

## Investment Research

### Buy

Recommendation unchanged

Share price: EUR 0.37

closing price as of 05/10/2009

Target price: EUR 0.49

vs Target Price: EUR 0.42

Reuters/Bloomberg PECLM/PC IM

Daily avg. no. trad. sh. 12 mth 34,727,781

Daily avg. trad. vol. 12 mth (m) 9.37

Price high 12 mth (EUR) 0.38

Price low 12 mth (EUR) 0.15

Abs. perf. 1 mth 15.7%

Abs. perf. 3 mth 50.7%

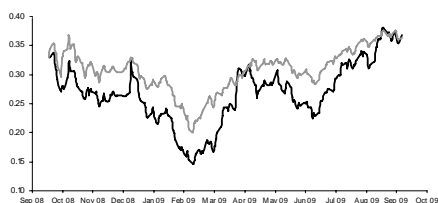
Abs. perf. 12 mth -1.5%

Market capitalisation (EURm) 2,023

Current N° of shares (m) 5,494

Free float 49%

Key financials (EUR)	12/08	12/09e	12/10e
Sales (m)	4,660	4,190	4,344
EBITDA (m)	252	419	533
EBITDA margin	5.4%	10.0%	12.3%
EBIT (m)	43	210	325
EBIT margin	0.9%	5.0%	7.5%
Net Profit (adj.)(m)	(295)	74	215
ROCE	6.1%	9.5%	12.0%
Net debt/(cash) (m)	1,032	811	798
Net Debt Equity	0.4	0.3	0.3
Net Debt/EBITDA	4.1	1.9	1.5
Int. cover(EBITDA/Fin.int)	3.1	5.2	7.1
EV/Sales	0.4	0.6	0.5
EV/EBITDA	8.1	5.5	4.3
EV/EBITDA (adj.)	5.2	4.7	4.1
EV/EBIT	47.3	11.0	7.1
P/E (adj.)	nm	26.5	9.2
P/BV	0.6	0.8	0.8
OpFCF yield	-45.8%	5.5%	8.2%
Dividend yield	46.7%	0.0%	0.5%
EPS (adj.)	(0.06)	0.01	0.04
BVPS	0.41	0.44	0.45
DPS	0.17	0.00	0.00



Source: Factset

Shareholders: Shareholders Agreement 46%; Camfin out of Shareholders Agreement 5%;

For company description please see summary table footnote

## For how long will we call it holding company?

The Pirelli & C stock price recovered 33.9% since we upgraded the rating to BUY on July 30. Although the performance has been so good, we believe that the stock is still interesting, since Pirelli Tyre, Pirelli & C main asset, is still valued at a discount Vs its peers, while the management is carrying out an aggressive restructuring plan both at operating and corporate level.

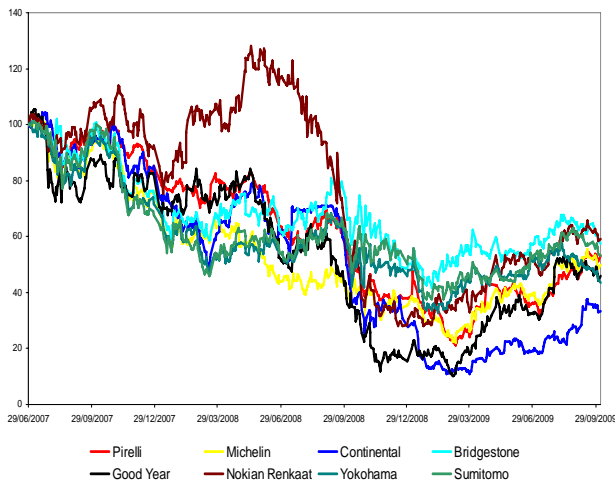
- ✓ The tyre makers' stock prices recovered 133% on average from the bottom of Q1 09; the valuation improvement translated into higher multiples: today, Pirelli Tyre's comparables trade at 0.75x in terms of EV/Sales 09, 7.0x in terms of EV/EBITDA and 1.2x in terms of P/BV.
- ✓ We used to value Pirelli Tyre equity value EUR 1.4bn on the basis of a 5.5x EV/EBITDA 09 multiple; this ratio appears to be too conservative now, that's why we have improved our Pirelli Tyre valuation to EUR 1.9bn (+29.7%) on the basis of a new 6.5x EV/EBITDA 09 multiple.
- ✓ We expect Pirelli Tyre to record good H2 09 results thanks to its **strong exposure on the replacement channel** (81% of revenues), the **presence in developing countries** (Latin America, the Asia-Pacific region and Africa generate over 36% of revenues), the **favourable trend in raw material prices** and the **incisive restructuring actions** taken at its western Europe manufacturing plants.
- ✓ We can still call **Pirelli holding company**, but we acknowledge it is **making significant steps to become a pure industrial player**: Pirelli Tyre now weighs for 72% of the Net Asset Value, while it weighed around 60% of it only one year ago.
- ✓ **The management is re-focusing the company on its industrial roots** - essentially tyres - consistently with the strategy set in the 2009-11 plan; in July and August, Pirelli sold the last 123m Telecom Italia shares, closing definitively the painful chapter of the telecom diversification.
- ✓ **The holding company Pirelli Spa is downsizing its staff**, transferring 1/3 of it under a new "Pirelli Tyre and parts department" and laying off another third of it. The streamlined Pirelli Spa will retain only 70/80 resources as it will stop providing many corporate services.
- ✓ We estimate that the Pirelli & C stock now trades at a 36.5% discount over the Net Asset Value; we argue that this discount is excessive and that it should narrow as the company evolves towards a pure industrial model.
- ✓ Should Pirelli & C separate Pirelli Tyre from Pirelli Real Estate, the company would definitively become a pure industrial player, removing the basis for the holding discount.

