

## Pirelli&C. S.p.A

### Conference Call FY 2011 Financial Results

Milan – March 12, 2012

**Marco Tronchetti Provera - Chairman:** Thank you and good afternoon, ladies and gentlemen. Welcome and thank you for attending our conference call on Pirelli's 2011 financial results.

In 2011 Pirelli made a number of accomplishments:

- premium tires by now account for half of Pirelli's sales
- we have the best price/mix in the industry
- the group has reached a double-digit EBIT margin for the first time
- Sound financial position after cashing out massive capital expenditure to improve quality and mix,
- the first Russian joint-venture installment and
- a dividend distribution of over 80 million euros.

In Formula 1, 1 billion 600 million people worldwide watched Formula 1 races, the brand exposure exceeding 300 million euros. Know-how started in Formula 1 resulted in a whole new line of products, the P-zero silver.

In 2012, given the worldwide downward trend in standard tires and the improvement of the premium tire segment, our strategy so far proves to be promising and our team is now fully coming to reach its execution.

In Russia, which is one of the markets where the premium segment is growing more, they are fully equipped and are working on all the four levers to achieve success: brand, distribution, products and production.

#### **Slide 4: Rebalancing profitability among regions**

Pirelli closes 2011 with definitely improved year-on-year results, due to its solid operating performance. Consolidated and tire profitability targets were reached, with a group EBIT growth of over 170 million euros, despite

- a volume slowdown over the last quarter of the year, that has limited the outcome of our top line, and
- the strong impact of raw materials, 512 million euros, and cost inflation, more than offset by our price/mix.

Our results confirm our successful premium positioning, which accounts for 50% of revenues and 80% of EBIT in the car business, with an year-on-year volume growth of over 18%. This last mild winter season did not allow to achieve, as we did last year, two strong sales seasons in a row. In spite of this, we increased our market share in Europe, which is currently 8%. The improvement of over 1% in winter tire revenues growth accounted for 56% in 2011 and 33% in the fourth quarter.

For the other business segments, which are more dependent on economic strength, the situation is different: the economic downturn connected with less consumer confidence had an impact on non-premium industrial tire sales. Therefore, we accelerated our portfolio reshaping program, by cutting both production and sales of less profitable tires, such as standard in the consumer segment, and conventional in the industrial segment. The outcome of all this is a price/mix improvement.

Finally, we have also achieved our net financial position goal, in spite of the greater investments mainly made in the premium, mix and quality areas.

## **Slide 5: 2012 market outlook**

Volumes: there is a wider gap between top and standard mix products.

Last November, when we discussed our business plan, we estimated 2011 time-to-market to be of approximately 1.4 billion pieces, with a year-on-year growth of approximately 4% and a 12.7% incidence of the premium, worth 178 million tires, with a year-on-year increase of 9.2%.

In these first few months of the year, what we see is a slowdown in car tire demand in the standard segment, while premium development continues at a sustained rate. In general, volumes in the second half of 2012 are expected to resume their growth, but we prefer to be more cautious, and in the event of demand growth we'll enjoy the upside.... we will enjoy the upside.

Let's take a look at the car tire business trends by region:

- In **Europe** we expect a strong decline in the standard segment and a single-digit growth in the premium segment, taking into account that in 2011 the summer market had a negative trend and now stocks are low, a rebound in the second half of the year is likely to occur. Whilst the winter tire segment shows opposite trends: very low stocks in 2010 and higher stocks in 2011. In Europe a long-term trend of summer and winter tire seasonality is gaining momentum in all markets. This is connected with a growing awareness of the safety schemes and regulatory changes, such as, for instance, a new legal framework in France and enforcement of new highway regulations contributing to a two-fold winter tire market expansion in Italy.
- In **Russia**, new car registrations in January and February went up by 20-25%, with an incredible growth of SUVs, a more than 40% increase, and therefore, with a positive impact on the premium tire segment, we should gain 4.4%, in terms of incidence of the total tire market as we shall see in a few minutes, when we will talk about our Russian joint-venture.
- In **Asia-Pacific**, we expect to almost double our year-on-year premium sales: a very good trend for BMW and Audi.
- In **Middle East Africa**, there is a steady demand of top-of-range mix in the Gulf countries.
- In **NAFTA**, the full-year total replacement market is expected to be almost flat, the development driver being once more the premium segment. And therefore Pirelli should have a high double-digit growth.
- In **Latin America**, the car replacement segment is estimated to be +3%, with a premium segment in the high double-digit range.

For the **Truck Business**, we expect a double-digit reduction in the conventional segment, a low single-digit-to-flat growth in the radial segment. More specifically, in Brazil the new Euro 5 law will have an impact on the original equipment channel slowing down sales in the first half of the year, whereas the replacement channel will continue along its negative trend that began last summer because of the slow industrial production and delay in public works.

In China, the original equipment channel is expected to be in line with 2011, while the replacement segment will have a low single-digit growth.

Although the view on demand is more cautious, the industry's prevailing approach is to adopt a firm price discipline. The experience of 2011 in a context of high volatility of raw materials showed a good ability by the industry to transfer high costs on final prices. Price increases already announced earlier in 2012 by some players confirmed this trend and the determination of the industry not to lose any ground. Furthermore, profitability improvement is an increasingly shared target in the industry.

**Raw Materials:** the scenario is a mixed one. If, on the one hand, spot prices of natural rubber are at around 3,800 dollars per ton, the new geopolitical tension in the Middle East contributed to their positional Brent, which has exceeded 120 dollars per barrel. At the same time, the growth of butadiene continues, after reaching 2,150 euro/ton in March. This is the reason why we prefer to take a cautious approach, while waiting for a clearer view into the second half of the year.

Let's now turn to our 2012 targets.

## **Slide 6: Pirelli 2012 Targets Update**

Our revised assumptions for 2012 lead us to redefined our targets for the current year.

We confirm the expectations for the premium segment, with an increase of at least 20% and a growing contribution coming from emerging markets. At the same time, in a general economic downturn, Pirelli is planning to accelerate the reshaping of its portfolio, by adjusting the production of less profitable tires, such as non-premium consumer and conventional industrial tires.

The new target is a substantial volume stability compared with the previously indicated +2%, and a firm improvement in the price/mix, +11-12%, through actions on product portfolio.

Revenues are expected to grow by 11% to 6.3 billion euros, 6.6 billion euros including the Russian joint-venture contribution.

Compared to the previous target, this gap is due to a different starting point.

Focusing on premium, as well as on value products, we lead profitability enhancement with an EBIT margin of at least 12% versus the previously indicated 11-12% target.

The impact of raw materials is confirmed, although the natural rubber prices are currently below the guidance price of 4,300 \$/ton. Tension on the other raw materials makes us maintain a cautious approach.

As to the tax rate, our guidance is of approximately 36% with year-on-year stability, net of non-recurring benefits.

