



Ladies and gentlemen, welcome to Pirelli's conference call, in which its Chairman, Mr. Marco Tronchetti Provera, and the group's top management will comment the nine month 2009 results. I remind you that a Q&A session will follow after the presentation; moreover, a live web casting of the event and the presentation slides are available in the investors relation section of the Pirelli website. Now, I would like to introduce you to Mr. Marco Tronchetti Provera. Thank you.

Good evening. Good evening to everybody. Thank you for taking part in our conference call. Together with the Tire and Real Estate top management I'm going to illustrate our results for the first nine months of the year that the Board of Directors has just approved. Before getting to our financial results, I'd like to discuss how we are progressing in the business plan, which was announced last February.

First of all, on chart 3 we are improving Pirelli's competitiveness by various means. Compared to its peers, in the tire business, in the third quarter 2009 Pirelli outperformed the slight recovery trend experienced by the industry in both original equipment and replacement. In fact, Pirelli has been the only tire maker to record a positive organic growth in this quarter: 1.4% versus a -10% average of peers. This performance was driven by the market share increase in all the countries where we operate and by our exposure to emerging markets. First and mostly in Latin America where the fast recovery from the recession and a 3 or 4% 2010 GDP expected growth are key factors to be underlined. In addition, Pirelli undertook an incisive marketing mix action, also based on a highly innovative range of products that already comply with the new European legislation. An outstanding example is the green performance product line, such as Cinturato P7 in the consumer business and R01 series in the truck business. In terms of competitiveness, Pirelli forestalled its peers by implementing incisive restructuring actions. Started at the end of 2008, these actions are already generating the first results: a reduction of the cost base, with gross savings of 200 million euros in tire and approximately 65 million euros of efficiencies in real estate fixed costs by the end of 2009. What we have learned from the recession we are gradually overcoming is that flexibility and speed in responding to a changing environment are crucial for an industrial company. We strengthened our restructuring plan, which only envisaged one third of the 100 million restructuring costs for the tire business in 2009. In addition to this, a new efficiency program was also implemented, both in real estate and in the holding company. Additional 20 million euros was allocated to real estate with a view to speed up the achievement of the breakeven point in recurrent activities, which is the basis for the new business model. In the holding company there will be a 50% reduction of staff, a portion of whom will move to the new "tire and parts" division. Total layoff costs for one third of headcount reduction will amount to 20 million. 2010 is clearly going to have a higher efficiency level than forecasted in the 2009-2011 plan. The resulting savings will help us offset the raw material volatility peaks, the most difficult factor to forecast in the next few years. We are increasingly focusing on our core business, that is tire and filters, as Mr. Gori will discuss shortly, as well as on its synergic activities, such as environment, where we intend to share the group's know-how in order to best manage cost travels, namely energy, and to gradually open up new opportunities. (...) conceived as a cost-cutting advertising project to strengthen the brand at zero cost. It is against this background that we started our reorganization efforts last September, with the group's tire and filters under a same division, in order to exploit strong synergies. In addition, this new division now includes many operational functions that used to be performed by the holding company in order to streamline and speed up corporate processes. By doing so and by reducing the holding company's staff by one third we expect approximately 10 million euro savings on a yearly basis starting from 2010. In the real estate business, the ongoing turnaround process is based on focusing on recurrent revenues from real estate and specialized services, key role played by fund management operations in Italy; the recent agreement for Pirelli Real Estate SGR 5% initial sale to Banca Intesa is to be seen in this context, as Mr. Malfatto will further explain, and invested capital reduction. We are confident that this turnaround process will allow the company's intrinsic value to be recognized once again and produce its major benefits in 2010. The focusing plan for our core business also envisages the progressive sale of non-strategic financial assets. In the first nine months, we cashed approximately 236 million euros from Alcatel's 5% sale and from Telecom Italia's remaining 1.3% stake. These sales, together with cash generated from the tire business and Pirelli Real Estate's capital increase subscribed by minorities, worth 267 million euros, are contributing to progressively strengthening the group's financial position, by releasing resources that will be invested in the core business in countries where demand is growing and productive factors are at low cost; countries like Russia and Asia.