Following the improvement in the Pirelli Tyre valuation, we have increased our target price to EUR 0.49 from the previous EUR 0.42 (+17%). We reiterate our BUY rating on the stock.

Analyst: **Gabriele Gambarova** +39 02 43 444 289 [gabriele.gambarova@bancaakros.it](mailto:gabriele.gambarova@bancaakros.it)

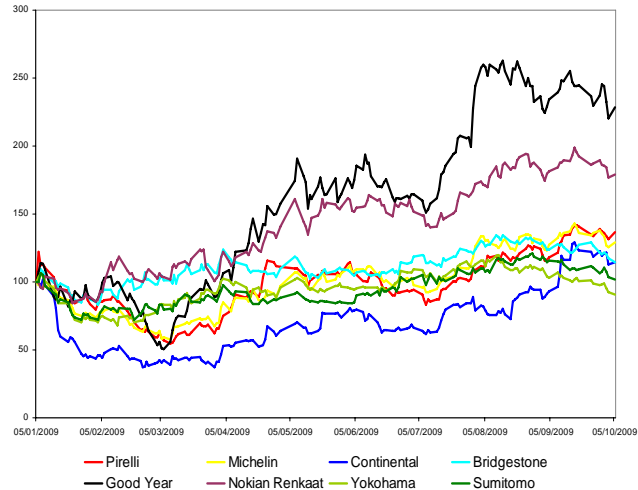
The following charts show the performance recorded by the main tyre makers since they touched their peaks in 2007 and their bottoms in Q1 09.

Global tyre makers performance since August 2007



Source: Reuters

Global tyre makers performance in 2009



Source: Reuters

If we look at the tyre maker performance since the peaks of mid 2007, we see that the industry shares lost 50.5% on average (median: -48.4%), with Pirelli behaving slightly better than the comparables (-46.9%).

If we look at the performance since the bottoms of Q1 09, we see that the industry shares recovered 133% on average (median: +118%). Even in this case, Pirelli behaved better than the comparables, recovering 150.3% from the bottom of EUR 0.15 it touched the 9 March (EUR 0.15); we note that Pirelli was more volatile than its peers, losing more ground in Q1 (-34.5% Vs -16.1%) and recovering more in Q2 and Q3 (+42.7% Vs +38.7% and +43.0% Vs 25.4% respectively).

2009 performance	Pirelli	Michelin	Conti	Bridgest.	Good Year	Nokian	Yokohama	Sumitomo	Average
Q1	-34.5%	-30.4%	-58.8%	12.6%	-6.9%	5.0%	-4.9%	-10.7%	-16.1%
Q2	42.7%	48.0%	66.1%	1.6%	76.6%	48.0%	12.3%	14.7%	38.7%
Q3	43.0%	23.1%	77.4%	5.2%	41.5%	18.6%	-10.7%	4.7%	25.4%
Q4 (3 days)	2.4%	1.8%	-5.8%	-4.9%	-1.8%	-2.9%	-4.9%	-5.0%	-2.6%
YTD	36.9%	29.2%	14.5%	14.5%	128.6%	79.0%	-9.4%	2.0%	36.9%
From the bottom	150.3%	124.3%	207.6%	38.1%	353.8%	111.7%	32.9%	41.8%	132.6%

The tyre makers' stock price recovery has brought an increase in the industry multiples: today, Pirelli Tyre's comparables trade at 0.75x in terms of EV/Sales 09, 7.0x in terms of EV/EBITDA 09 and 1.2x in terms of P/BV 09. The following table shows the industry multiples for the current year and 2010.

