

Pirelli Q1 2015 Results

May 13, 2015

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman and CEO

Good evening, Ladies and Gentlemen, and thank you for joining us at this Conference Call.

Before the review of the first quarter results, with reference to the Camfin - ChemChina deal announced to the market on March 22, 2015 and the prospect PTO on Pirelli, I wish to make clear that since Pirelli is the “scope” of this deal, no assessment and /or information further from those already announced by the parties in the press release dated March 22, 2015 shall be made public.

I only wish to point out that on March 31, 2015 upon the approval of the Full Year 2014 results, the Pirelli Board of Directors acknowledged - based on the information made public - the amicable nature of the deal whose details are consistent with the strategy of the Pirelli’s “Industrial business” focused on growth and aggregation in geographically strategic areas, such as Asia. All this, subject to the assessments still to be made that the independent members and the Board of Directors must make on the PTO, when such offer be made.

Let us now turn to the results just approved by the Board of Directors, which mark a positive start of the year and show, once again, that our focused business model and balanced geographical reach can withstand the test of market volatility.

Premium results were as strong as expected: we continued to take share in a growing, healthy market which values technology and innovation. Premium is now nearly 60% of the consumer business, with clear benefits to profitability.

Once again, Premium was the main driver of the Group performance this quarter: we achieved mid-single-digit growth in both revenues and profitability, despite a challenging economic and market scenario in South America and Russia

We outperformed the industry in price/mix improvement: +3.7% overall and +4.7% in the Consumer business. Our focus on value translated into a strong growth in the highest added value products and selected price increases to offset inflation and foreign exchange devaluation.

We are executing the 2015 priorities laid out at the beginning of the year:

- Our leadership in the Premium and Prestige OE markets can count on an even wider portfolio of homologations and marked items, a strong support to future replacement revenues;
- In the replacement channel, we reduced our reliance on general distributors, we were more selective, and introduced a successful all season product line;

- In the Industrial Business, we are deploying a new business model built around fleet requirements. We are also defining the perimeter of the business unit which will operate independently in early 2016
- Finally, our efficiency plan is on track to deliver the 90 million euro target for the year.

Turning to the outlook for the year, our expectations are little changed from what we anticipated this past February.

The clear outperformance of Premium against the rest of the market is confirmed, with Premium market growing 6% in the first quarter, while Non-Premium was down 2.5%. For the full year, our expectation is still at 7% vs. a slightly positive total market.

We had anticipated areas of market volatility in South America and Russia. This will continue in the short term. We prepared our operations to be able to respond with flexibility, re-arranging product flows whenever possible, and providing an extra push on efficiencies.

The Industrial business performance was affected in the first quarter by the market slowdown. Our plan to improve profitability in this business is based around:

- mix improvement,
- price increases, some of which have already started, and
- further business development in Europe and China, as well as cost rationalization.

In short, our internal levers are performing well, allowing us to capture value and to counterbalance the external scenario.

We are confident in our ability to deliver the 2015 targets: a year of strong improvement in profitability, to 930 million euro Ebit, as well as cash generation, at least 300 million euro before dividends, bringing our net financial position down to about 850 million euro.

Let us now take a first look at the key results for the quarter, which confirm the resiliency of our Premium strategy in a context of market volatility in selected regions. It is indeed a positive start of 2015.

Revenues grew 2.4% in organic terms overall, before the positive impact of foreign exchange rates.

- Premium was a clear outperformer, up in the double-digits and accounting for 59% of total Consumer sales, providing a boost to price/mix
- Negative market trends in South America and in Russia, particularly in the non-Premium and in the Industrial business, where volume growth was limited

Profitability improved by +4.5%, driven by internal levers, particularly Price/mix and greater efficiency. At the same time, raw materials and FX tailwind contributed to compensate for higher inflation costs.

Net income before discontinued operations increased by 12%, underpinned by:

- A lower negative contribution from equity participations, and

- An improved tax rate, in line with our 35% target.

As planned, net debt increased as a result of the typical seasonality of our business where receivables grow in the first quarter and are cashed in the second quarter. The negative change in working capital trend is going to be reverted during the year.

Let us now turn to analyzing the key regional drivers which brought about:

- Organic top-line growth of 2.4% year-on-year - with a positive +5.1% in the Consumer Business more than compensating for the reduction in the Industrial Business, and
- An approximately stable Ebit margin year-on-year, at 13.6% of sales

The uneven development of regional tyre markets influenced our business units differently, as a result of our exposure and local positioning.