Guidance on both net financial position and on capex is confirmed. We confirm our flexibility in revising our investments in the event of deterioration of the market conditions. We point out that the contingency plans ask for a 20% flexibility, given the investment priority in premium mix growth, special projects in Romania and China and route to premium in Russia.

## **Slide 7: Consumer Target Update**

In the consumer business, our top line targets totaled 4.8 billion euros, including Russia, and a profitability of 13.5-14%. To improve profitability, the following drivers were devised: focus on premium and production cars in the standard segment with lower profitability and price/mix improvement as a consequence, +14-15%.

## **Slide 8: 2012 Industrial Targets Update**

We focus on protecting profitability because of the more cyclical trend of the industrial business, by accelerating cuts in the conventional tire business.

Volumes are estimated to decline between 2 and 4%. This is essentially due to cuts in those products with lower technological content. On the contrary, radial tires are expected to grow between 0 and 2% through a wider product range, better outlooks in Middle-East Africa following the 2011 political crisis, and the developing of the Mexican and South American business. The agreement with large truck dealers and the introduction of the radial make us confident.

## **Slide 9: Russia: Premium on the Upsurge**

Let's now talk about how we are developing our joint-venture with Russian Technologies, a company set up by the Russian government with the task of reorganizing the interest of Russian companies in various manufacturing industries, as well as attracting foreign investments.

At the end of February, we also completed the transfer of the Voronezh plant from SIBUR to the joint-venture. The total cost of this and the Kirov plant amounted to 222 million euros, already paid in the first quarter of 2012. We confirm that in the three-year period up to 2013 capex of approximately 200 million euros is needed to revamp those production plants and develop the business. Therefore, with a total investment of 422 million euros, of which Pirelli currently owns 50%, we can establish our presence in a region with a high potential for development and value creation.

Indeed, the Russian market is growing at a higher rate than what we expected last November, 2012 GDP between 3.4 and 4%. Please consider that in Russia there are only 250 passenger cars every thousand people, as against an average of 480 in Europe.

In 2012 car sales, the biggest driver of premium tire sales, are expected to reach at least 2.8 million, while by the car park we grow to almost 43 million cars, of which 48% by foreign brands. As a result, the tire market volume is expected to expand and the mix to improve strongly. Segment A+B should reach 55% of the total market, +4% year-on-year, with a value growth of 13% in Europe. Let me remind you that the average price for the A segment is of approximately 85 euros per item, that is to say around 33% more than the B segment and about 3 times the C segment.

Besides the product and industrial profile, where Pirelli is very strong, the key to success is to create brand and distribution.

As for our **Brand**, our goal is to build a strong awareness and reach the top rank in terms of initial Considerations Set and to this end, we have the highest average spending among our peers.

In the traditional media, TV, press, outdoor, we are going to be on air soon for 5 weeks. In the digital media we are working innovatively with the websites of top automotive magazines, maps, and traffic-info websites, search engines, as well as sponsoring Pirelli Russian Football Cup.

In **Distribution** we have set a target for 2012:

- 70% of distributor share, in line with the strategy of major premium competitors;
- in Retail, we want to get to approximately 800 points of sale, that is to say about 40% coverage of the whole channel. With 322 stores we have already put down a soft affiliation program, and some of the incentives are linked to shelf space and Pirelli branding. These stores are located in Moscow, St. Petersburg, and in other 10 major Russian cities with over 1 million citizens. Finally, we have already started for our winter season a negotiation to reach an agreement by which our best products will be on sale with selected premium car dealers.

**Let's now talk about the products.**

#### **Slide 10: Russia: Pirelli value approach**

Pirelli has already been acknowledged by the most authoritative Russian trade magazines as the best tire company for both the winter segment and summer tires, with P7 Cinturato.

Pirelli's product portfolio is now 57% bigger and focus has been placed on premium, following the introduction of 19 top-of-range sizes and 8 SUV sizes. This is one of the most interesting business segments in terms of growth potential, +49% in 2011 SUV market, against the market average of 36%.

Indeed, today in St. Petersburg we had the official presentation of two new products, Scorpion Winter and Winter Carving Edge, which will complete Pirelli's full range coverage in the winter segment. Our dealers, the media, and experts in this business are attending the event.

Scorpion was designed as the reference winter tire for the most prestigious SUVs and crossovers by BMW, Audi, Volkswagen, Mercedes and Porsche and its Run Flat will also be introduced in the European market next autumn. 25 sizes, between 16 inches and 21 inches, will be available.

Winter Carving Edge is the standard tire developed for the particularly cold winter season in Northern Europe, Russia, and Canada, and will be fitted on city cars, four-wheel drives, sedans, and SUVs. Its innovative hexagon shape provides extra grip and traction on extremely slippery road surfaces, delivering driving performance on ice. Carving Edge, available up to 20 inches, will be launched also in the Run Flat version in the next few months.

These are strategic products for Pirelli, whose aim is to gain momentum in the winter market.

I also wish to point out that in the Northern countries the standard tire segment accounts for over 70% of the winter market. In the 2009-2015 period, the European standard tire market is expected to grow by over 8%, while in the same period the SUV winter tire segment is to exceed 13%.

As to our Kirov and Voronezh manufacturing sites, we are perfectly in line with our schedule and so far we already have four new Pirelli tires in production.

#### **Slide 12: Pirelli key financial results**

- Top line grew by 18.2%, net of the exchange rate impact
- EBIT, worth 582 million euros, with a 10.3% margin, 2% more than in 2010
- Net results before extraordinary items, worth 313 million euros, are +37%
- During the last quarter of 2011 we revised our assessment in our participation in:
  - RCS, (5.3% of the capital) at 1.02 euro per share, and
  - Alitalia, (1.8% of the capital), given its operating losses,

with an overall net impact of 27 million euros.

- The tax rate reduction of 3.4% is due to:
  - the growing contribution of countries with a lower taxation, like China and Rumania, and
  - access to previous provisions, worth 1.5 p.p..

Finally, changes made in the rules on previous losses generated and non-recurring benefits, which is better explained in the next slide, as a result, net profits amounted to 451.6 million euros.

#### **Slide 13: Pirelli Net Income FY11 VS. FY10**

We already reviewed the main dynamics affecting 2011 results. Now we shall dwell upon the benefits deriving from previous losses.

Changes to Italian rules made at the end of 2011 definitely extended fiscal losses, carry-overs for a maximum yearly amount of 80% of the taxable income.

The new rules allowed us to record deferred tax assets, worth 128 million euros, 27.5% of previous losses. This credit can be used in the years to come.

As a consequence, the 2011 P&L account includes a non-recurring benefit worth 128 million euros.

Starting from the next fiscal year, these benefits will be proportionally written off based on the previous losses to be carried over in the year.

#### **Slide 14: Pirelli FY11 Net Financial Position**

Pirelli closes 2011 with a net debt worth 737 million euros, (750 million euros as per the last November guidance), including a 55 million euro cash-out for Russia.