	EV/SALES		EV/EBITDA		EV/EBIT		P/E		P/BV	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
MICHELIN	0.75	0.73	6.5	5.5	15.5	9.9	59.2	14.0	1.47	1.35
CONTINENTAL	0.84	0.78	9.1	6.5	80.6	18.0	(14.5)	52.1	1.19	1.16
BRIDGESTONE	0.69	0.68	7.0	5.9	26.0	13.3	123.5	18.3	1.21	1.10
GOODYEAR	0.49	0.49	7.8	5.1	23.3	7.6	(21.1)	9.6	4.85	2.86
NOKIAN	2.79	2.55	13.1	10.2	20.2	14.0	30.2	16.5	2.51	2.23
YOKOHAMA	0.61	0.59	6.7	6.9	18.8	14.7	20.8	13.8	0.93	0.87
SUMITOMO	0.81	0.77	7.3	6.9	17.8	14.4	41.2	15.3	1.13	1.05
HANKOOK	1.09	1.10	6.6	6.4	10.4	9.5	13.4	11.1	1.67	1.46
TOYO	0.57	0.55	6.9	6.4	27.8	16.7	31.7	10.8	0.60	0.59
<b>AVERAGE:</b>	<b>0.96</b>	<b>0.92</b>	<b>7.9</b>	<b>6.6</b>	<b>26.7</b>	<b>13.1</b>	<b>31.6</b>	<b>18.0</b>	<b>1.73</b>	<b>1.41</b>
<b>MEDIAN:</b>	<b>0.75</b>	<b>0.73</b>	<b>7.0</b>	<b>6.4</b>	<b>20.2</b>	<b>14.0</b>	<b>30.2</b>	<b>14.0</b>	<b>1.21</b>	<b>1.16</b>

Until now, we have valued Pirelli Tyre's equity value EUR 1.4bn on the basis of a 5.5x EV/EBITDA 09 applied to its (Adjusted) EBITDA 09 of EUR 493m.

After the re-rating of the industry stocks, the 5.5 EV/EBITDA seems too conservative, that's **why we have improved our Pirelli Tyre valuation to EUR 1.9bn (+29.7%) on the basis of a new 6.5x EV/EBITDA 09**. The following tables show the different equity valuations we drew from the peer multiples for 2009 and 2010.

2009 estimates	Sales	EBITDA (*)	EBIT (*)	Net Profit(*)	BV
Revenues	3,753	493	304	134	943
Median peer multiple	0.75	7.0	20.2	30.2	1.21
<b>Enterprise Value</b>	<b>2,819</b>	<b>3,463</b>	<b>6,151</b>		
- Minorities	n.a	n.a	n.a		
- NFP (2009)	(1,331)	(1,331)	(1,331)		
+ Financial Assets	n.a.	n.a.	n.a.		
<b>Equity Value</b>	<b>1,488</b>	<b>2,132</b>	<b>4,820</b>	<b>4,049</b>	<b>1,145</b>

\* Adjusted

2010 estimates	Sales	EBITDA (*)	EBIT (*)	Net Profit(*)	BV
AKROS estimates	3,903	542	346.8	180.0	1,102
Median peer multiple	0.73	6.4	14.0	14.0	1.16
<b>Enterprise Value</b>	<b>2,866</b>	<b>3,462</b>	<b>4,855</b>		
- Minorities	n.a	n.a	n.a		
- NFP (2010)	(1,276)	(1,276)	(1,276)		
+ Financial Assets	n.a.	n.a.	n.a.		
<b>Equity Value</b>	<b>1,590</b>	<b>2,186</b>	<b>3,579</b>	<b>2,528</b>	<b>1,282</b>

\* Adjusted

We argue that the EV/Sales and EV/EBITDA are the most reliable multiples in this particular phase: **if we consider only the EV/Sales and EV/EBITDA median multiples, we draw an equity value of EUR 1,810m for 09 and EUR 1,888m for 10 (average: EUR 1,849m).**



Since we did not have much information on Pirelli Tyre's numbers, we used a very simple model based on the perpetuity of a normalised OFCF to check the fairness of the multiple approach.

We estimate that Pirelli Tyre will generate an average EUR 150m adjusted FOCF in the next two years; this number is in line with the guidance of average adjusted FOCF set by the strategic plan for 2010 and 2011.

**The perpetuity of the normalized FOCF with a 7.1% WACC and a 2.5% perpetual growth rate, gives us a EUR 1,930m equity value for Pirelli Tyres.**

FOCF (EUR m)	150.0
WACC	7.1%
G rate	2.5%
<b>Enterprise Value (perpetuity, EUR m)</b>	<b>3,261</b>
NFD 2009 (EUR m)	(1,331)
<b>Equity value (EUR m)</b>	<b>1,930</b>

The average of the two valuations we drew (EUR 1,849m and EUR 1,930m) is EUR 1,890m; this valuation is equivalent to 6.5x Pirelli Tyre adjusted EBITDA 09; here follows our NAV model updated with the new Pirelli Tyre valuation.