A still buoyant Asia Pacific - mostly a Consumer market for us - coupled with our unmatched offering in the Premium segment, translated into a very strong organic growth, nearly 15% with a weight in tyre revenues increasing by 2 percentage points to 10%. Profitability in the region was confirmed in the high teens.

In North America, we recorded a high-teen revenues growth combined with a profitability above group average, improving yoy by more than 1 percentage point as a result of mix improvement and efficiency gains, the latter due to the ramp up of our Mexican plant which brought local-for-local rate in the first quarter to 36% from the 27% of last year.

Our performance in Nafta, net of the strong Forex impact, was characterized by:

- a sound revenues growth in the Premium Car business (accounting for 84% of Consumer revenues, +5pp yoy) coupled with a market share increase in the high value segment
- while our Non Premium Car and Motorbike businesses discount the general market slowdown (-10% Non-Premium Car, -15% Motorbike, the latter due to a delay in the sell-out season due to the severe weather conditions).

In a context of low raw material cost and strong dollar appreciation, we maintained a sound pricing policy, mostly limiting price reduction to the OE channel.

Sound performance of our business in Europe despite the market slowdown - due to a late start of the sell-out activity - and the tough comparison base: first quarter 2014 was the strongest quarter of the year, with a +10% revenues growth.

In South America, where the macroeconomic scenario remains challenging, our performance was impacted by the general market slowdown. This was more evident in the Industrial business where the more severe market conditions – with truck OE down 39% and truck Replacement down 8% - led us to postpone price increases due in the first quarter to the following quarters. In Brazil, we have already started with the first price increase.

Different trend for the Consumer business where, despite the challenging market trend in the OE channel, we recorded a 14% revenues growth due to:

- the sound performance of Premium recording a mid-teen volume growth,
- the continuous mix improvement, and
- price increases at the end of 2014 to cope with the forex volatility.

The positive organic growth and high-single digit profitability in Russia are a testimony to the on-going turnaround, in a still difficult context. Here, our flexible production flows allowed us to keep a high level of factory productivity to serve export markets. At the same time, our multi-brand strategy continued to prove successful, with a market share increase in Premium and Non-Premium.

Finally, the Middle-East Africa region continues to consistently deliver substantial revenues growth with top levels of profitability. Our increased service offering programs for truck fleets, a larger distribution network and strong Premium growth continue to produce the expected results.

Now, more in detail on the Premium segment.

17 inches tyres and above are confirmed to be the main contributor to our growth.

- Market momentum continues, up globally in the mid-single-digits in the first quarter of 2015, and
- our volumes grew twice as fast, resulting in market share gains in key markets.

From the standpoint of revenues, this profitable segment is now 59% of our Consumer business, up from the 57% of one year ago.

Over the quarter, we continued to work closely with the best OEMs, and our partnership resulted in additional product homologations for car models such as the Mercedes GLE Coupè, the BMW X1 and X5M, the Jaguar XE and the Volvo XC90.

This investment is already paying off in terms of sales pull-through in the replacement channel, as customers who enjoy the driving experience of our OE tyres choose to replace them with the same product. This is made possible by a more pervasive distribution, as we added more than 600 POSs, to place the right tyres in the right place and anticipate consumer demand.

In addition, pull-through is even stronger in the Super Premium market, where we have the widest product portfolio in the industry.

The impact of these levers is particularly strong in Europe, where

- we continued to improve our distribution channel mix, privileging specialist distributors, retailers and car dealers and
- have successfully introduced the new All Season product.

These tools helped us protect our value proposition against an environment which, as expected, is not conducive of price increases.

The ability to provide top service levels, the growing availability of our products from Mexico and our advanced geo-marketing tools were behind the positive performance of Nafta. In this region, we are also recording strong results from our retail affiliation program, FasTrack, showing that our service and product offerings are particularly attractive to independent dealers.

Emerging markets recorded another strong quarter and are now at 28% of our total Premium revenues, +4 percentage points against 2014.

The Premium segment in South America proved its resiliency and we were able to outperform it, by growing market share both in OE and Replacement channels and successfully increasing prices. We are confident in our performance in the region for the remainder of the year, when we will be introducing new products and deploy a different approach to regional distributors.

Asia Pacific shows the strongest growth profile. Here, we benefit from our strong positioning in the locally produced premium car business and in some technological niches such as RunFlat. Our market coverage is also growing. The success of our Marked tyres, now accounting for almost 50% of Premium sales, and a very high service level in both Premium and Prestige, allowed us to record a volume growth 3x higher than the market.