Strong cash-flow generation in quarter 4 2011, despite the high investments made in the quarter, worth 230 million euros, 37% of the amount invested for the whole year, mainly to support premium, capacity and mix and quality enhancement.

The operating cash-flow amounted to 317.5 million euros, due to the sound performance of the tire business and the careful management of the working capital resulting from a good level of winter tire sales.

#### **Slide 15: Pirelli Debt structure as of Dec 31, 2011**

By the end of December 2011, our gross debt amounted to 1.8 billion euros, 65% of which is maturing after 2014.

Therefore, our structure is sound:

- 70% of our debt is at fixed rate and approximately 70% is denominated in euros
- we carefully managed our liquidity and money market deposits in order to limit counterparty exposure
- we can count on total committed lines not drawn of around 840 million euros, maturing in 2015
- the group will also look forward to a diversified credit investor base reaching longer maturities subject to favorable market conditions

### **Slide 16: Dividend proposal**

Both the sound operating performance and financial structure, that had an EBIT ratio of 0.9 times, allowed Pirelli & Co. Board of Directors to propose the distribution of a 27 euro cent dividend for each ordinary share and 34 euro cent for each savings share to the shareholders' meeting.

Such decision is consistent with the guidance according to which approximately 40% of the consolidated net income, worth 325.5 million euros before discontinued operations and one-off fiscal benefits, may be distributed.

Dividends will be paid on May 21, 2012, coupon detachment will be on May 24.

At the market price of March 9, 7.82 euros, Pirelli has a 3.5% dividend yield on ordinary shares and 7.7% on savings shares, versus a 2.8% average of its peers that pay out dividends.

And now, ladies and gentlemen, I'll leave the floor to Mr. Gori, who will discuss in greater detail Pirelli Tire performance. Please Mr. Gori.

### ***Francesco Gori – CEO Pirelli Tyre:***

Thank you, Mr. Tronchetti. Good afternoon to everybody and let's review Pirelli Tyre's results starting from slide number 18.

### **Slide 18: Pirelli Tyre Key results**

Pirelli Tyre ends 2011 with:

- a high-teen revenue growth
- a record profitability with EBIT at 644 million euros, 190 million more than 2010 and a margin of 11.5%, compared with 11% as per last guidance
- a net result of 371 million euros with a year-on-year growth of 47%

The key drivers of these results being:

- our focus on premium (volumes +18.2%, revenues +27% in 2011),
- mix improvement and price increases over the course of the year, largely offsetting raw materials' impact in each quarter of the year
- actions on costs produced efficiencies worth 94 million euros, well above our 2011 target of 80 million euros

Pirelli's value-based strategy turned out well during the last quarter of 2011, when Pirelli reached an EBIT margin of 12.2%, in spite of the high impact of raw materials, 165 million euros, and a downward trend in sales volumes. Unaffected by this trend, the premium segment showed a single-digit growth and its resilience vis-à-vis the economic scenario.

Volumes shrank in the non-premium tires both in the consumer and in the industrial segment. Within a framework of overall demand decline, Pirelli accelerated the reshaping of its portfolio, cutting production of less profitable tires. In the fourth quarter, the final results turned out to be a 7.4% volume decline in the consumer non-premium segment, -2% year-on-year, and a 5.4% decline in the industrial segment, of which -10% in the conventional or cross light truck tires in South America.

### **Slide 19: Solid performance across regions**

2011 data highlights a sound performance in all regions, with the only exception in Middle East Africa, due to the political crisis, a rebalancing of profitability among regions thanks to the improvement in Europe.

Here Pirelli strengthened its market position, reaching a double-digit profitability thanks to the growth of the premium segment, 67% of the European car segment revenues, and to industrial efficiencies mainly in Romania and Settimo Torinese in Italy.

In North America our selective strategy in the original equipment channel and the success of premium tires in the replacement channel both contributed to a growth of revenues, together with an improved profitability. The homologation portfolio is widening on a regular basis in China, with BMW, Audi, Mercedes and Peugeot,

where Pirelli is the only premium player with manufacturing facilities, contributing to a 23% revenue growth and a result in profitability improvement.

Leadership in South America is confirmed, both in terms of volumes and value; in spite of the growing competition and ongoing cost pressure, Pirelli ends 2011 with a mid-teen profitability, in line with its goals.

### **Slide 20: Pirelli Tyre FY11 operating performance**

Let's now discuss our profitability drivers that improved year-on-year by 190 million euros in 2011. Once more results confirm Pirelli's strong track record in the industry as a player that cannot widely offset headwinds through

- a marked pricing power and
- the strengthening of the premium segment which, as I wish to point out, has a high-teen margin 3 times higher than the standard segment.

94 million euros efficiencies, indeed, contributed to our good operating performance, 39 million euros in quarter 4 2011, mainly in the consumer business, and exceed our target by 14 million euros.

Major efficiencies are broken down as follows:

- 52% due to increased production in low-cost countries, China, Rumania and South America,
- 29% from raw materials, reduction of waste and weight and diversification of procurement, and
- 19% from productivity improvements, full-fledged production in our new factory in Italy at Settimo Torinese and process streamlining in other plants.

### **Slide 21: Pirelli Tyre FY11 Net Financial Position**

Pirelli Tyre ends 2011 with a net debt of 962 million euros, cash generation was robust in the fourth quarter, 133 million euros through our solid operating performance and careful management of the working capital, which financed investments worth 230 million euros.

In 2011 our investments, 618 million euros, were mainly focused on capacity expansion, as well as mix and quality improvement, overall approximately 80% of the total investments.

In the consumer business, investments were mainly addressed to support growth of premium products in Europe and South America, as well as construction of the new car tire plant in Mexico and motor in China, where start-up is expected by first half of 2012.

In the industrial segment, investments were concentrated in Brazil and Egypt. At the end of 2011, the production capacity installed was of approximately 60 million pieces without Russia in the consumer segment and 6 million pieces in the industrial segment.

### **Slide 22: Consumer Business: Key market trends**

Market trends in the various regions were mixed:

- in 2011 demand in Europe remained positive along both channels, yet the quarter 4 trend shows slowdown signals, especially in the replacement channel, driven by the mild winter season
- in North America the original equipment channel, with its double-digit growth, keeps growing while a decline in miles driven continues to impact the replacement channel demand
- reduced car production in Mercosur over the second half of the year caused a decline in demand in quarter 4

### **Slide 23: Consumer Business: Pirelli performance**

Let's now discuss performance by business in quarter 4.

Pirelli Tyre performance in the consumer segment grew net of exchange rates by 16.4%. This is supported by a further 19.7% price/mix improvement, the highest of the year.

Our sales were mainly focused on the premium segment, with a 21% year-on-year revenue growth and a weight on the top car tire sales of 51%, + 3 points year-on-year. In spite of the mild winter season, winter tire sales increased by 33%, year-on-year, thus securing a higher market share in Europe.