Going to slide 4, you can see the results... the nine month results. In view of the first nine month results we are pleased to raise the target of the group's revenues to over 4.3 billion euros, reflecting an increase in the tire target to around 3.9 billion euros. EBIT margin is expected to be around 4.5%, notwithstanding the abovementioned additional restructuring costs. Once again, we are improving our net financial position target to approximately 700 million euros.

So, now, after having given you a short view of our results and targets, I will leave the floor to Mr. Gori to enter into the real estate... sorry, into the tire business. Please, Mr. Gori.

Thank you, Mr. Tronchetti. Slide 4... slide 6, sorry... a short summary on our third quarter results, showing a significant improvement in operations over previous quarters. First of all, a substantial top line recovery, sustained by the performance of Pirelli Tire, which partially increased its market share in the third quarter while maintaining a high price/mix. Profitability rebound 5.4% EBIT margin benefiting from the positive impact of restructuring actions implemented by Pirelli Tire and Real Estate and from the improvement of tire operating performance and high cash-flow generation, over 400 million euros during the quarter, resulting in residual debt significantly below 2009 targets set in the plan.

Moving to the next slide, slide 7. The slide highlights a clear improvement in the operating result over the previous quarters entirely attributable to tire and related to continued efficiency actions and a marketing policy focused on premium products.

Slide 8: despite a year-on-year decline in the operating result and the lower income from participations, in the first nine months of the year the net result of Pirelli &Co. has been 80 million euros. I remind you that the 51 million euro loss in nine months 08 was impacted by the 155 million euro devaluation of Telecom Italia's stake made in the first half of 2008; in the first half of 2009 the impact related to the devaluation and sale of TI participation amounted to 17.5 million euros.

Slide 9: Pirelli's net financial position. The financial position has been 691.4 million euros, with a 416 million euro improvement, compared to June 30th, thanks to cash generated by Pirelli Tire and the 130 million euro proceeds from the sale of Telecom Italia shares made in the quarter, as well as the positive impact of real estate rights issue, 167.4 million euros.

Slide 10: Pirelli's debt structure. We show a 1.8 billion gross debt, 59% of which is due to expire in 2012. An agreement was signed in July with a pool of 8 leading financial institutions to set up a 320 million euro credit line maturing in July 2012 in favor of Pirelli Real Estate. Thanks to this deal and the positive cash-flow generation from tires, the group managed to increase the availability of committed lines from 700 million euros as of the end of June to 870 million euros in the third quarter. The group also managed to better split the maturity of debt with 2010-2011 combined maturities only accounting for 15% of the gross borrowing. Average maturity of committed bank lines stands at 31 months.

Slide 12: third quarter Pirelli Tire performance. At the end of the quarter we posted: a significant performance improvement; a year-on-year rebound of revenues in organic terms; a +1.4% growth of top line, net of the exchange rate impact; an ongoing profitability improvement; 9% EBIT margin before restructuring costs in this quarter; and a strong cash-flow generation, nearly 117 million euros.

Let's now review this performance more in detail. Next slide, number 13: revenues increased due to lower volume reduction compared with the second quarter, -3.3% versus -13.3% in the second quarter of 2009, mainly thanks to the consumer segment, where we moved from -10% in the second quarter 2009 to +1.7% in the third quarter 2009. This is mainly coming from strong winter tire sales as well as the market share increase we already referred to. Then, I want to underline the price/mix ability; particularly significant the profitability rebound in the third quarter of 2009, with a 9% organic EBIT margin, due to our strong performance in these segments.

Slide 14: the profitability trend clearly shows that the improvement recorded in the third quarter of 2009 depends on: a positive price/mix contribution, 39.1 million euros, raw material cost reduction, 36.5, net of the exchange rate impact, and cost efficiencies due to restructuring activities and higher production capacity utilization. Now, 80-85% in the third quarter versus 70-75% in the first half of 2009.

Next slide: our cost reduction program is right on track, as in September we have already reached 85% of the 200 million euro gross savings planned for 2009. Specifically, the headcount reduction plan continued, allowing us to exceed 90% of our target, 1400 out of 1500 total staff reduction foreseen for Europe has already been accomplished, staff and (...). Third quarter 2009 raw material cost and utilization efficiency continued, leading to 100 million euro gross savings in nine months and the discretionary and indirect expenses reduction program and the energy and cost transport savings program are basically achieved.