In the quarter, we also recorded strong Premium growth in Middle-East-Africa and in Russia, supported by a growing product portfolio.

In the first quarter of 2015, net income was positive for 84.6 million euro, or 17 cents per share in terms of attributable income.

Net Income included one-off charges of 16.8 million euro related to the exchange rate losses of the Turkish Steelcord subsidiary. Such losses, previously recorded in equity, have been reclassified to profit and loss in the first quarter of 2015, as a consequence of the Company's sales in February 2015.

Net Income Before Discontinued Operations was 101.4 million euro. This means a growth of 11 million euro compared with the first quarter of 2014, over 12% yoy and above our percentage growth in Ebit.

Results from Equity Participations were positive for 11.3 million euro year-on-year. This was mainly related to the impact from the consolidation of our stake in Prelios S.p.A. with the equity method, which was negative for 2.5 million euro compared to the loss of 13.8 million euro in the same period of 2014.

Financial charges were higher by 8.8 million euro year-on-year, mainly due Venezuelan Bolivar impact on trade receivables, in line with the guidance, and to the rise of interest rates in countries outside the Eurozone in which Pirelli operates, in particular Russia where interest rates are above 12%. Overall, the average cost of debt in the quarter was 6.17%.

Finally, Tax Rate improved year-on-year to 34.8%, in line with our FY target, as a result of an increasing weight in our geographic mix of regions, such as APAC and MEAI, where tax rates are lower.

Pirelli's Gross Debt is worth approximately 2.7 billion euro, of which about 40% in currencies other than Euro.

Following our recent debt capital market and banking transactions, which refinanced our main 2015 maturities, nearly 50% of our debt comes due beyond 2016.

Cost of Debt was 6.17%, discounting interest rate increases mainly in Russia.

Usually, net debt grows in the first quarter due to the working capital seasonality. Trade receivables connected to the summer season increased, in absolute terms compared to last year and vis-a-vis the revenues trend. These outstanding amounts are to be cashed in the second quarter.

The greater cash absorption than last year (-777 € mln net cash flow in 1Q 2015 vs. -643 € mln in 1Q 2014) is to be attributed also to:

- a temporary stock increase (18% of revenues, +1 pp more than standard level) to meet the growing demand in Nafta, Europe and Apac in the 2Q, also through more competitive sources in South America and Russia given the weak exchange rates; and
- trade payables trend adversely affected by lower raw materials costs.

We invested approximately 86 million euro during Q1, consistently with our Capex plan which is more geared towards the second half of the year.

In line with our business seasonality and our strong track record, we expect the gradual cash generation from the 2Q to achieve our cash flow target before dividends worth more than 300 mln euro

Let us now review the main changes to our 2015 expectations on a regional basis, starting from tyre markets.

Based on what we have seen in the first four months of the year, Premium market growth is confirmed at about 7% globally, strongly outperforming the overall tyre market, which should be only marginally positive this year.

The resiliency of Premium mitigates the somewhat slower growth of non-Premium markets and the Original Equipment channel in particular, as it is the case for South America and Russia.

Turning to Truck tyre markets, we now expect a 1% growth, about 1 percentage point lower than previously assumed. This is a consequence of lower growth in South American OE, as vehicle production fails to recover, and a more muted development of the Replacement channel in South America and Europe.

In this external context, comparing to our February guidance, we expect a better profitability in Asia Pacific, North America and Middle-East Africa; these are the most profitable regions for us, with Ebit

margins in the high-teens range, and above, and growing year on year. The results in these areas will compensate for the impact of the market slowdown in South America and Russia.

In Asia Pacific and North America, our strategic levers in the Premium segment are performing extremely well. Investments in product technology, OE partnerships and better market coverage will help us achieve:

- A very strong pull-through effect, especially in SuperPremium where we continue to take share; and
- continued growth in product specialties, including RunFlat is growing more than 20% on average in volume terms in Q1 2015.

The improved targets for the Middle-East and Africa region, which imply higher Ebit in absolute terms, discount results better than expected both in:

- the Industrial business, especially in the Replacement channel in the Gulf Area and Egypt, and
- In the Premium segment, where we are outperforming the industry both in terms of Volume and Mix.

In Europe, we still expect a mid-single-digit revenue growth and stable profitability in the mid-teens range. A more selective approach to distribution, favoring retail and car dealers, will support Premium growth and compensate for a slower market growth in Truck.