As already indicated, the fourth quarter volume reduction, besides the demand slowdown in the global markets, is justified by an increased focus on premium and an intentional and definite reduction of the standard tire segment, characterized by a lower profitability.

The mix improvement, together with the price stability following 2011 price increases, allowed us to reach a 12.6% return on sales, post restructuring costs, and an EBIT growth in absolute terms more than double the revenue growth.

### **Slide 23: Premium value is what matters**

Premium is the took-of-the-day in the industry to us, apart from the technical definition adopted and connected to speak codes and inherent technology, premium tires have a price twice as much as the average tire and profitability 3 times higher than the standard tires. At the end of the day what counts is value: 2011 revenues amounted to 1.8 billion euros, with a 27% growth, a 50% weight on car tire sales and 80% on EBIT. Premium performance in South America is significant, the market is still in its early stages and Pirelli, through its product portfolio, leads its development. In 2011 premium revenues grew by 59%.

### **Slide 25: Fitting the world's most prestigious cars**

Our 40-year-long experience in the premium segment and high R&D investments, 7% of premium revenues in 2011, make Pirelli one of the favorite partners of major prestige OEMs, from Ferrari to Porsche, and premium OEMs, such as Audi, BMW, Mercedes and Jaguar Land Rover, a partnership consolidated over time and renewed year after year. In Geneva, top cars were fitted with Pirelli tires, from the brand new Ferrari F12 to Aston Martin Zagato and the new Porsche 911.

### **Slide 26: Industrial Business: Key market trends**

This business is more connected with the economic trends than any other tire business. Fourth quarter was negatively impacted by the macroeconomic trends throughout Europe, specifically in the replacement channel, which couldn't keep up with the high growth recorded in 2010. In Mercosur sales in the fourth quarter were concentrated in the OE channel, following the upgrade to the Euro 5 standards, whereas the replacement channel, which had experienced a 22% growth in 2010, went down by 9%.

### **Slide 27: Industrial Business: Pirelli performance**

We managed a double-digit growth in sales also in the industrial segment, recording a +14.7 year-on-year in the fourth quarter, and a +16.1 net of exchange rate impact. 20.1% price/mix improvement and industrial efficiencies allowed in the fourth quarter a profitability rebound and a margin of 9.4%, more than 2 points compared with the previous year. The trend in volumes in the fourth quarter reflects the slowdown across the regions, besides the acceleration of the strategy to reduce conventional tires in Middle East Africa and Latin America regions, -10% year-on-year.

And now I'll leave the floor to Mr. Tronchetti.

*Marco Tronchetti Provera - Chairman:* Thank you, Mr. Gori. And I thank you very much for your patience and attention. We are now ready to take your questions. The floor is yours.



## Q&A session:

*Operator:* Ladies and gentlemen, the Q&A session is now open. I'd like to remind you that if you want to register for your questions, please press star followed by 1. To cancel the reservation, press star followed by 2. Thank you.

1. Mr. Martino De Ambroggi from Equita:

*Q - Martino De Ambroggi:* Good morning, good afternoon, everybody. I have three questions. The first is on raw materials, because during your introductory speech you spoke about a cautious approach but I didn't see... maybe I missed it, but I didn't see the update on the 140 million negative impact that was underlying the previous EBIT guidance for 2011. So I was wondering if it's confirmed or if it has changed. The second is on price/mix: in 2011 I was just wondering if a 50-50 split between price and mix is confirmed, and what's the split roughly.. a rough indication of what's the split for 2012? And the third question is on the new return on sales guidance which is, basically, 100 bips, or at least 100 bips higher than what was announced in November. I know you will not comment on full-year 2014 guidance, but can we say the improved return on sales guidance in 2012 is essentially due to recurring elements? And thus this can be replicated going forward. Thank you.

*A - Marco Tronchetti Provera - Chairman:* Thank you. So, first of all, we confirm the 140 million. There is a different mix between the cost of raw materials. As you know, compared to our estimate we have a slight advantage on natural rubber and also, let's say, a slight negative effect on butadiene and oil. So, all in all, the two combined... they make the same result, up to now. So we expect to confirm the guidance we gave last November of 140 million, which is substantially exchange rates. Then price/mix: yes, it's more mix than price. It's a bit more mix than price. The guidance is due to our choice to continue in our strategy of focusing on premium and decreasing our presence in the standard tires. So it's part of our strategy. There's nothing extraordinary.

*Q - Martino De Ambroggi:* So this is more mix than price also for the current year?

*A - Marco Tronchetti Provera - Chairman:* Yes, I was talking about this year, about 2012.

*Q - Martino De Ambroggi:* And in 2011 it was roughly 50-50 or it was always more mix than price?

*A - Marco Tronchetti Provera - Chairman:* It was more or less 50-50.

*Q - Martino De Ambroggi:* Okay.

*A - Marco Tronchetti Provera - Chairman:* Thank you.

2. Mr. Thomas Besson from Bank of America-Merrill Lynch:

*Q - Thomas Besson:* Thank you very much. I'll have three questions, please. Can you help me reconcile your volume guidance for 2012, so small negative to 0? What are your capacity expansion plans? I mean, how do you reconcile that? And, well, can you help us understand the evolution of volumes by region, if possible? Specifically for Europe and LatAm? Second question: I'd like to ask you how much additional price increases are if any, to reach your target for 2012 price/mix effect of 11-12%, please? And finally, could you remind us the potential succession plan for the current management team, if there is any already today? Thank you.

*A - Marco Tronchetti Provera - Chairman:* Thank you. So, first of all, the guidance on volumes. The guidance we gave on volumes is, as I mentioned before during my presentation, 0 or +1 for the passenger... for the consumer and between -2 and -4% in the industrial, split between the conventional, which is negative, and the radial, which is positive. This is the guidance I gave. Then going to volumes, LatAm, Europe, no, we

reduced our volume targets, so there is no increase in volumes in LatAm or in Europe. There is more cautiousness in volumes considering that there could be... in the second part of the year, there will be an improvement on the summer that were growing very little last year and we expect a decrease in volumes on winter, which was very strong last year and we know that stocks are still high, even if in February there was a good season. So, looking to the strong increase in volumes beginning of last year, to the string negative, string in volumes beginning of this year, we consider with cautiousness that it's better to reduce our volume targets, but, as I did show in my presentation, increasing, improving the mix, comparing our today's targets with the targets we gave to the market November last. We do not consider any price increase in our guidance; in case there will be something changing compared to the actual balance between plus and minus within the prices of the raw materials, compared with the prices we put in our budget, in case there will be a major change, we will intervene, as we did in the past.

*Operator:* May I go ahead sir?

*A - Marco Tronchetti Provera - Chairman:* Sorry, I think I have to implement an answer I gave to Equita about the guidance on 2014, and I'm sorry for this, so the guidance for 2014 does not change. So we keep the same guidance. We consider 2011 a year in which cautiousness has to be taken into account considering the volatility of the markets, but we see that we have to reach our targets and we can't reach the guidance we gave, thanks to the actions that we have taken inside the company and we are taking to change the mix inside the company. Sorry, but now we can continue with the next question.

