

Pirelli €1.9bn plan
Move to invest in core
business with focus on
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Pirelli to put €1.9bn into core business

GENERAL INDUSTRIALS

By Giulia Segreti in Rome

Pirelli, the Italian tyre-maker, says it plans to invest €1.9bn (\$2.7bn) over the next five years in its core tyre business, focusing on premium range production and emerging markets.

Unveiling its 2011-13 industrial plan, Europe's third-largest tyre producer ruled out mergers and acquisitions as well as capital increases.

The Milan-based company forecast annual revenue growth of 8 per cent over the next three years with profitability rising to 10.5-11.5 per cent. With the real estate branch listed separately since last week, the company has transformed itself into a "pure tyre company", with 98 per cent of revenues from its core activity.

"The plan arrives after a phase of reorganisation based on high technology and the premium tyre segment. It combines different investments, creating a matrix such that our business is rebalanced," Marco Tronchetti Provera, chairman and chief executive, said.

The jump in the price of raw materials is expected to cost Pirelli €500m over the next three years.

The rise "will be offset by improving price mixes and keeping volumes growing. We have some partnership programmes in mind in order to take part in the supply chain.

"This does not mean that

we will become natural rubber producers," Mr Tronchetti said.

Industry sources say the company could create joint ventures with Russian and Brazilian partners in processing rubber.

Latin America and the Asia-Pacific region are seen as contributing two-thirds of Pirelli's earnings by 2013.

"Our [business] in the Latin American area started many years ago and has led to a deep knowledge of the region. Our brand recognition is very high. We are stronger than Coca-Cola," Mr Tronchetti said.

Interbrand, a US consultancy, has valued the Pirelli brand at €1.8bn.

Pirelli plans to invest \$210m over the next two years in a new Mexican production base, aimed at supplying the internal market and the North American Free Trade Agreement area.

With a growing market for high-quality cars, Pirelli says China represents a big opportunity for premium tyre production.

"For India it is still a matter of time, as we do not think that infrastructure is such that there is a market for high-quality goods," Mr Tronchetti said.

Pirelli plans to spend €155m in Italy to develop production of "ecological" high-performance tyres next year. "Italy has a competition issue, but it is possible to produce in the country if there is a strong investment in technology and if high-quality goods are produced," Mr Tronchetti said.