While performing better than the market, our results in South America are affected by the fall in car and truck vehicle production.

We are facing this challenging environment by sticking to our focus on Premium – still performing well – and protecting value with innovative offerings and top service quality, needed to increase pricing and mix.

This, together with our efficiency efforts and ability to increase exports, is expected to positively impact our Ebit margin starting from the second quarter of the year and to restore low-teens profitability in the full year.

Finally, our market outperformance in Russia continues, especially in the Premium segment. In the currently difficult scenario, we expect to close the year with organic revenues up in the mid-single digit range and a growth in profitability, with an Ebit margin reaching the high single digits.

The regional outlook just reviewed makes us confident in confirming our 2015 guidance.

A yearly revenues growth of about 400 million euro is expected to be achieved through

- Volume growth in the premium segment of at least 10%, implying a growth in market share, which will support
- Price mix growth of about 4%, once again, among the best in the industry.

A slightly lower support from overall volumes, now growing by +2%, will be compensated for by a better foreign exchange impact, mostly due to our revised assumptions of 1.1 US dollars to the euro.

These drivers will translate into a profitability confirmed at about 930 million euro, after about 40 million euro of non-recurring expenses, assuming lower raw material costs of approximately 30 million euro as compared with 2014.

Allow me to remind you that we assessed a possible further deterioration of the market scenario in Venezuela and Argentina, beyond our already cautious 2015 budget. This may translate into an EBIT risk of approximately 30 million euro.

Investments are confirmed at about 400 million euro and cash flow generation will be at least 300 million euro. These variables are expected to yield a net financial position of approximately 850 million euro at the end of 2015.

A strong cash flow is likely to be also generated in 2015.

Now, let us break down our targets by business.

We expect slightly better revenues from the Consumer business, now at about 5 billion euro, through

- A price/mix improvement of at least 4%, mostly due to Premium volume growth of at least 10%, and
- A slightly lower support by volumes, +2%, more than offset by a better Foreign exchange impact at +2%.

Profitability is confirmed in terms of Ebit margin, with a slight upgrade in absolute terms.

Better trends in the Consumer business are expected to be compensated for by the Industrial Business, whose revenues are likely to be slightly lower now at 1.4 billion euro, as a result of

- Volume growth of approximately 1%, linked to the demand dynamics in South America and Europe; and
- 2.5% increase in price/mix, discounting a postponement of the price increases previously expected for the first quarter to later of the year, as a consequence of the market slowdown.

These factors, as well as costs linked to lower plant saturation in South America, had an impact on profitability. The EBIT margin is expected to be approximately 11%.

Now I leave the floor to Mr. Sala who will comment our performance in more details

Maurizio Sala - Pirelli & C. SpA – Head of Group Planning and Control

Thanks Mr. Tronchetti, and good evening to everybody

The First Quarter results of the Tyre Business delivered a solid performance in a market environment characterized by mixed trends between the Consumer and Industrial businesses in the different regions.

Volumes were negative by -1.3%, with a strong Premium growth (+10%) only partially offsetting

- the negative trend in the non-Premium Consumer business (-6% mainly in South America and Russia, given the fall in the OE channel market); and,
- the volumes decline of the Industrial business (-6.7%) due to the downturn of the Original Equipment market in South America and the slowdown of the Replacement markets in South America, Europe and China.

Group price/mix, up by 3.7%, the best in the industry, benefits from the strong performance in the Consumer business (+4.7%) due to the improvement in the product, regional and channel mix, as well as the price increases in South America and Russia.

Foreign exchange contributed a positive 4.1% to the revenues growth, mainly due to the strengthening of the US dollar, British pound and Chinese Remimbi. Net of Forex, revenues growth was 2.4% in the quarter.

Profitability in absolute value increased by 4.1% in the quarter, supported by the positive contribution of internal levers, such as price/mix and efficiency. On the other hand, raw materials and ForEx tailwind counterbalanced higher cost inflation.

Ebit margin was 13.6%, or 13.8% before non-recurring items, essentially stable as compared to the first quarter of 2014.

Let us now turn to analyzing the profitability trend resulting in an 8.4 million euro increase.

Let's start from the internal levers:

- the strong price/mix growth translated into a 31 million euro Ebit increase with a drop-through of 57%; and
- efficiency gains accounted for 21.1 million euro, in line with the annual target of 90 million euro, achieved through our de-complexity program, a productivity improvement and a scrap reduction.