3. Mr. Philip Watkins from Citi:

*Q - Philip Watkins:* Thanks for taking my questions. Just a couple, please. On volumes, obviously we all get the monthly tire market data and I'm wondering if you feel there's an element of, you know, aggressive dealer destocking there, that makes them look.. that makes that sort of month-on-month volumes look particularly bad in January. When... when do you think that will start to turn? If I may, on the price/mix, obviously that's an impressive upgrade there. Is there any sort of hastening of the process in 2012 to deemphasize standard and increase production more of premium? Because I'm thinking maybe there's a potential for some capacity underutilization of your conventional tires, so you're clearly able to manage that by having a higher price/mix guidance. But is there any hastening there? And then, finally, if I may, just on Latin America, I know you've confirmed your... what you're thinking about that market, some of your peers see declining margins there and you're not, and I'm just trying to understand why that might be. Thank you.

*A - Marco Tronchetti Provera - Chairman:* Thank you. So, about the stocks: we saw in January and February last year a growth in sales... sell-in, I'm talking about sell-in, that was a high single-digit in Europe and we consider that the evolution of volumes in January and February is also linked, not only to the downturn, but also to the comparable with last year that was a very, very strong sell-in season in January and February. We remain cautious, as I mentioned before and as we put in our guidance, to be on the safe side. And if any good news comes later during the year we will be happy to profit of it. Then, I don't know if you were mentioning the new regulation in Europe about standards, I mean, what is called the 'green regulation' in order to improve the environmentally friendly products presence in Europe

*Q - Philip Watkins:* I'm sorry, no I meant actually whether you were closing down your conventional tire production faster in 2012 than you had thought you would be a couple of months ago?

*A - Marco Tronchetti Provera - Chairman:* Oh, okay, okay.

*Q - Philip Watkins:* Sorry, I don't feel that well.

*A - Marco Tronchetti Provera - Chairman:* we continue to, let's say, to reduce our presence in the standard segment, we continue to accelerate our investments in the premium segment, mostly in the new factories in Rumania, China, Italy and now Mexico, that will start production next month. These are the actions we have taken, which means we are going to reduce our standard production double digit and we are going to

increase our premium production double digit. So these are the actions we have taken. Then, the last question was about?

*Q - Philip Watkins: Yes, Latin America.*

*A - Marco Tronchetti Provera - Chairman: Yes, LatAm volumes: well, there is some cautiousness in our guidance that involves also Latin America. In LatAm we expect in any case a growth... a single-digit growth both in replacement and in OE and a stronger growth in replacement than in OE. So the car replacement segment is estimated to be +3% and the premium segment is expected to be high double digit. This is for the passenger car tires. For the truck business, in Brazil I mentioned the new Euro 5 law, which is impacting the original equipment channel, slowing down the sales in the first half of the year, whereas the replacement channel will continue the trend that began last summer because of the slow industrial production and delay in fabric (...). In any case, we expect all in all the growth in car replacement to be around 3%.*

*Q - Philip Watkins: Thank you. I meant more the margin as well... when I look at Goodyear their margins, have fallen throughout the year, but yours don't seem to have, and I can understand the volume outlook, but it's more... I don't know what it is... maybe it's more cost or labor cost... how are you able to sustain stable margins? I suppose that's more my question.*

*A - Marco Tronchetti Provera - Chairman: But you are right if you talk about exports. But looking at the Latin American market, mostly to the Brazilian market, we continue to see a nice profitability coming in and even the growing importance of the mix with the premium segment that is coming, we see a nice protection of traditional profitability in Brazil. We have to take into account that this is for the passenger car tire business and thanks to Mexico we will continue to decrease the export to the US, which is in fact better this year than last year, because this year the real is a bit lower and so it's not so penalized the export to the US. But in any case we are going to improve the profitability thanks to the Mexican factory. As far as the industrial sector is concerned, we see that there are actions that are going to be taken by the government that was supporting the importers much more than the local producers with taxation on raw materials and machinery that is slowly but consistently going to be removed. That means that for local producers will become a more... fairer competition, taking into account that more than 30% of the Brazilian market was covered by importers, in a market where there are huge investments and where the main players are continuously investing a lot.*

*Q - Philip Watkins: Great. Thank you very much.*

4. Mr. Stephen Puetter from Goldman Sachs:

*Q - Stephen Puetter: Good afternoon. Thanks for taking my questions. Just two left from my side. You said... and I'm coming back to the raw materials, that the guidance of 140 is conservative. If we take the current price levels, and then my calculations suggest that you still should see, sort of, a very small but still positive tailwind from raw materials. Where do you think your raw material guidance would be if we take current prices? And then the second question is just if you could help us a bit with the split of radial and conventional tires in Latin America, how currently the share is split between those two? Thank you.*

*A - Marco Tronchetti Provera - Chairman: First of all, the guidance today, if we take the prices of today, considering the prices of raw materials that we gave to the market, shows that there is still an advantage, if not used, but there is still an advantage. But we want to be cautious, and we will see in the next months what is going to happen. So the forecast of people in the business of natural rubber, for instance, is that prices will stay high, but not so high, for the entire 2012. So in any case we feel comfortable with the guidance we gave, and with this cautiousness. Then radial and conventional: today we have approximately 78-80% of our sales in Brazil that are radial and around 20% that is conventional.*

*Q - Stephen Puetter: Okay. Thank you very much.*

*A - Marco Tronchetti Provera - Chairman: Thank you.*

5. Mr. Gaetan Toulemonde from Deutsche Bank:

*Q - Gaetan Toulemonde: Yes, good afternoon, it's Gaetan Toulemonde from Deutsche Bank. I'm sorry, I would come back again on the raw materials. When we look at last year, the headwind was approximately 500 million, 200 million in the first half and 300 million in the second half. So, the second half was a little bit more negative. When you give the guidance of 140 million this year, is it fair to assume that almost the entire headwind will be in the first half?*

*A - Marco Tronchetti Provera - Chairman: Yes, you're right. Definitely yes. What we see is that definitely for the natural rubber, as you know, we will have a positive effect from March on for a few months, then the prices... went up again, still below the prices that we put in our plan. So we feel comfortable with this guidance. Butadiene is slightly higher than what we had in our industrial plan, and the oil is also a bit higher. So, all in all, we still have some room, but considering a bit of cautiousness that is our duty to put in our figures, we feel comfortable not changing anything, even if we stop today our clock, we definitely have an advantage.*

*Q - Gaetan Toulemonde: Okay, but if I understand the previous question on the same subject, that would underline that a positive in the second half and a negative in the first half, is it a little bit the way it is on the raw material?*

*A - Marco Tronchetti Provera - Chairman: Looking at today's picture, yes. So the guidance we gave is not taking into account that we already have an advantage in April-May-June, but we don't know where butadiene and oil are going to go, and also natural rubber is still around 3,800-4,000. So, I mean, I think it's not only cautious, but it's our duty to stick to what we put in our guidance.*