Next slide: net financial position for Pirelli Tire in this quarter is characterized by a strong net cash generation, around 170 million euros versus 122 million euros in the second quarter of 2009 before dividends. Cash generation increased, due to improved operating performance and to continuous stock reduction, improving commercial receivables and reducing investments which, however, we are now speeding up again in the fourth quarter. Pirelli Tire's first nine months of 2009 show a 1.3 billion euro debt, already reaching the target foreseen in our business plan for this year.

Next slide: we start reviewing each business segment, starting from market trends. Overall, the third quarter shows a marked quarter-on-quarter OE volume increase, due to sales incentive plans in all regions, even though the sign is still negative versus the previous year, while for replacement the trend is finally positive versus the previous year with a double-digit growth in Latin America.

Next slide: number 18. Top line rebound and strong profitability improvement characterized Pirelli's performance in the consumer segment in this quarter. Beating our competitors, we recorded a revenue rebound of +3%... +3.1% year-on-year, +5.3% net of the exchange rate impact, due to volume growth, a strong winter tire sell-in and market share increase and price/mix stability. In terms of profitability, in the third quarter of 2009 we posted an 8.7% EBIT margin in the consumer segment, almost a 7 percentage point yearly increase. The drivers being: product/mix improvement, winter tires normally provide a higher margin; strong sales growth in replacement markets; a lower impact of raw material costs; higher production capacity utilization.

Now, let's move to the next slide, number 19. The industrial segment remains the most cyclical one, with a double-digit reduction in both OE and replacement, although trends as slightly improving quarter-on-quarter, at least in replacement markets.

Slide 20: our positioning in the rapid developing economies, Latin America, China, Middle East, Africa, allows us to limit the volume reduction versus market average and to post a significant quarter-on-quarter trend improvement, also thanks to a price/mix that remains stable at +7%. This is possible because the cost/benefit ratio offered by our products is more and more perceived as the most competitive in the medium-heavy truck tire market. The current quarter shows a 9.8% EBIT margin, posting a 1.8 percentage point year-on-year improvement.

Slide 21: we offer you some highlights and products and (...) recognitions awarded to Pirelli Tire in this quarter. We expanded the range of winter tires with the introduction of the Winter Snowcontrol service, specifically conceived for mid-sized city cars, the fastest growing segment in Europe this year. And that is, of course, supportive of our performance in the consumer business in this quarter; and then we'd also like to highlight the recognition of an award to P6 and P7 Cinturato from independent test authorities.

Next slide, number 22: we show the results of our winter tire tests that successfully were appraised by specialized magazines across Europe, which recognized the strength of our products.

Next slide: thanks to the results of the first nine months, we raised the 2009 revenue target from 3.8 billion to 3.9 billion, while EBIT margin after the restructuring costs will be equal to 7% or higher, despite cost increases in raw materials from quarter 4.

Next slide, slide 24: Pirelli's Eco Technology performance in the third quarter of 2009 was negatively affected by the delay in the implementation of the environmental regulations, the current recession and the start-up costs of the Rumanian site. During this quarter, anti-particulate filters homologation was completed successfully in Germany from euro 1 to euro 3 vehicles, both in the light and heavy duty segments. This will allow one of the most interesting markets to be developed as soon as next year. Homologation in Germany follows completion of the same process in China in the first half of the year. In the first nine months, the manufacturing site of Bumbesti Jiu in Rumania was opened and is now operational. The site will serve existing markets as well as original equipment markets where supply contracts are underway. The delay in the implementation of the existing regulation on pollution along with the difficult economic situation and the longer than expected time necessary to obtain the homologations for developing markets lead us to believe that 2009 financial year will close with a negative operative result. I'll now leave the floor to Mr. Malfatto.

Thank you, Mr. Gori, and thank you all for listening. Before detailing Pirelli Real Estate's nine month results, let me go through some key messages concerning our company.