The internal levers more than offset the impact of

- volumes and market slowdown, that brought to a lower saturation level in South America, mainly Venezuela where our capacity utilization rate is 50%, in line with our guidance, from 70% last year
- higher depreciations
- the impact of the different Steelcord sourcing, produced internally last year and currently purchased from Bekaert
- higher marketing expenses – related to the growth of Premium and to the FX impact on US dollar denominated costs, such as those of F1.

The external tailwind, such as raw materials and forex, mitigated inflation costs impact, mainly related to labour and energy.

Let us now move to the performance by business units, starting with the Consumer Business.

With revenues growth of nearly 10% year-on-year, Consumer accounts for 79% of the tyre revenues, up from 77% a year ago.

Before the positive foreign exchange impact, revenues were up 5.1% following a significant price/mix improvement, at +4.7%. This strong reading has to do with our outperformance in the Premium segment, with volumes up 10%.

Despite the strong performance on the high end, volumes were marginally up 0.4% since Non-Premium business was down 6% discounting:

- the fall of the OE market in both South America (-15%) and Russia (-20%), partially compensated for by the outperformance in the Replacement channel, where we recorded a positive trend; and
- the late start of the season in North America where motorbike market was down 15% given the very cold winter.

The strong mix improvement and price increases, coupled with efficiency gains, led us to achieve:

- an Ebit increase of nearly 22 million euro in the quarter; and
- an Ebit margin of 14.6%, up half percentage point yoy.

Industrial Business performance was affected by:

- the steep contraction in the South American truck OE market, to the tune of 39%
- single-digit reduction for replacement markets in South America, Europe and Asia Pacific.

Although we were able to outperform the market, on a year-on-year basis, our volumes are down 6.7%.

Market trends affected our ability to execute timely price increases and this weighed on our price/mix, which was stable year-on-year. This trend is expected to improve, starting from Q2, given the price increases already made.

A 3% positive foreign exchange impact mitigated the volume contraction and resulted in an overall sales trend which was down 3.8% year-on-year.

Ebit margin was at 10% declining yoy by 3.5 percentage points of which

- ~2pp from the top line trend
- 0.5pp from lower saturation costs
- ~1 pp from the different sources of steelcord

The operating performance is expected to improve in the following quarters due to:

- our actions on mix improvements (completion of fleet offerings, products in Turkey and continued updating of the range in LatAm)
- price increases in South America, Europe and Turkey, already started in 2Q,
- further development of the business in Europe, through the OE channel, and in China by widening our distribution network
- cost rationalization.

This will allow us to reach a profitability of approximately 11% on a top line of 1.4 bln euro, increasing 1.5% yoy.

Finally, just a re-cap on our 2015 profitability guidance

The revised revenue assumptions are

- volumes expected to grow by 2% (+3% the original guidance)
- a price/mix of around +4% (vs a growth of +4% or greater), and
- forex up 1% (vs. -2% originally forecasted)

and are expected to translate into a slight Ebit reduction, in the range of 14 million euro.

In addition, we are bearing a further 10 million euro in costs linked to the preparation of more independent business units. This process, as anticipated on our call of last February, is consistent with the different strategies and value propositions of the two businesses. We identified the perimeter and actions which will allow us to develop two separate organizations early in 2016.

These impacts will be balanced by more benign costs of raw materials with a tailwind of 30 million euro, comparing to the 6 million originally forecasted. This will allow us to confirm our 930 million euro Ebit guidance for the current year.

Finally our updated raw material assumptions.

Following the trend seen in the first months of the year, we revised down our natural rubber cost estimates for the year, now at 1,550 dollar per tonne. Similarly, we estimate oil prices at 70 dollar per barrel, taking into account the volatility in the last few weeks.

An additional negative foreign exchange impact, mostly due to the devaluation of the Real against the US dollar and to the revaluation of the latter against the euro, limits the positive impact of lower commodity prices for an overall positive EBIT impact of 30 million euro in 2015.

This is all from for the moment, thank you very much for your attention. I now give the floor back to Mr. Tronchetti.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman and CEO

Thank you ladies and gentlemen, we may open the Q&A session.

Questions & Answers

Alexander Haissl - Credit Suisse - Analyst

Yes. Good evening. This is Alex Haissl at Credit Suisse. I have a couple of questions, if I may take one by one. First of all on the consumer business, how confident are your feeling on the 16% margin for the full year with a 4% price mix? Because if I take the first quarter, the price mix was 4.7%, and you had already like 16 million gains on raw materials. So maybe you can give us a little bit more insight, how the progression will be throughout the year for the consumer business.