*Q - Gaetan Toulemonde: Okay. The second question on the premium segment, you increased the volume last year by approximately 18%, which is roughly 3 million; is it fair to assume that approximately two thirds of that increase comes from winter tires? And if it's true, what kind of assumption on winter tires do you assume for this year, included in this +20% volume increase?*

*A - Marco Tronchetti Provera - Chairman: You have to take into account that we consider a reduction in volumes compared to last year's winter season. I already mentioned a reduction that could be two digit. And we see growth in Asia Pacific, quite an important growth, we see in NAFTA, in LatAm, so we see that we can more than offset the effect on winter, which is, in order to be more precise, more evident in the standard winter tires than in the premium winter tires. For instance, we already have a better visibility on premium winter tires in Russia, where we have volumes that are exceeding the volumes of last year. So, all in all, lower volumes in winter tires in Europe with an announcement that lower means mostly for the standard winter tires. All in all, we confirm the improvement in premium even for 2012.*

*Q - Gaetan Toulemonde: Okay. And my second question on this premium: when I look at last year, the volume growth was significantly higher in the first part of the year than in the second part of the year due to the fourth quarter when this year you are guiding for +20% should we see a distortion between the first and the second half or do you assume that the trend should be roughly the same between the first part and the second part of the year?*

*A - Marco Tronchetti Provera - Chairman: Partly yes. The fact is that the seasonality in the summer tires was low from July on, we see in some regions of the world that we will have a better seasonality for premium tires in the second part of the year. So I think... it has not been so evident as far as we can see today... the difference.*

*Q - Gaetan Toulemonde: Okay. That's clear. Thank you very much.*

*A - Marco Tronchetti Provera - Chairman: Thank you.*

6. Ms. Monica Bosio from Banca IMI:

*Q - Monica Bosio: Good afternoon, everyone. I would have three questions. The first two are follow-ups on the previous questions. The first is on LatAm: do you expect... you are expecting an increase in the premium segment in LatAm, the premium segment is now at 14%. Could you please just tell us where you see the level of the premium segment in LatAm by the end of 2012? Or, if it's not possible, by the end of 2013? And the second question is still on seasonality: if we look at the first quarter, for sure the volumes could be down and significantly down; I was wondering if you could give us some flavor on the price/mix. In the first quarter of 2011, if I remember well, the price/mix was positive for +15.9, 15.something... can you please give us some flavor on this? And the third question is on the tax rate. I didn't catch... what are you expecting for the current year, for 2012, given the new rules on the deferred taxes? Thanks.*

*A - Marco Tronchetti Provera - Chairman: So, I'll start with the last question: we confirm the 36% of fiscal burden. As to the first question: LatAm... the increase in LatAm, we expect in the premium segment an increase in LatAm equal to 17% between 2012 and 2011. So this is the increase we expect this year in Latin America. Then, seasonality first quarter: seasonality, the premium segment is still increasing at a very high rate, as I mentioned before, and we have, let's say, a high single-digit increase in the premium segment at the beginning of this year.*

*Q - Monica Bosio: Okay, so the price/mix effect will be lower than the first quarter of 2011 or it might be more or less in line? Because then in the fourth quarter of 2011 you had...*

*A - Marco Tronchetti Provera - Chairman: With this guidance it will be higher.*

*Q - Monica Bosio: Okay. Thank you very much.*

*A - Marco Tronchetti Provera - Chairman: Thank you.*

7. Mr. Massimo Vecchio from Mediobanca:

*Q - Massimo Vecchio: Good afternoon to everybody. I was wondering if you can expand a little bit on the trading conditions that you see on the tire market in the first quarter. You already disclosed general figures, I was wondering if you can give us some more feeling on how February and March are developing. That's the first question. The second one is on the inventory level: again, I was wondering if you can give us more color on the inventory at the dealer level, detailing between winter and summer tires and ideally giving an outlook on Europe and Latin America. Thank you.*

*A - Marco Tronchetti Provera - Chairman: Thank you. So, the volumes first quarter, if you compare last year's volumes with this year's volumes, you can see that last year there was a... in the first quarter a very strong increase in passenger car tires, equal to a high two-digit and more. I'm talking about Europe. What we see this year is that volumes are obviously lower, we have to see what is going to happen in, let's say, the second part of the year. But we kept a cautious approach reducing the volumes target, even if it's logical and normal to consider that there will be a rebalance after the first two, three months because even last year the strong increase in volumes was in January and February, then starting March on the volumes, comparing 2011 to 2010, were lowering, month after month. But for the time being we consider this as an upside that can come, it's not in our forecast. Going to the stocks both in Europe and LatAm, definitely the stocks on summer tires, compared to last year, were down. Last year there was a decrease in volumes sell-in starting July, the sell-out wasn't so bad, and so we expect that stocks of summer tires will be lower than last year, stocks of winter tires are higher than last year even after the 10% that was valued of this stocking in February in Europe, mostly in Germany, related to the bad seasonality in February. All in all, in any case we expect a weak seasonality in winter tires in Europe. Going to Latin America, there has been a slowdown that started in the second half of last year and so the original equipment was definitely affected in the last few months of last year, so we do not expect a growth in the original equipment as I mentioned during my presentation, stocks are not so high in the dealers, there we have a better visibility thanks to the different distribution we have in Latin America. In Latin America it's a question of a slowdown in demand that should be in any case a one-digit growth for the full year.*

Q - Massimo Vecchio: Can you just confirm that in the first quarter you typically sell... I mean 100% of your revenues are summer tires?

A - Marco Tronchetti Provera - Chairman: If not 100, 95-96%.

Q - Massimo Vecchio: Thank you very much.

A - Marco Tronchetti Provera - Chairman: Thank you.

8. Mr. Luca Orsini from One Investments:

Q - Luca Orsini: Remaining on summer tires, and the pricing environment at the moment, do you expect... what kind of pricing environment are you seeing for the premium sector and for the normal sector in the summer tires at the moment? Thank you.

A - Marco Tronchetti Provera - Chairman: We do not expect any decrease in prices in the premium segment, neither in the other segments, having raw materials that are still high in butadiene and oil. There are no signs in any region of the world of price changes at the beginning of the year. If not, some increases.

Q - Luca Orsini: Okay. Thank you. That was the question.

A - Marco Tronchetti Provera - Chairman: Thank you.

9. Mr. Neil Fehre from HSBC:

Q - Neil Fehre: Yes, hello. Three questions left from my side. The first one is: can you just confirm that you are targeting flat margins in your European business year-on-year versus 2011?

...