Please refer to slide 26. Actually, the real estate market conditions didn't change significantly in the third quarter, which we can say that historically can be considered the weakest quarter for the overall sector, and this is due to the summer seasonality. Although prices remained quite stable, and confirming the resilient nature of the markets in which we operate, I mean Italy and Germany, I would say that we are still operating in a difficult market environment with a limited access to the credit which is negatively impacting the recovery of transactions. In terms of sales volumes so far we managed to sell assets for 657.6 million euros with a 12% gross margin, and, most important, in line with market values. For those of you who are not familiar with our terminology, when I talk about

gross margin my... I mean, gross margin is the difference between the sale value and the book value of the assets. Being the last quarter of the year the most active one, even if we do not expect any significant market improvements, we are confident, based on the negotiations currently in progress, to reach our target of 1 billion euros of sales by year-end with stable margins. As a general comment on the nine month economic results, we can note that the real estate sale platform, which includes the results from asset under management fees, the agencies, services, the property management, the facility and credit servicing, and even including the holding cost, improves significantly to -0.5 million euros versus a 5.2 million loss in the same period of 2008. Including Berenice fund indemnity. The result is mainly achieved thanks to the acceleration of the cost saving program, which Mr. De Conto will detail later on, and also thanks to the capital gain of 6.1 million, deriving from the disposal of the first 5% of the fund management company, the so-called SGR, to Intesa Sanpaolo Bank. The deal which allows Intesa Sanpaolo by year-end to acquire an additional 5% stake, once clearance from authorities is received, perfectly fixes Pirelli Real Estate's strategy, which is aimed at: first, strengthening its leadership position with strategic partners in the fund management business; and second, taking opportunities from a market that we expect will go through a consolidation phase; third, reaching additional economies of scale; and the last, increasing Pirelli Real Estate's fund management revenues. As far as investment activities are concerned, it still suffers a loss related to some specific areas, which have been identified and for which we are acting accordingly. As far as SOHO and selling assets are concerned, and when I talk about SOHO I mean small offices and home offices, we are continuing the disposal process. We have sold, up to September, 135.7 million euros in the first nine months, against 133.5 in the first half. What is relevant to me is that we sold with an 11% gross margin and we expect to sell assets well above 200 million euros by year-end. Despite the positive margin on sale, on this cluster we posted a loss of approximately 11.5 million euros, and this is mainly due to an unbalance between the leverage used in the current passing yield, which is below 2%. With regard to the non-strategic activities, mainly UPIM, which we are working on to find an exit, we can confirm that a due-diligence process by a potential buyer has recently started. The overall loss for us, due to this participation, was approximately 8.2 million over the period. Moving on to the German portfolio: in the residential segment we have sold assets for approximately 75 million euros and we are actively working on reducing vacancy. We are even exploring strategic options on strengthening the capital structure, like partnerships with local operators, and old debt restructuring; while in the commercial segment, although this is not a critical area, it is worthwhile mentioning that at the beginning of September we sold the Mercado shopping center, which is located in the pedestrian area of Hamburg, to a German open-ended property fund managed by Unilmmo for 164 million euros. Let me also underline that we were able to keep the property management mandate from the buyer. The deal represents one of the largest individual property deals in the retail sector completed so far this year in Continental Europe. In the last quarter we will continue the turnaround process and for the full year we confirm the already announced target of a loss not exceeding a range of 25-35 million euros at operating level, including investments before restructuring expenses and property writedowns.

Moving to slide 27: I mean Pirelli Real Estate profit & loss. As you can see in the P&L, the nine month 2009 results posted a net loss of 57.9 million euros versus a loss of 12.9 million euros in the same period of 2008. Although the result is still not satisfactory, in Q3 we confirm some preliminary signs of reversal trend: EBIT including equity participation negative for 30.2 million euros, in Q3 posted a loss of 7.3 million euros, which is significantly lower than 14.7 million in Q1 and 8.2 million in Q2. Adding interest income from participation, the total result, I mean before restructuring costs and writedowns, is negative for 8.9 million euros, but Q3 was positive, improving by 0.3 million from last June, when it was -9.2 million euros. The services platform, including capital gains from the disposal of the SGR stake, is improving significantly, and we expect it to turn positive by year end. Compared to the same period in 2008, of 2008... please refer to slide 27, the difference between negative 8.9 million and positive 46.5, which is 55.4, last year we benefited from significant one-off gains for over 30 million, related to the termination of the management of Berenice fund and the sale of an asset in Poland. The remaining difference is explained by negative derivative effects for approximately 13 million, lower volumes of real estate asset sales and lower results from NPL investments. Writedown evaluations, if beneath we do not have enough data appraisals for the whole portfolio, which will be completed by year end, in the quarter we have done additional writedowns for approximately 7 million euros, of which 4.5 million are related to the Italian portfolio and 2.5 to the German portfolio. Therefore, the whole writedown of the portfolio is 11.9, of which total revaluation 45.5 and writedowns 57.4.