Marco Tronchetti Provera - Pirelli & C SpA - Chairman and CEO

We see that the evolution will be in line with the guidance we gave. We don't see a weakening, the pull-through effect we are having in the replacement market continued to consistently improve. And the original equipment portfolio, we have confirmed that our expectation should be fulfilled. So the target of the 16% EBIT margin equal or above the 16% is confirmed.

Alexander Haissl - Credit Suisse - Analyst

Thank you. My second question is on the industrial business with the volume target for 1% for the full year. In the first quarter you're at minus 7%. Among all your targets, are you seeing this as the most challenging one, which implies a decent acceleration from the first quarter on volume wise? And related to that question on the price hikes. Can you give us an indication of the magnitude you have increased prices on industrial business at the beginning of the second quarter?

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

Yes. So let's start from the price. We already were raising price in the month of February in Brazil, and in other Latin American countries. And then we will follow with the additional price increase in Turkey and in Europe, always in the second quarter. Then we are also expecting a recovery of the volume, because the first quarter was particularly negative, if you compare it against the first quarter of 2014, where the market was very sound, not only in Europe, but as well in the other areas, and especially in Latin America.

Alexander Haissl - Credit Suisse - Analyst

Thank you. My next questions would be related to free cash flow generation and your targets, and given that you have almost no leverage left on the balance sheet with net debt EBITDA well below 1 times. What's the perfect capital structure you have in mind and use of cash for the Company?

Marco Tronchetti Provera - Pirelli & C SpA - Chairman and CEO

Sorry. We couldn't hear the last part of your question. Could you please repeat?

Alexander Haissl - Credit Suisse - Analyst

The question was in terms of cash flow generation and your leverage on the balance sheet is quite low, well below 1 times net debt EBITDA by the end of the year. And given competitors have already announced some share buybacks in Europe and in the US, maybe you can comment on the capital allocation of the Company going forward.

Francesco Tanzi - Pirelli & C SpA – Chief Financial Officer

We generally utilize liquidity in the Company to finance the working capital needs of our operating units worldwide. And eventually in some cases, to reimburse debt position when this is efficient. So basically this is in relation to the liquidity cash position that the Company has on a worldwide basis.

Marco Tronchetti Provera - Pirelli & C SpA - Chairman and CEO

So we confirm the target of EUR850 million net debt at the end of the year, and the cash generation over EUR300 million. That is-- for the visibility we have, all targets are confirmed.

Alexander Haissl - Credit Suisse - Analyst

Thank you. My last question on the group guidance, given what you have said, you're upgrading guidance for the consumer business and taking down a little bit for the industrial business. You are feeling more confident also on the regional mix with the high margin regions growing faster. Would you say you feel more comfortable now to reach the full year guidance on a group level, than you had at the beginning of the year?

Marco Tronchetti Provera - Pirelli & C SpA - Chairman and CEO

We are as confident as we were at the beginning of the year. So we see no changes in our expectation. We have no evidence of anything that could affect the results.

Martino De Ambroggi - Equita Sim - Analyst

Good evening, everybody. One more question on pricing. Specifically on Latam region, you already revised upward prices many times in the past. I was wondering if it's more difficult today considering the weaker volume environment, or you don't see any problem also through the year if needed. So is it more difficult than in the past, or it doesn't change the picture in terms of pricing Latam?

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

So if we talk-- we start talking about consumer business, for sure it's easier for us to raise the price in this environment, also because thanks to the strength of our equity [distribution], we were doing I think a first stage in raising our sellout price. And then we can follow with the sell-in price increase.

If we talk about industrial, for sure the environment is more difficult than the consumer. Now with today's exchange rate where we have in any case Reais that was around 3 against the dollar, so compared to a few weeks ago, it was 3.3. So let me say Reais was less weak. This was helping us. But as you say that we think that we are going to pass the price increase in the coming months.

On top of this, we already prepared a program of cost reduction and also further efficiency in the factories.

Martino De Ambroggi - Equita Sim - Analyst

So that means the EUR90 million for the full year of efficiencies could be raised for the group?

Marco Tronchetti Provera - Pirelli & C SpA - Chairman and CEO

We gave the data of the first quarter. The first quarter is 23%. So we confirm the EUR90 million. We don't have reasons today to see other opportunities coming. So we see that we can deliver what was in the plan, which is consistent.