PIRELLI NET ASSET VALUE	Sector	NOSH (m)	% on cat.	Valuation method	Price 05 Oct 09	Equity Value EUR m	Value per share (EUR)	% on tot. assets
- PIRELLI & C REAL ESTATE	Real estate	487.8	58.0%	MARKET	0.64	312.2	0.058	12.0%
- MEDIOBANCA	Banking	15.0	1.83%	MARKET	9.14	137.1	0.026	5.3%
- RCS MEDIA GROUP	Media	39.1	5.34%	MARKET	1.42	55.3	0.010	2.1%
- OCLARO (former Avanex)	Photonics	10.2	5.48%	MARKET	0.75	7.7	0.001	0.3%
- PIRELLI & C. (treasury stocks)	Holding	3.9	0.1%	MARKET	0.37	1.4	0.000	0.1%
- PIRELLI & C. (treasury stocks)	Holding	4.5	3.3%	MARKET	0.40	1.8	0.000	0.1%
<b>TOTAL LISTED PARTICIPATIONS (A)</b>						<b>515.4</b>	<b>0.096</b>	<b>19.8%</b>
- PIRELLI TYRE	Tyres	256.8	100.0%	EV/EBITDA ADJ '09 (6.5x)		1,872	0.349	71.8%
- PIRELLI BROADBAND SOLUTIONS	Telecom	9.1	100.0%	EV/Sales 09 (0.8X)		50.2	0.009	1.9%
- PIRELLI & C AMBIENTE	Environ	3.1	51.0%	BOOK VALUE		4.1	0.001	0.2%
- PIRELLI & C ECO TECHNOLOGY	Environ	16.9	51.0%	EV/EBIT 10 (8.0x)		24.1	0.004	0.9%
- PIRELLI LABS	High Tech	5.0	100.0%	BOOK VALUE		5.1	0.001	0.2%
- CYOPTICS	High Tech	217.3	30.0%	BOOK VALUE		29.6	0.006	1.1%
- EUROSTAZIONI	Holding	52.3	32.7%	BOOK VALUE		52.9	0.010	2.0%
- OTHER FINANCIAL ASSETS				BOOK VALUE		52.9	0.010	2.0%
<b>MAIN NOT LISTED PARTICIPATIONS (B)</b>						<b>2,091</b>	<b>0.390</b>	<b>80.2%</b>
<b>TOTAL ASSETS (A+B)</b>						<b>2,607</b>	<b>0.486</b>	<b>100.0%</b>
<b>CORPORATE NFP AS @ 31/06/09 ADJUSTED</b>						<b>596.4</b>	<b>0.111</b>	
UNFUNDED PENSION PLANS						(88.8)	(0.017)	
<b>NET ASSETS VALUE (NAV)</b>						<b>3,114</b>	<b>0.580</b>	
HOLDING DISCOUNT	15%					(467.1)	(0.087)	
<b>TARGET PRICE</b>						<b>2,647</b>	<b>0.493</b>	
UPSIDE POTENTIAL							34.2%	
ACTUAL MARKET PRICE							0.368	
DISCOUNT/ (PREMIUM) ON NAV							36.5%	

In our updated model,

- we improved the Pirelli Tyre equity valuation by EUR 429m (+29.7% Vs the previous valuation); the impact in terms of NAV is positive by EUR 0.08 per share;
- we did not consider anymore the 123m Telecom Italia shares Pirelli still held as of June 09 since the company sold them in July and August cashing in around EUR 127m, equivalent to 4.0% of the NAV. We have adjusted the corporate NFP by consequence with no impact on the NAV.

**The current NAV is EUR 0.58 per share, before any discount and/or capitalisation of holding cost.**

**Based on our updated model, Pirelli&C is currently trading with a 36.5% NAV discount; we argue that this value gap is excessive, considering that Pirelli Tyre weighs for 72.4% of the NAV and that the company is making significant steps to abandon its holding character.**

We point out that we have kept unchanged the discount we apply on the NAV to extract the target price (15%); we argue that this level of discount is reasonable since it's halfway between the historical discount of the Italian holding companies - 30% - and zero. We feel this level of discount is consistent with Pirelli's positioning, halfway between the target of becoming a pure industrial company and its recent past of holding company.

**Based on our updated model, we come to a new EUR 0.49 target price (+17% Vs the previous EUR 0.42 TP).** The following table shows the sensitivity of our target price to the Pirelli Tyre EV/EBITDA multiple we use and the level of holding discount we apply to the NAV.

		EV/EBITDA 09 ratio applied to Pirelli Tyre								
		5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50
Holding Discount	0%	0.49	0.51	0.53	0.56	0.58	0.60	0.63	0.65	0.67
	5%	0.46	0.49	0.51	0.53	0.55	0.57	0.59	0.62	0.64
	10%	0.44	0.46	0.48	0.50	0.52	0.54	0.56	0.58	0.60
	15%	0.42	0.43	0.45	0.47	<b>0.49</b>	0.51	0.53	0.55	0.57
	20%	0.39	0.41	0.43	0.45	0.46	0.48	0.50	0.52	0.54
	25%	0.37	0.38	0.40	0.42	0.44	0.45	0.47	0.49	0.50
	30%	0.34	0.36	0.37	0.39	0.41	0.42	0.44	0.45	0.47
	35%	0.32	0.33	0.35	0.36	0.38	0.39	0.41	0.42	0.44
	40%	0.29	0.31	0.32	0.33	0.35	0.36	0.38	0.39	0.40

