group employs 6,900 employees in **5 factories**. Beyond the global categories such as Formula 1® and World Superbike, Pirelli is the **leader in regional motorsports** as exclusive supplier and sponsor of all the main local competitions, like Stock Car, Formula 3, the TC2000, the Mercedes Benz Challenge, the Porsche Club, Mitsubishi Motorsports and the local Superbike championship. In line with the group's philosophy, which operates in every part of the world, the company interacts and integrates with the **local communities**, also in Brazil Pirelli promotes numerous initiatives in support of the **culture**, including support for the **Pinacoteca** in São Paulo, the **ArtRio** fair and collaborates with the **Mozarteum** and the **MAM** museum. In 2018 the company contributed to the exhibition "L'Eterna Bellezza" in Argentina, at the Usina Del Arte museum in Buenos Aires, the first leg of a series of exhibitions on the **Pirelli Calendar** foreseen for Central America and South America. Since 2014, Pirelli is also the company **responsible** for the **maintenance** of the **Christ the Redeemer** monument in **Rio de Janeiro**. In the **social** field, the initiatives supported by Pirelli in collaboration with local and central government authorities cover different fields. In particular, the group supports many projects for the **recovery and reintroduction** of hundreds of disadvantaged children and adolescents in the whole country and programs of **education**, professional **training** professional and **civic education**.

Pirelli at Feira de Santana

The factory at Feira de Santana was built at the beginning of the 1970s and tyre production began in 1976. In 1986, it was acquired by Pirelli. At present, it employs over 1,200 people who produce car tyres destined for the markets of South America for the Original Equipment and Replacement channels, as well as the replacement one in the Nafta area. The production facility also boasts the first production line of Run Flat tyres in all of South America and thanks to recent investments it is today Pirelli's first 4.0 industrial hub in the region. In the Feira de Santana city limits, Pirelli has launched a collaboration project with the local community aimed in particular sustainable mobility, with the involvement of the municipality and the World Business Council for Sustainable Development (WBCSD), and the inclusion of children and young people, through sporting and play activities, creating a special link between the company and the place where it sits.

Pirelli Press Office – Tel. +39 02 64424270 – pressoffice@pirelli.com

Pirelli Investor Relations – Tel. +39 02 64422949 – ir@pirelli.com

www.pirelli.com