On slides 28 and 29 we are showing the contribution of the different business units on a country-per-country basis, while holding costs are released separately. As you can see on slide 28, before holding costs Italy went back to make a profit, namely 4.3 million, with a significant contribution of the service platform, partially eroded by the negative impact of the investment activities. Germany

reached almost breakeven, with balanced results between services and investment activities, as is also the case with Poland. Moving to NPLs, we notice that the services platform results, mainly derived from collection fees, suffered from a lower level of NPL collection in the period: 226 million, some 100 less than in the same period in 2008.

Regarding asset sale, let's move to slide 30: in the first nine months we posted overall sales of approximately 657.6 million, with a 12.3 margin, versus 714.5 million with a 19% margin of the same period of last year. Quarterly sales were approximately 305 million in Italy; we sold 356.4 of which (...) for 145.7 million. If we consider what we have already in terms of notary, contractual and offer, the total pipeline is above 1 billion euros, making us quite confident to reach the 1 billion target of asset disposal for the full year with stable margins.

Now I'll leave the floor to Mr. De Conto.

Thank you, Giulio. Let me give you an update on headcounts and cost savings if we move to slide 31. This slide shows the actions we have been taking, and are taking, on the cost saving side, generating 47 million euros of savings in the first nine months of the year. Additionally, 18 million in this third quarter. To give you some more details on the breakdown of these savings, we have around 22 million of labor costs, while the other 25 million is attributable mainly to consultancy, headquarter rationalization in the different territories where we operate, IT, marketing and communication, and other savings in expenses related mainly to headcount reductions. Since we are ahead of schedule, we have set a new target for the year of 65 million euros of savings, about 28% minus in comparison with last year. Compared to the 55-60 million announced in June, a target we had already revised upwards from 50 million at the beginning of the year. In terms of headcounts we reached, at the end of this quarter, a number of 1205, about 270 people less than year-end 2008, and this is making us confident to meet the full-year target as announced.

If we now have a quick look at slide 32 and 33, we will examine the net adjusted financial position evaluation and the balance sheet. On slide 32 it's worth recalling that with the success of the capital increase and with the renegotiation and extension of the corporate bank line, in just a few months Pirelli Real Estate met the target of strengthening its financial structure and having the flexibility needed to reach our industrial plan. The net adjusted financial position for the period is 447.4 million, decreasing compared to December 2008 thanks to the previously mentioned right issue for approximately 400 million, the disposal of a 20% stake in Credit Services to Credit Calyon, and the 5% stake in the fund management company sold to Intesa Sanpaolo. On the investment side, we had approximately 20 million euros of equity contribution to funds and vehicles and 27 million euros of acquisitions. In addition, in the period we, of course, had a significant investment in the restructuring, mainly in personnel reduction with about 52 million euros of cash-out for the layoff. As a consequence of all this, the gearing is of 0.65 versus the 2.35 as of December 2008.

Moving to slide 33: some brief comments. You can see that net working capital is stable versus year-end 2008 and this is a quite significant figure, and as far as net equity is concerned, it was approximately 680 million compared to 361 as of December 2008, and the improvement is of course due to the new right issue, that was the positive variation, and was affected by the negative result... net result of the period. Thank you. I think this is all, and I leave the floor back to Mr. Tronchetti.

Thank you, Mr. De Conto. Now we have completed our quarterly review and we are pleased to answer all your queries.