This sensitivity table is a useful tool to understand how the Pirelli &C target price may evolve depending on the next management moves:

- **if Pirelli &C keeps the existing structure**, it will be priced as a holding company, even though the asset diversification is so low; in this case, **the target price is EUR 0.49.**
- **if Pirelli &C goes on focusing on the tyre business** and – say – it separates the Pirelli RE assets from the tyres, for example by means of a proportional spin off, the company will definitively become a pure industrial player, removing the basis for the holding discount application. **In this case, the target price would grow to EUR 0.58.**

## Pirelli &amp; C.: Summary tables

<b>PROFIT &amp; LOSS (EURm)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
<b>Sales</b>	<b>4,841</b>	<b>5,209</b>	<b>4,660</b>	<b>4,190</b>	<b>4,344</b>	<b>4,527</b>
Cost of Sales & Operating Costs (excl. Pers. Expenses)	-3,138	-3,472	-3,089	-2,759	-2,801	-2,879
Personnel Expenses	-1,076	-1,156	-1,175	-942	-978	-1,020
Non Recurrent Expenses/Income	-13.2	0.0	-144	-70.0	-31.5	-30.0
<b>EBITDA</b>	<b>614</b>	<b>581</b>	<b>252</b>	<b>419</b>	<b>533</b>	<b>598</b>
<b>EBITDA (adj.)*</b>	<b>627</b>	<b>581</b>	<b>396</b>	<b>489</b>	<b>565</b>	<b>628</b>
D & A	-213	-214	-209	-208	-208	-214
<b>EBIT</b>	<b>401</b>	<b>367</b>	<b>43.3</b>	<b>210</b>	<b>325</b>	<b>384</b>
<b>EBIT (adj.)*</b>	<b>415</b>	<b>367</b>	<b>187</b>	<b>280</b>	<b>356</b>	<b>414</b>
Net Financial Interest	-143	-138	-80.0	-80.0	-75.0	-70.0
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	67.1	195	-367	-50.5	18.6	36.1
Other Non Recurrent Items	-1,216	0.0	0.0	0.0	0.0	0.0
<b>Earnings Before Tax (EBT)</b>	<b>-891</b>	<b>424</b>	<b>-403</b>	<b>79.8</b>	<b>268</b>	<b>350</b>
Tax	-128	-134	-72.6	-80.0	-80.5	-105
<i>Tax rate</i>	<i>nm</i>	<i>31.5%</i>	<i>nm</i>	<i>nm</i>	<i>30.0%</i>	<i>30.0%</i>
Discontinued Operations	-30.0	33.1	63.4	0.0	0.0	0.0
Minorities	-119	-159	65.0	29.1	6.8	-3.6
<b>Net Profit (reported)</b>	<b>-1,167</b>	<b>165</b>	<b>-347</b>	<b>28.9</b>	<b>195</b>	<b>241</b>
<b>Net Profit (adj.)</b>	<b>-349</b>	<b>143</b>	<b>-295</b>	<b>74.4</b>	<b>215</b>	<b>261</b>
<b>CASH FLOW (EURm)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
Cash Flow from Operations before change in NWC	-836	538	-204	208	396	459
Change in Net Working Capital	-516	159	-121	103	-30.6	-27.7
<b>Cash Flow from Operations</b>	<b>-1,352</b>	<b>697</b>	<b>-325</b>	<b>311</b>	<b>366</b>	<b>432</b>
Capex	-298	-566	-942	-200	-200	-200
Net Financial Investments	-303	-156	96.1	0.0	0.0	0.0
<b>Free Cash Flow</b>	<b>-1,953</b>	<b>-25.4</b>	<b>-1,171</b>	<b>111</b>	<b>166</b>	<b>232</b>
Dividends	-115	0.0	-919	0.0	-10.1	-68.1
Other (incl. Capital Increase & share buy backs)	528	-1,128	499	111	-143	26.2
<b>Change in Net Debt</b>	<b>-1,540</b>	<b>-1,153</b>	<b>-1,592</b>	<b>221</b>	<b>12.5</b>	<b>190</b>
NOPLAT	415	367	187	280	356	414
<b>BALANCE SHEET &amp; OTHER ITEMS (EURm)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
Net Tangible Assets	1,575	1,650	1,598	1,590	1,581	1,567
Net Intangible Assets (incl. Goodwill)	516	673	1,046	1,046	1,046	1,046
Net Financial Assets & Other	4,833	1,492	1,021	1,021	1,021	1,021
<b>Total Fixed Assets</b>	<b>6,924</b>	<b>3,815</b>	<b>3,665</b>	<b>3,657</b>	<b>3,649</b>	<b>3,634</b>
Net Working Capital	461	301	423	320	351	378
<b>Shareholders Equity</b>	<b>3,880</b>	<b>2,980</b>	<b>2,172</b>	<b>2,369</b>	<b>2,385</b>	<b>2,559</b>
Minorities Equity	807	824	203	184	179	182
<b>Net Debt</b>	<b>1,978</b>	<b>-299</b>	<b>1,032</b>	<b>811</b>	<b>798</b>	<b>608</b>
Provisions	720	611	682	613	637	664
Other Net Liabilities or Assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Capital Employed/Invested</b>	<b>7,385</b>	<b>4,117</b>	<b>4,088</b>	<b>3,977</b>	<b>4,000</b>	<b>4,013</b>
<b>GROWTH &amp; MARGINS</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
<i>Sales growth</i>	<i>6.5%</i>	<i>7.6%</i>	<i>-10.5%</i>	<i>-10.1%</i>	<i>3.7%</i>	<i>4.2%</i>
<i>EBITDA growth</i>	<i>8.2%</i>	<i>-5.4%</i>	<i>-56.6%</i>	<i>66.2%</i>	<i>27.4%</i>	<i>12.2%</i>
<i>EBITDA (adj.)* growth</i>	<i>10.5%</i>	<i>-7.4%</i>	<i>-31.8%</i>	<i>23.3%</i>	<i>15.6%</i>	<i>11.3%</i>
<i>EBIT growth</i>	<i>13.1%</i>	<i>-8.6%</i>	<i>-88.2%</i>	<i>386.1%</i>	<i>54.5%</i>	<i>18.1%</i>
<i>EBIT (adj.)* growth</i>	<i>16.8%</i>	<i>-11.5%</i>	<i>-48.9%</i>	<i>49.5%</i>	<i>27.1%</i>	<i>16.1%</i>
<i>Net Profit growth</i>	<i>-chg</i>	<i>+chg</i>	<i>-chg</i>	<i>+chg</i>	<i>189.5%</i>	<i>21.2%</i>
<i>EPS adj. growth</i>	<i>-chg</i>	<i>+chg</i>	<i>-chg</i>	<i>+chg</i>	<i>189.5%</i>	<i>21.2%</i>
<i>DPS adj. growth</i>	<i>0.0%</i>	<i>-chg</i>	<i>+chg</i>	<i>-chg</i>	<i>+chg</i>	<i>574.4%</i>
<i>EBITDA margin</i>	<i>12.7%</i>	<i>11.2%</i>	<i>5.4%</i>	<i>10.0%</i>	<i>12.3%</i>	<i>13.2%</i>
<i>EBITDA (adj.)* margin</i>	<i>13.0%</i>	<i>11.2%</i>	<i>8.5%</i>	<i>11.7%</i>	<i>13.0%</i>	<i>13.9%</i>
<i>EBIT margin</i>	<i>8.3%</i>	<i>7.0%</i>	<i>0.9%</i>	<i>5.0%</i>	<i>7.5%</i>	<i>8.5%</i>
<i>EBIT (adj.)* margin</i>	<i>8.6%</i>	<i>7.0%</i>	<i>4.0%</i>	<i>6.7%</i>	<i>8.2%</i>	<i>9.1%</i>