Martino De Ambroggi - Equita Sim - Analyst

Okay. One more question still on Latin America. Because you reiterated the EUR30 million EBIT risk for Venezuela and Argentina. At this point of the year, do you feel it's more likely than it was in February when you presented the sensitivity? Or the picture didn't change? But I'm referring more on the business volumes, pricing; these kinds of things. Because just for Latam, you are now projecting truck original equipment volumes down 16% for the full year. Q1 registrations were much weaker. April registrations were, if I'm not wrong, down more than 40%. So it seems to me that the picture, okay. You were able to revise upward prices. But it seems to be riskier than at the beginning of the year.

Marco Tronchetti Provera - Pirelli & C SpA - Chairman and CEO

I'm sorry. You mean basically-- because before probably we understood not well we understood Venezuela. That's why my answer was that we were not able to see any--

Martino De Ambroggi - Equita Sim - Analyst

Actually, my question is all-inclusive. So I see Latin America, which is performing much worse than initially expected.

Marco Tronchetti Provera - Pirelli & C SpA - Chairman and CEO

Yes. We see that we expect a weakening in Latam compared to our previous forecast. And we see that we can compensate the weakening thanks to the better results we can achieve both in APAC and NAFTA. So that is why we confirm the target. Because we see in the first four months of the year, and looking forward we don't see any change coming up, that these two regions have an opportunity to perform better than expected, and to rebalance the worsening of the situation in Latam.

Martino De Ambroggi - Equita Sim - Analyst

Okay. Thank you. Very last question, more general. What do you expect as a reaction from your competitors following the aggregation of the Industrial business with Aeolus? So do you see, for instance, pricing discipline at risk or some other aggregation as a consequence of the step you did? Just your idea on that scenario.

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

We are foreseeing a scenario where there will be, as we said before, an opportunity to score a price increase in Latin America and Turkey and in Europe, also because the natural rubber price moved a little bit. So there is no further deterioration of this. So as we said before, even if the scenario is not very easy or is more difficult than one year ago, we already passed in the month of April some price increase in Brazil. And as I said before, Turkey and Europe will follow within the second quarter.

Martino De Ambroggi - Equita Sim - Analyst

But specifically referring to the aggregation with Aeolus, don't you see the competitors will react with some initiatives, not only referring on price evolution, but also in terms of M&A activity. Do you see an acceleration overall in the market because of your movement?

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

As far as today we are not foreseeing anything like this. So I think you have ask to our competitor if they have an idea to move further aggregation.

Martino De Ambroggi - Equita Sim - Analyst

Okay. You are not worried about this kind of a reaction. Thank you.

Austin Earl - Marshall Wace - Analyst

Hi. Good evening, everyone. I have three questions. The first if I could ask Mr. Sala very kindly as he's done in previous occasions, on the raw material and the currency effect on raw materials as presented on slide 20, is it possible to provide the breakdown for the first quarter in that same manner? So to give that, I guess what is in that slide number 20, that minus 244-- that was for currency in the first quarter?

Maurizio Sala - Pirelli & C SpA - Head of Group Planning & Control

If you take the first quarter results and this positive EUR60 million versus the guidance for the full year that is EUR30 million, the positive impact of the natural rubber is around EUR50 million, because the cost of goods sold of the first quarter 2015 is around \$1,500 per ton. And the first quarter of 2014 was \$2,300 per ton. So there is a strong advantage for cost for natural rubber. For what concerns Brent Oil and butadiene, the number quite close versus the previous year. The reality is that a certain advantage in Brent Oil, EUR10 million and the remaining part is close to zero for concerning butadiene.

And we have a negative exchange rate impact. That is in the region of EUR45 million that is determining the positive impact of EUR60 million. In the following quarter, what we'll have and in fact starting from the second quarter, and this is also an element that can determine and will determine improvement of the results for (inaudible) also the consumer business. We will have the full effect of the reduction of the Brent Oil for that fact that we have a gap between the cost and the impact, and the cost of goods sold that is in the region of 4.5 months. So at the end, in the second quarter, natural rubber will continue to be positive. Brent Oil will be positive. And the exchange rate will continue to stay negative.

Practically the advantages that we will have in the region of EUR30 million will be more present in the first and the second quarter. And then the exchange rate, and you are seeing here that we have a guidance that is improving for our concern the commodity cost, but is worsening concerning ForEx. The worsening of the ForEx versus what we had in the old guidance is coming from the difference in

the exchange rate. So practically two big difference. One, the real that was 2.65 in the previous forecast, and now it's 3. And the second difference euro/dollar that was 1.22 and now is 1.10.