Q&A session:

1. Mr. Edoardo Spina from Morgan Stanley:

Thank you. Good afternoon. I'd have three questions. The first one on real estate, on the property writedowns for the year: I know you don't have a target, an official target, but you've taken 12 million so far. I

was wondering if you can give us just what you think is going to happen in the fourth quarter if we should expect a bigger number, an increase... or the number you have in your mind. The second question would be on inventory levels on tires: if you can give us an update on inventory levels in Latin America, especially on the industrial side, and also the winter tire inventories in Europe, by dealers, I mean. And the last question would be on the cost reduction program on Pirelli Tire as well: I see you show 200 million euros of gross savings targeted for 2009 and you also say that labor savings and also other costs are substantially achieved, but when I look at the EBIT bridge, I see even in the third quarter, the cost of inputs referring to labor, energy and other, and also efficiencies are... are negative. So, I was wondering how you account for these cost savings, what exactly goes into efficiencies, also because it's not very clear to me? And if we should expect then the impact of the savings to be in 2010? Thank you.

Gori answering on tire and then I'll leave the floor to Mr. Malfatto for real estate. Inventory in Latin America for truck tires is at the normal level, nothing special. So, we don't see... there's a good demand, the season is normally a high season, but there's nothing special. I would say they are... our inventories today are at a normal level, meaning what is a normal rotation in that area of the world. As far as the efficiencies you are mentioning, under page 14 of our presentation we have price of labor, that is inflation, and that is normally a bit high in our company because of the exposure to markets and regions of the world where inflation is not the typical European or US inflation. So that is something that we have to show, even though it is coming from currencies that eventually devaluate or are not strong, but of course this is shown in local currencies. Then when we discuss about... when we tell you about efficiencies, you have to not only look at price on the raw materials but also to wait all the actions that we have there and these are the efficiencies that we show as +16.7 million euros. There we also have the initial results of the restructuring plans and the lower number of people, especially in Europe, that start to show some savings. So, I mean, we'd like to show efficiencies separately from cost of inputs, because cost of inputs are linked to market price and oil inflations. I hope I answered to your question.

Yes, thanks, I have a follow-up on this: can you give us now a number for 2010? What you think could be the cost savings in terms of efficiencies from the labor... from labor costs?

As far as 2010, we can only confirm as of today the efficiencies we gave... we showed in our three-year plan back in February 2009, which were in the order of 100 million for the two years 2010 and 2011. So, we confirm that value for the time being.

Thank you.

And I'll give the word to Mr. Malfatto now.

Thank you, Mr. Gori. Of course, the evaluation process is carried out by independent tests, so it's something which is out of our control, but my personal idea is that we are very close to the bottom in the market, so I would be very surprised if the devaluation was higher than single-digit.

Okay. Thank you. Very clear.

Thank you.

2. Ms. Monica Bosio from Banca IMI:

Yes, good afternoon to everyone. I would have a couple of questions mainly related to the tire segment. I would like to have, if it's possible, a flavor of Latin America as far as industrial tires are concerned. I was wondering if you will see a recovery, given also the fact that there will be the Olympic Games in Brazil, and if you can give us some guidance or projections on the expected demand. The second question is related to Russia: I would like to know if you can give a flavor of the performance of Pirelli tires in Russia and a confirmation about a press rumor; I read that it could be possible that Pirelli will open a second plant in Russia. Could you please confirm or deny this rumor? And in case of a positive answer, could you please define the potential capex related to the new plant? Thank you.

(...)

Hello?

Yes... so, I'll start with your second request and then Mr. Gori will answer the first one.

Okay.

First of all, in Russia we don't yet have a plant, so we are talking about our first plant in Russia. We have a structure of sales in Russia and we are in touch to buy an existing plant that is quite new. We don't know the timing, it's quite a complex transaction, but we believe that within the first six months of next year we should be able to finalize the deal. The investment has not exceeded... for this plant... our targets in terms of debt-to-equity ratio. So... and also a target on investments and depreciation keeping one-to-one the relationship between investments and depreciation. This is for the first investment we have in mind. The second investment is a greenfield plant for truck tires; we are finalizing all the bureaucratic assessments and we believe we will not start building the plant before second half of next year. So, that's the plant in Russia and we expect the market in Russia to recover at the end of 2010, beginning of 2011, and so trying to be ready to be... to produce in Russia by the end of 2010 and first half of 2011.

Okay. .

Mr. Gori.

If I may: could you please define...