## Pirelli &amp; C.: Summary tables

<b>RATIOS</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
Net Debt/Equity	0.4	-0.1	0.4	0.3	0.3	0.2
Net Debt/EBITDA	3.2	-0.5	4.1	1.9	1.5	1.0
Interest cover (EBITDA/Fin.interest)	4.3	4.2	3.1	5.2	7.1	8.5
Capex/D&A	140.2%	264.7%	451.5%	96.0%	96.0%	93.2%
Capex/Sales	6.2%	10.9%	20.2%	4.8%	4.6%	4.4%
NWC/Sales	9.5%	5.8%	9.1%	7.6%	8.1%	8.4%
ROE (average)	-7.7%	4.2%	-11.4%	3.3%	9.1%	10.6%
ROCE (adj.)	16.2%	14.0%	6.1%	9.5%	12.0%	13.8%
WACC	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
ROCE (adj.)/WACC	2.3	2.0	0.9	1.3	1.7	1.9

<b>PER SHARE DATA (EUR)***</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
Diluted number of shares	5365.3	5360.8	5359.5	5359.5	5359.5	5359.5
EPS (reported)	-0.22	0.03	-0.06	0.01	0.04	0.05
EPS (adj.)	-0.06	0.03	-0.06	0.01	0.04	0.05
BVPS	0.72	0.56	0.41	0.44	0.45	0.48
DPS	0.02	0.00	0.17	0.00	0.00	0.01