Q - Neil Fehre: Or maybe I will ask the other questions as well. So on the Russian business you said that you already started production on both plants: can you just give us an update on how many tires you're targeting to sell or to produce and to sell in 2012 given your guidance of 3 million in revenues and where are these tires exactly coming from? So what do you see the segment split for top line and higher volume tires? And then the third question is on your non-tire business: I think you booked some losses of close to 60 million now in the full-year 2011; what should we assume for 2012? I think your previous guidance was something like -20 million EBIT loss in non-tire business. Is it still your guidance for 2012 or has it changed recently? Thanks.

A - Marco Tronchetti Provera - Chairman: Thank you. So, starting Europe: Europe we gave the guidance for 2012 of a growth in revenues which was below 2.4 and was 2.2 billion euros in 2011... the estimate. So, in today's guidance we don't see growth in Europe. So, when we gave you the guidance, we see Europe as a region where there will be a single digit minus, instead of... but for us there will be a plus in profitability thanks to the mix. So, thanks to the mix we expect to have an EBIT margin that goes from low- to high-teen. That's what we expect in Europe. In Russia: in Russia we have... we expect to have an around 300 million euro turnover, a profitability that is mid-single digit because we are going to reshape the two factories mainly in the area of compounds, where we can give a boost to the quality of the tires, because the construction of the tires is good, the machinery is good, what Russia needs is quality on grip, on compounds, and there we are introducing Pirelli technology during 2012 and part of 2013. So, this year most of our production sales will be in segment B and part in segment C, which is due to go down and down, and part will be segment A. We expect a double-digit profitability next year, to reach a level of 15-16% by 2014. That is our forecast, those are the figures that we gave to the market, and we confirm that our actions are in line with the expected results.

Q - Neil Fehre: *So you're selling something like 4-5 million tires in 2012 in Russia? Is that right?*

A - Marco Tronchetti Provera - Chairman: *Sorry, I couldn't hear you.*

Q - Neil Fehre: *You're selling 4-5 million tires in Russia locally produced in 2012? Is that a rough assumption which makes sense?*

A - Marco Tronchetti Provera - Chairman: *Yes, it is. It is right that we're going to sell in Russia more than 5 million tires. That is right. We go close to 6 million tires taking into account that more than 800,000 tires will be sold from Europe. Only premium. That is what we see. And I mentioned before that we see a better seasonality for us in Russia this year thanks to a very good market for the Premium Pirelli brand. Premium Pirelli brand that will start being produced locally in the second part of the year in Voronezh. Then, the non-tire business: there is nothing... there will be nothing left in 2012, only the small business of P-zero, the patent business is starting... is, let's say, moving quite well until now, it's a start-up, as you know, Ambiente is just a financial stick starting this year, philters we are looking for third party agreements, so we see also in philters an improvement, and burden from losses coming from third activities will be at least cut by half in 2012.*

Q - Neil Fehre: *Okay. Fair enough. Thanks.*

A - Marco Tronchetti Provera - Chairman: *Thank you.*

10. Mr. Giuseppe Puglisi from Intermonte:

Q - Giuseppe Puglisi: *Good afternoon. Giuseppe Puglisi from Intermonte. I have two questions. The first regards your price repositioning: do you see room for a premium brand repositioning in terms of pricing not related to raw materials? Because in some areas I see that your press positioning is still lower with respect, for instance, to Continental. And the second question regards Brazil: historically speaking, you had a really good market share in LatAm. Do you see this market share increasing in the premium segment? Because my feeling is that you are gaining market share because of a lack of capacity in premium of the competitors. Thank you.*

A - Marco Tronchetti Provera - Chairman: *Starting with the first question, the Premium Pirelli brand has to be supported by a service that we are improving day after day. So the premium business is a business that is made by products, product portfolio, product exploitation through service. So I think that there is room, as you mentioned, to at least protect the prices and in some cases, thanks to the service, also to obtain a price increase. Then in Brazil: definitely we are focused on the premium segment, which is our segment, being the leaders in the region there is room to improve our presence in the premium segment, which is taking off now in the last two years and there we see another opportunity for growth, as we already have in China. So, these are countries where there is room for huge improvement in the premium segment.*

Q - Giuseppe Puglisi: *Thank you.*

A - Marco Tronchetti Provera - Chairman: *Thank you.*

11. Mr. Thomas Besson from Merrill Lynch:

Q - Thomas Besson: *Yes, I just have a quick follow-up for you please. Could you please mention whether there are any restructuring plans in your schedule? Because you're increasing sharply your premium volume sales you're (...) your standard volumes, do you plan to shut down any of the standard capacities across 2012-2013? Because I have difficulties in understanding the fact that you're increasing capacity quite significantly in 2012-2013 and you're targeting only your volume growth. So what are you going to do with the excess capacity in standard?*

A - Marco Tronchetti Provera - Chairman: *Thank you. But we have some restructuring costs that are included in our accounts. We always show EBIT before and after restructuring, we have around 20 million*

each year that is dedicated to cost reduction and efficiency. There is no major restructuring included in our plan. I have to say that we have a different industrial structure compared to our main competitors. We already have 92% of our truck factories that are in low-cost, high-growth countries, compared to an opposite structure of our main competitors and we have 60% of our passenger consumer business that is in low-cost, high-growth countries, compared to our main competitors having 70 and more% of their structure that is in high-cost, low-growth countries. That is why we don't need major restructuring. We did it. The last was made in 2008 and 2009 in Spain and Italy, cutting 14 million standard tires. We continue to reduce standard tires thanks not to investment in standard tires. The new factories we are investing in, in China, in Italy, in Rumania, in Mexico they are dedicated only to premium tires, which automatically reduces the percentage of standard tires within our portfolio. And we are also cutting capacity. Now we are not working at full capacity now because we reduced our guidance and we also reduced the... let's say, the production starting with standard tires, which are the part we want to reduce. So, we continue the same way we did in the past, accelerating the reduction of standards and increasing the capacity of premium, which is continuously demanding for growth. So, we have no excess of capacity. We are short in capacity of premium. Compared to the demand.

Q - *Thomas Besson: Thank you.*

A - *Marco Tronchetti Provera - Chairman: Thank you.*

12. Mr. Gianluca Pediconi from Kepler:

Q - *Gianluca Pediconi: Good afternoon, gentlemen. Could you please help me reconcile your 2012 cash-flow with the updated targets? I presume that you are now assuming 20-30 million euros higher EBIT, probably to free up some net working capital due to lower than expected revenues. But you confirmed the previous net debt target below 1 billion. Am I missing something or should we expect some good surprise on this item? Thank you.*

A - *Marco Tronchetti Provera - Chairman: Starting... sorry... once again, so the operating cash-flow... comparing the EBIT margin in 2011 that was before restructuring 609, depreciation 225, investments, material and immaterial, 626, the working capital variation 52 million, so the net cash-flow being 156 million, minus the financial costs, 90 million, and fiscal costs, 162 million. So the cash-flow, the ordinary net cash-flow has been 96 million. Then the net cash-flow became 281 negative, taking into account +1, the difference between investments and divestments, financial investments and divestments, minorities we bought in China from our partners, 28 million, and investments in Russia 55 million, dividends paid 83.5 million, cash-out for restructuring 78 million. And that's the result. Then for 2012 we didn't deliver the cash-flow figures, we just gave the target of net financial position and in our presentation of the industrial plan we started with the net debt in 2011, +400 million operating cash-flow, more than 400 million operating cash-flow, less financial and fiscal target... charges worth 400. So we expect, before dividends and Russia, a net financial position of 750 million. Plus Russia it goes up to 1 billion because it's 250 the cash-out we expect to have in Russia.*