So practically consider that we are buying raw material in US dollar. But in Brazil and in Europe the conversion of the purchase of raw material in dollar in the local currency is determined this negative impact in the exchange rates. These are the representation of the guidance for the cost of raw material.

Austin Earl - Marshall Wace - Analyst

That's very helpful. Thank you. And then second one was just regarding the premium business, just to make sure that I fully understood. So slide 6 refers to your organic growth at plus 6%, volumes are up 10%, and therefore the price mix presumably then is minus 4%. And I assume that that's just following as I think it said on maybe one of the slides, on slide 7, that is the pricing following the raw material trend.

So sorry, just to be really clear, I just wanted to understand that that price mix for premium was roughly minus 4%?

Maurizio Sala - Pirelli & C SpA - Head of Group Planning & Control

For concerning premium, practically there is a price mix that is negatively affected from the volumes and the organic growth that is 6%. The volume is not 10%. The organic growth is plus 6%. And there is a price mix that is negative by around 4 points. This is coming mostly in the mature market, and is coming also from regional mix. Europe was lower in the improvement. You can see in the same chart 6 that the improvement is only 2%, while you are seeing that Asia Pacific, South America, Middle East-Africa, the improvement is 42%, 25% and 33%.

So in this case we have regional mix that is negative. It's not so positive in terms of unit unitary price of selling. Because the average of the premium tires sold in Asia Pacific, in South America, in Middle East Africa, in terms of unitary average of the sale are lower than the average done in Europe. But this is not the same for all concerned results. Because in this area we have also the costs that are lower, and the margin is good. You can see that the margin in Asia Pacific are stable around 20%.

So this is the impact mostly coming from partially adjustment on the prices and also from the regional mix.

Austin Earl - Marshall Wace - Analyst

Okay. Understood on the geographic mix issue. And maybe just a last question. Is sort of the group as a whole on the tire business, is it at all possible to get a breakdown of the price mix between mix and price?

Marco Tronchetti Provera - Pirelli & C SpA - Chairman and CEO

We don't want to say to our competitors too much. I mean we already-- the Company gives more information and detail. Let us have a bit of confidentiality.

Austin Earl - Marshall Wace - Analyst

Okay. No. Understood. Thank you very much for your answers. And also thank you for putting out the release just a little bit earlier to give us a chance to look through them before the conference call.

Philippe Barrier - Societe Generale - Analyst

Yes. Good evening. Philippe Barrier, Societe Generale. Two questions, if I may. First question is regarding again the price mix effect. How can you justify an increase in the price on the industrial products in Europe as the production cost is declining, because of your lower raw materials price? So actually what's your justification behind the increase in the pricing you expect to do in Europe, in Turkey, in the second quarter?

And the second question is actually one of your competitors, could say that in Q2 we could see some restocking by dealers in Europe, after a poor Q1. I will say, if it is your sentiment. Do you see some acceleration or restocking by European dealers on the consumer tire market?

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

So I think the price increase we were discussing before were not in the premium, but were in the industrial. So as far as our price mix, if we talk about consumer price mix, the positive 4% is done by, biggest part is done by the mix. And this is not done by the price. But so if we talk about the car dealer business, the sales of the new car is of course, it's more linked to the fact that for several months it was decreasing, and now finally there is a recovery. And this I think we can see, we will see in the coming months.

Philippe Barrier - Societe Generale - Analyst

Okay. Just sorry. Coming back on the pricing on the industrial product. I would say production costs are down because of natural rubber price. And market is down as well. So how could it be easy to implement price increases in this business, given the negative environment?

Gregorio Borgo - Pirelli & C SpA - General Manager, Operations

No. We were not talking to increase the price in dollar. We were talking to raise the price in Brazil where the local currency is devaluating against the dollar, in Europe where euro as you know was devaluating against the dollar, and in Turkey where Turkish lira was devaluating against the dollar.

So if you're analyzing these three countries, the reduction of the raw material is not as good as in the country that are with the dollar base.

Operator

Thank you. And as we have no further questions, I would like to turn the call back over to you, Mr. Tronchetti Provera, for any additional or closing remarks. Thank you.

Marco Tronchetti Provera - Pirelli & C. SpA - Chairman and CEO

Ladies and gentlemen, I thank you most wholeheartedly for your attendance and questions. Enjoy your evening.