<b>VALUATION</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
EV/Sales	0.3	0.6	0.4	0.6	0.5	0.5
EV/EBITDA	2.7	5.2	8.1	5.5	4.3	3.5
<b>EV/EBITDA (adj.)*</b>	<b>2.6</b>	<b>5.2</b>	<b>5.2</b>	<b>4.7</b>	<b>4.1</b>	<b>3.3</b>
EV/EBIT	4.1	8.3	47.3	11.0	7.1	5.4
<b>EV/EBIT (adj.)*</b>	<b>4.0</b>	<b>8.3</b>	<b>10.9</b>	<b>8.3</b>	<b>6.5</b>	<b>5.0</b>
<b>P/E (adj.)</b>	<b>nm</b>	<b>22.1</b>	<b>nm</b>	<b>26.5</b>	<b>9.2</b>	<b>7.6</b>
P/BV	0.8	1.1	0.6	0.8	0.8	0.8
Total Yield Ratio	0.0%	28.4%	0.0%	0.5%	3.4%	
EV/CE	0.6	1.2	0.7	0.8	0.8	0.7
OpFCF yield	-50.9%	12.1%	-45.8%	5.5%	8.2%	11.8%
OpFCF/EV	-100.4%	12.9%	-32.3%	4.8%	7.2%	11.2%
Payout ratio	-9.8%	0.0%	nm	0.0%	5.2%	28.2%
Dividend yield (gross)	3.6%	0.0%	46.7%	0.0%	0.5%	3.5%

<b>EV AND MKT CAP (EURm)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009e</b>	<b>2010e</b>	<b>2011e</b>
Price** (EUR)	0.6	0.6	0.3	0.4	0.4	0.4
Outstanding number of shares for main stock	5,365	5,361	5,360	5,360	5,360	5,360
<b>Total Market Cap</b>	<b>3,240</b>	<b>3,239</b>	<b>1,446</b>	<b>2,023</b>	<b>2,023</b>	<b>1,970</b>
<b>Net Debt</b>	<b>1,978</b>	<b>-299</b>	<b>1,032</b>	<b>811</b>	<b>798</b>	<b>608</b>
o/w Cash & Marketable Securities	-451	-2,251	-496	-717	-730	-920
o/w Short Term Debt	1,608	1,772	807	807	807	807
o/w Long Term Debt	821	181	721	721	721	721
<b>Other EV components</b>	<b>-3,574</b>	<b>102</b>	<b>-432</b>	<b>-520</b>	<b>-512</b>	<b>-504</b>
Enterprise Value (EV adj.)	<b>1,644</b>	<b>3,042</b>	<b>2,046</b>	<b>2,313</b>	<b>2,309</b>	<b>2,074</b>

Source: Company, Banca Akros estimates.

## Notes

\* Where EBITDA (adj.) or EBIT (adj.) = EBITDA (or EBIT) +/- Non Recurrent Expenses/Income

\*\*Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

\*\*\*EPS (adj.) diluted = Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.

## Company Description:

Pirelli is an Italian industrial holding company. Pirelli's most important business is Pirelli Tyre, a high-performance car tyre maker which value represents 67% of the entire holding company asset value. Pirelli holds a 55.7% stake in Pirelli RE, a listed company providing real estate management and related services (Pirelli RE weights for 5.8% of Pirelli asset value). Pirelli has small presence in the telecom business through Pirelli BBS (4.2% of the asset value) and in the field of environment (Pirelli & C Ambiente, Pirelli & C Ecotechnology, 0.5% of the NA). Pirelli owns 3 sizeable stakes in Telecom Italia (5.8% of NA), Mediobanca (5.4% of NA) and RCS Mediagroup (1.9% of NA). Recently, Pirelli has showed the intention to focus on its industrial assets, but the management does not want dispose of the financial stakes in the current market conditions.

## ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated on the basis of a **total return**, measured by the upside potential (including dividends and capital reimbursement) over a **12 month time horizon**.

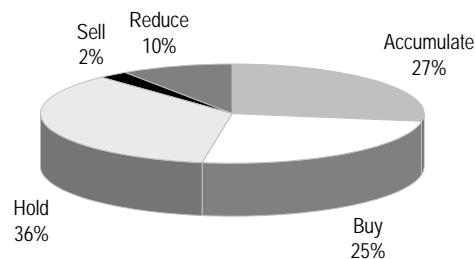
The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy, Accumulate (or Add), Hold, Reduce and Sell (in short: B, A, H, R, S)**.

Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

### Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 20%** during the next 12 months time horizon
- **Accumulate:** the stock is expected to generate total return of **10% to 20%** during the next 12 months time horizon
- **Hold:** the stock is expected to generate total return of **0% to 10%** during the next 12 months time horizon.
- **Reduce:** the stock is expected to generate total return of **0% to -10%** during the next 12 months time horizon
- **Sell:** the stock is expected to generate total return **under -10%** during the next 12 months time horizon
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- **Not Rated:** there is no rating for a company being floated (IPO) by the issuer of the document (a partner of ESN) or a related party of the issuer

**Banca Akros Ratings Breakdown**

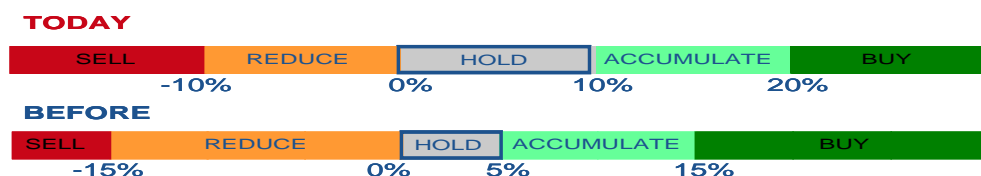


### History of ESN Recommendation System

**Since 18 October 2004**, the Members of ESN are using an Absolute Recommendation System (before was a Relative Rec. System) to rate any single stock under coverage.