Yes... concerning...

Hello?

Yes, please, go ahead.

Sorry, a follow-up: could you please define a potential capex for the tire business in 2010?

We believe that... on our side, because we are part of a joint-venture... we believe that our investments in 2010 will not exceed 50 million. That means that we can keep them within our ratio between depreciation and investments.

Okay. Thank you very much.

Thank you.

Concerning our performance in the Russian market this year, it's been very poor, worse than the market; we were not confident on the credit side, so we decided to sell the minimum and... while we of course worked on recovering the receivables, the overdues, and we successfully recovered them. So, this year has been a very negative year in Russia. Luckily, more than compensated from our good performance in the rest of Europe. Next year we'll see; probably the situation is slightly improving, but it's definitely not recovering the same pace of Europe. As far as Latin America is concerned, we are clearly very optimistic for the future, and it's not just 2010, we see a long-term growth because there's not only the Football World Games in 2014, there's also the Olympic Games in 2016, there's a big, big work to be done in doubling... or enlarging the Panama Channel, so our people in South America are excited and we are reviewing, we are currently working on reviewing the investment plans and extension plans. I believe this is not going to immediately impact 2010, even though Brazil is already in a very positive trend and in 2010 I expect it will continue to grow.

Okay. Thank you very much.

3. Mr. Giuseppe Puglisi from Intermonte:

Good afternoon to everybody. Giuseppe Puglisi from Intermonte. I have a few questions. The first one regards Brazil: do you see some positive effects coming from duties? Goodyear said that in the US there is... they saw some increase in imports before the application of these duties. Do you see this effect in Brazil? And what do you think about the application of these duties in the future? My second question regards winter tires: can you give us an indication of volume growth year-on-year for winter tires? Continental is saying that they will sell the same amount (...) of winter tires in 2009 with respect to 2008. Do you have the same trend or do you see some difference with respect to quantity? And my third question regards the utilization rate: can you please give us some color, or a feeling of what is the utilization rate both in the consumer segment and in the industrial segment? Thank you.

(...)

Can you hear me?

Yes. Yes, yes, very well. So, concerning duties in Brazil: yes, there has been an increase in duties on cars coming from China already starting last year, end of 2008, which has to soften the recession and the crisis in the first six months in the market and then during the year an extra duty on car tires has also been introduced, however on small car tires, small sizes, so it's not really supportive... it tells, but it is the low-end of the market, on which we are not focusing. So, I don't know exactly what our competitors told you, but for us it's probably been some support but nothing material. As far as winter tires are concerned, I can give you some information: the market in Europe at the end of September increased by 9% year-on-year and will definitely outperform this increase, this trend. We expect 09 to be higher than 08, both on the market side and on our Pirelli sales. As far as 2010 onwards, it's very difficult to give you an answer, because winter tire sales depend, basically, on two factors: first, new registrations because normally new registrations in Central Europe come with a new set of tires that is leased by the car maker and the car dealer and so, I mean, the more registrations you have, the more winter tires you're going to sell on new cars, as well as from the usual replacement ratio, which depends a bit on the effective snow winter season in the last quarter of the year. So, it's a guess. I cannot tell you if next year registrations will be higher. I expect them to be better in the medium-high end of the market, of the car market, but I'm not sure that they will repeat the strong effect of small cars that came this year from the incentives of the government. As far as the replacement ratio in general, we see it constant: it's been lowering in the last two to three years in America for many reasons but now we see it going slowly better than the normal rate and the same in Europe. Basically, it is... it has been negatively influenced when oil prices and fuel prices rocketed, but, as of today, it seems to be slightly recovering. So, we are positive, even though in this part of the world, Europe and North America, it's a small sign, it's a low one-digit improvement, while clearly it is a much different story in the emerging markets where the increase of the park helps increase the number of tires sold in the replacement market.

Okay. So, maybe there was a little misunderstanding. I was asking for the utilization rate of your FEBS. So, can you give us an indication of what is the actual utilization rate of your FEBS?

You mean the replacement rate?

No, the utilization rate...

Or the capacity utilization of our factories?

Yes the capacity... the capacity.