Q - *Gianluca Pediconi: Thank you very much for this very detailed answer. My question was a little bit simpler. Why haven't you improved the net debt guidance as you are actually increasing the profitability targets? That is: why are you so cautious? Should we expect you to upgrade these targets later on? Is there a higher tax rate?*

A - *Marco Tronchetti Provera - Chairman: It's an implicit answer. So we gave a guidance that is the high side of the guidance we gave November last. That is why we didn't change the guidance. So, say, more than 12 compared to the guidance of November last. We consider the floor the high range of the targets we gave November last. So, keeping as a floor more than 12, equal or more than 12% EBIT, puts us in the position not to change the guidance on the financial position. If something better happens, we will enjoy it.*

Q - *Gianluca Pediconi: Okay, thank you.*

A - *Marco Tronchetti Provera - Chairman: Thank you.*



13. Mr. Edoardo Spina from Morgan Stanley:

*Q - Edoardo Spina: Yes, good afternoon. Thanks for taking my question. I have only one quick question. Focusing only on Europe and on light vehicle tires, in the premium segment, as defined by Pirelli, are you actually gaining share in terms of unit sales compared to your competition or are you just following a very strong segment in Europe? Please help me understand the dynamics of the premium segment in Europe. Thank you.*

*A - Marco Tronchetti Provera - Chairman: In Europe we are keeping more or less the market share we have. Definitely we were losing part of our market share to third parties not to our main competitors because we were short in capacity. We are recuperating part of our natural market share towards the second peer competitors which were importing into Europe also high-end tires for the replacement market because... it still happens because we are short. In that sense we are recuperating a bit.*

*Q - Edoardo Spina: Thank you.*

*A - Marco Tronchetti Provera - Chairman: There are.. sorry... just to... in 2011 we mentioned that we gained market share, 1 point, in the winter tires. That is in 2011. I was talking about what is happening in 2012, but in 2011 in fact we gained 1 point in the winter tires.*

14. Ms. Laura Pennino from Kepler:

*Q - Laura Pennino: Hello. Just a quick question. You see the market very disciplined but don't you feel that this volume decline could put pressure on the market and eventually on final prices?*

*A - Marco Tronchetti Provera - Chairman: But this volume issue is not an issue in the premium segment. So we don't see any reduction. We see continuous improvement of volumes. Because we have to consider that there is not only Europe, there is also China, the US, which is a good market today, and there are other opportunities in Brazil and Latin America. So, all in all, the premium segment is growing faster than the capacity installed and installed capacity definitely between the Tier1 players is shorter compared to the demand.*

*Q - Laura Pennino: Okay, so you don't fear pressure on prices neither in Europe then?*

*A - Marco Tronchetti Provera - Chairman: No, not at all. No, we don't see any tension. This is a huge segment that accounts for 12% of the global market, which is increasing faster than the standard segment and where the resilience to price is different, because consumers are less affected by price increases or by a price increase if they buy a tire that costs them 150 euros or dollars, then if they buy a tire that costs them 30 or 40 euros or dollars, so that there is really no issue about prices on premium tires on the consumer side.*

*Q - Laura Pennino: Therefore you also confirm your capex guidance, because you are investing in growing areas?*

*A - Marco Tronchetti Provera - Chairman: Yes, we confirm our guidance on capex. Only in case of a... let's say, a deeper crisis than the one we see today we will consider to reduce the capex, but, as I mentioned before, the last part of them is dedicated to premium. We have room to reduce our costs, we have flexibility of the labor cost that is worth 15% or more, so we can put in place a number of actions and we already did in the standard segment in some areas and that is why we were able to cut drastically standard production by more than 10% at the beginning of this year.*

*Q - Laura Pennino: And in which areas would you cut for the first?*

*A - Marco Tronchetti Provera - Chairman: In the standard segment. In the standard segment we continue to keep what is needed but reducing step by step at a speed of two digits, as we gave last year. So it's part*

also of these restructuring costs that we put in our figures every month and we cut the overtime. There is no overtime in the factories. So that is the way to reduce the production of standard.

*Q - Laura Pennino: Okay. And the final question: can you give an indication of what... or quantify which benefits you expect from the factory in Mexico for the US market?*

*A - Marco Tronchetti Provera - Chairman: Huge. I mean, if we export from Brazil, we have a cost of labor that is more than double the Mexican one. We have 4% of custom duties between Brazil and the US and we have a 45 day delay to deliver from Brazil to any place in the US. From Mexico in 24 hours we can deliver, the services are far better and the factory is dedicated to premium. Then we have another advantage that we can switch our premium capacity in Brazil that is dedicated to exports to the US, step by step to the internal demand of premium that is growing in Brazil without major investments.*

*Q - Laura Pennino: Okay. Thank you.*

*A - Marco Tronchetti Provera - Chairman: Thank you.*

15. Mr. Luca Orsini from One Investments:

*Q - Luca Orsini: Just a question. Reading your press release, you mention your... that there is a stock option plan in place. Can you tell us how many shares are dedicated to that stock option plan?*

*A - Marco Tronchetti Provera - Chairman: No, there is no... no stock option plan. Absolutely not. We revised our plan increasing our targets. For the management it is always based on long-term incentives, as it has been until now. Basically, the system is that we... we have an MBO every year, this MBO is delivered 50% if the yearly targets are reached, the other 50% is put in what we call the 'bonus bank', and if the targets of the three-year plan are achieved, this 50% is given back to the management doubled. In case the targets are not achieved, this 50% of the yearly bonus is lost and the long-term incentive is lost. That is the system we used to have. That is the system we have in place. This system has been revised, putting higher targets, because we reached, for the second time, one year in advance the targets of the plan and so we revised the highs of the... the level of the targets.*

*Q - Luca Orsini: So, even if in the plan it is mentioned the outperformance of the stock versus the market that is still purely as an indication and is just cash disbursement and no new equity print?*

*A - Marco Tronchetti Provera - Chairman: This is related to the total shareholder return, which is the long-term return. So that means that the LTI is related also to the value of the shares. This is to align the interest of the managers with the interest of the shareholders.*

*Q - Luca Orsini: Thank you for clarifying, Mr. Tronchetti.*

*A - Marco Tronchetti Provera - Chairman: Thank you.*

*Operator: No more questions at the moment.*

*A - Marco Tronchetti Provera - Chairman: So, if there are no other questions, I thank you for your patience and attention. During the week we will be on the road in Milan and London. So, have a nice evening and thank you again.*

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