**Since 4 August 2008**, the ESN Rec. System has been amended as follow.

- Time horizon changed to 12 months (it was 6 months)
- Recommendations Total Return Range changed as below:



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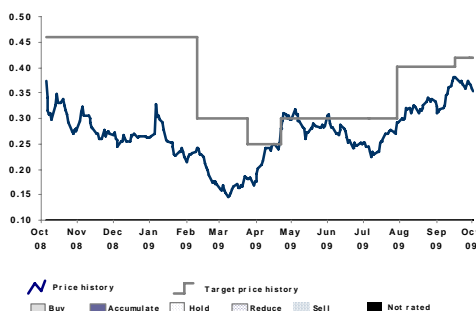
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#### Recommendation history for PIRELLI & C.

Date	Recommendation	Target price	Price at change date
06-Oct-09	Buy	0.49	0.37
17-Sep-09	Buy	0.42	0.38
30-Jul-09	Buy	0.40	0.29
22-Apr-09	Hold	0.30	0.28
25-Mar-09	Hold	0.25	0.18
10-Feb-09	Hold	0.30	0.24
30-Sep-08	Hold	0.46	0.41
05-Aug-08	Accumulate	0.56	0.42
04-Aug-08	Accumulate	0.72	0.39
01-Apr-08	Accumulate	0.70	0.55

Source: Factset & ESN, price data adjusted for stock splits.

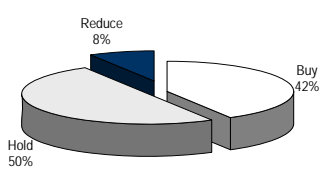
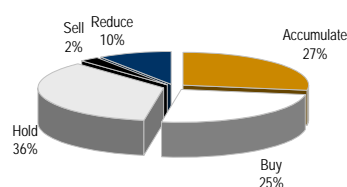
This chart shows Banca Akros continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Gabriele Gambarova (since 11/12/2006)



#### Percentuale delle raccomandazioni al 30 giugno 2009

Tutte le raccomandazioni

Raccomandazioni su titoli in conflitto di interessi (\*)



(\*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 14% del totale degli emittenti oggetto di copertura

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## Members of ESN (European Securities Network LLP)



**Banca Akros S.p.A.**  
Viale Eginardo, 29  
20149 Milano  
Italy  
Phone: +39 02 43 444 389  
Fax: +39 02 43 444 302



**Bank Degroof**  
Rue de l'Industrie 44  
1040 Brussels  
Belgium  
Phone: +32 2 287 91 16  
Fax: +32 2 231 09 04



**Caixa-Banco de Investimento**  
Rua Barata Salgueiro, 33-5  
1269-050 Lisboa  
Portugal  
Phone: +351 21 389 68 00  
Fax: +351 21 389 68 98



**Caja Madrid Bolsa S.V.B.**  
Serrano, 39  
28001 Madrid  
Spain  
Phone: +34 91 436 7813  
Fax: +34 91 577 3770



## CM-CIC Securities

**CM - CIC Securities**  
6, avenue de Provence  
75441 Paris  
Cedex 09  
France  
Phone: +33 1 4016 2692  
Fax: +33 1 4596 7788



**Danske Markets Equities**  
Holmens Kanal 2-12  
DK-1092 Copenhagen K  
Denmark  
Phone: +45 45 12 00 00  
Fax: +45 45 14 91 87



**Equinet AG**  
Gräfrstraße 97  
60487 Frankfurt am Main  
Germany  
Phone: +49 69 - 58997 - 410  
Fax: +49 69 - 58997 - 299



**Investment Bank of Greece**  
24B, Kifisias Avenue  
151 25 Marousi  
Greece  
Phone: +30 210 81 73 000  
Fax: +30 210 68 96 325



**NCB Stockbrokers Ltd.**  
3 George Dock,  
Dublin 1  
Ireland  
Phone: +353 1 611 5611  
Fax: +353 1 611 5781



**SNS Securities N.V.**  
Nieuwezijds Voorburgwal 162  
P.O.Box 235  
1000 AE Amsterdam  
The Netherlands  
Phone: +31 20 550 8500  
Fax: +31 20 626 8064



**European Securities Network LLP**  
Registered office c/o Withers LLP  
16 Old Bailey - London EC4M 7EG