Okay. As I told you during my speech, third quarter has been improving to some 80-85% and that has been much better than the 60% of the previous... of the first quarter and the 70-75% of the second quarter. So, we are progressively recovering a good saturation level and by year-end we will probably be in line and we will definitely see the first quarter or the first half of next year at a good level of utilization, because we expect a rebound mainly coming from replacement markets versus this year.

Okay. Thank you.

4. Mr. Gaetan Toulemonde from Deutsche Bank:

Good evening. It's Gaetan Toulemonde from Deutsche Bank. I have a question on raw materials: it's probably for Mr. Gori. Can you sum up a little bit the situation? Natural rubber is going up and down very significantly and recently there's been a... it's gone up sharply. When will we see this rebound in Pirelli's P&L? Any risk on the fourth quarter? I think you mentioned one time during your presentation that the positive impact of raw materials in the third quarter will probably not duplicate in the fourth quarter. So, can you summarize a little bit the situation? And should we fear any negative impact for next year? Or do you think that the industry will be well-disciplined enough? And especially if we have a rebound of the replacement market that industry will be able to increase the selling price? And therefore we shouldn't be too worried on natural rubber. So, can you sum up a little bit the whole issue on rubber both for the fourth quarter and for next year? Thank you.

Quarter 4 is going to be in line with the rest of the year. Raw material prices are increasing; they will not fully impact our bottom-line and the US dollar is cheap in any case. It's weak. So, overall, nothing special to say about quarter 4; 2010 is more difficult to answer because, as you rightly pointed out, it's not just a question of raw material costs, it's a question of price from competitors. However, number one, we see.. we believe that markets, not only in the emerging markets, but US and Europe, replacement markets will grow versus this year. By definition: the base is very low and there has to be a positive sign of growth. Costs, especially natural rubber and synthetic rubber, are increasing. So, there's no room to decrease prices. And as you know, if somebody tries and becomes aggressive, everybody's going to answer. So, there's no winner in the field. I expect to see... I believe that there will still be a good price discipline in the markets and probably this increase in raw materials helps all companies to maintain a decent level of discipline in their sales and marketing organizations. So, I'm relatively confident for next year. At least for the beginning, the first half of next year.

The recent raw material price increase, natural rubber, when will it start to impact your P&L? Without factoring the price increase to offset it. Will it be as soon as the first quarter of next year or because of a lag effect it might be a little bit later?

Well, the impact is going to be already in the first quarter of next year. However, differently from 2008, this price increase is progressive. It's not dramatic and sudden. So, it gives time to all competitors to review their pricing, adapt their pricing... for instance, in the dollar markets, Middle East, Africa, we're going to announce a price increase; we already saw one or two Japanese competitors announce price increases in their dollar export markets, because of the natural rubber. So, as far as input costs keep growing but at a speed that is under control, at a speed that is manageable, I believe that the industry's able to transfer this to the market. And given the good level of demand we expect, especially on the replacement side, next year, that should be possible. If you see, this year, with a dramatic reduction in demand, the industry was able to maintain the price, if not to increase the price versus the previous year. So...

If I may just sum up. Because this seems to be very complex, but in reality it's easy. In reality we expect for next year lower costs. We already... Mr. Gori already explained that we have a cost base that will be lower. We expect higher volumes, and this is what we already see in the first six months of next year, given the... let's say, the raw materials. Raw materials are, today, high and we expect prices keeping up with the raw materials, so the variable of raw materials will not affect the results more than it's affecting the volumes and summing up volumes and lower costs. So, we expect a better 2010 having now hence lower costs and seeing a market that will grow. And seeing the industry that is able to keep up with prices when raw materials go up.

Okay. That's very clear. A last question on that subject: when you did a pretty simple and nice summary, could we expect double-digit volume growth in the first half of next year?

Let's wait and see.

Growth. We see growth.

Okay. I was expecting you to give a little bit more straightforward answer on that subject. Thank you.

There are no more questions at the moment. Ladies and gentlemen, I'd like to remind you that if you want to register for your questions, please press star followed by 1, to cancel your reservation, press star followed by 2. Thank you. The control room confirms: there are no more questions at the moment

So, thank you to everybody and we are always available if you have any other question. Thank you.

Ladies and gentlemen, the conference call is over. Thank you for calling Pirelli.