Pirelli&C. S.p.A

Conference Call 1Q2011 Financial Results

Milan – May 04, 2011

Good evening, ladies and gentlemen, and thank you for being connected with us to review first quarter 2011 results which were approved by the Board of Directors today.
Before reviewing the economic and financial performance of the company, I wish to spend a few minutes on market trends and, overall, on how Pirelli is implementing the strategies announced last November.

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The tire industry is experiencing a particularly favorable time. Demand continues to be high and last March we released our forecast on demand, which today we can reconfirm. In 2011, car business volumes are expected to increase by 5% both in the Original Equipment and in the replacement channels, with the premium segment growing three times as much as the market average. To this regard, you may remember that our definition of “premium” is limited to the top of the range. In the truck business we expect a stand growth of 8% on average, despite double-digit growth rates in Europe and Africa. The general picture is one of sustained demand, as confirmed by pre-orders of both summer and winter tires, in a context of low inventories and of a global industry capacity at its maximum levels on average. The perfect opportunity for a sound pricing discipline. In fact, since January 2011, an industry average price increase of 10% has already been recorded in the consumer business, while for the industrial business the increase was of approximately 12%.

Once again, Pirelli is proving to be a frontrunner, having already implemented the first wave of price increases by region last March and having announced the next round starting from June 1st. With these two actions we have almost compensated for the 580 million raw material headwind. This impact is expected for 2011. Our guidance on raw materials can therefore be confirmed, although with some variation in both the natural rubber price, which might go slightly lower than 4900 dollars per ton indicated last March, and the oil price that in the second half of the year might exceed the 110 dollars per barrel forecasted in March.

In addition to this pricing discipline, another pillar of our value strategy is a focus on the premium segment. In the first quarter of the year we achieved excellent results. Sales are up by 36%, with almost 1 market share point gained in the European replacement channel. Now a mid-double digit. As far our efficiency plan, providing for approximately 80 million euros savings over the year, we are well on track. We have achieved an excellent performance in Europe, where the EBIT of the quarter is double-digit, as a result of both our top line value strategy and efficiencies achieved. Which are 70% of the total.

In Asia Pacific Pirelli successfully supplied premium tires to both replacement and Original Equipment markets. The good trend of the business in China and the good business scale expansion led to a double-digit EBIT margin. Finally, it should be stressed that we are going to reduce our tax rate more rapidly due to the development of our business in countries with lower taxation, like Romania and China, with a significant impact on the earnings per share.

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Looking at Pirelli in Formula 1, after nine months of intense preparation, Pirelli made a come-back to Formula 1 as a real star, giving tires a central role to play in racing, with 3 GPs held so far, tires have become determinant to individual drivers and team strategies. For a more exciting show, the Formula 1 organization and teams have asked for high-performance tires with a shorter duration. The latter not being in our products’ nature. All this contributed to taking Formula 1 back to being an eventful competition, as it had not been for quite a long time, drawing increasingly more attention. In addition, we are devising a way, together with FOM, to give our different compounds more visibility, to allow the audience to understand what tires are being used.

Last year we had assessed that Pirelli's involvement in Formula 1 would have produced a 200 million euro return in terms of TV brand exposure, measurable in advertising fees, which was equal to 25 times the cost of advertising. This bearing in mind that Pirelli deems interesting any return greater than 5 times the investment.
Pirelli brand media exposure achieved so far is really interesting. Only considering the period before the start of Formula 1, from April 2010 to March 2011, Pirelli enjoyed a high exposure on the domestic and foreign media, including the press, TV and the web. To achieve a similar result, we should have made an advertising investment of as much as 73 million euros. The result of the first 3 GPs are also exciting. In just 3 GPs the Pirelli brand had a cumulative television brand exposure of over 11 hours, just considering our top key markets. The greater visibility achieved through Formula 1 contributed to a 36% revenue increase in premium sales year-on-year in first quarter 2011.

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You see here that the sound performance of the tire business in the first quarter, together with a clear view on the maintenance and on the effectiveness of our value strategy, led us to revise our 2011 targets upwards. For this year we expect consolidated sales to exceed 5.85 billion euros, above the 5.55 billion euros we had indicated previously. For the tire business, the top line is expected to exceed 5.8 billion euros, above the 5.5 billion euros indicated previously, with volumes increasing by over 6% and the price/mix positive by approximately 15%, as against the 12% indicated previously. Guidance on profitability is confirmed. The consolidated EBIT margin of 8.5-9.5% whereas for the tire business EBIT margin is expected to amount to 9-10%, considering the raw material headwind of 580 million euros, on the one hand, and efficiencies for 80 million euros on the other. As already mentioned, improvement of the business in countries with lower taxation makes us confident we can achieve a tax rate of less than 37%, lower than 38% as previously indicated. Guidance on a negative net financial position of approximately 700 million euros is also confirmed, after investments worth over 500 million euros, almost 100 million euros of working capital absorption, payment of 81 million euros of dividends.

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Let us now review our key financial results for the quarter. Pirelli closed the first quarter with significantly improved results, due to the sound performance of its core business, which proved once again to be among the best of the industry. Revenues are up 23.4% year-on-year, as a result of an effective pricing policy and the strengthening of the premium segment. Profitability set a new record with a 10% margin for Pirelli & Co. and 11% for the tire business. This is an improvement even compared with the previous quarter, despite the differences in mix, summer instead of winter tires, and the strong impact of raw materials, 82 million euros, largely offset by the price/mix. Progressive reduction of the tax rate, which is now below the level of 2010, and net income doubled year-on-year increasing, narrowing the gap with net profit generated by the core business. Pirelli & Co. net income now accounts for 93% of net income versus 73% of first quarter 2010. Debt is under control, mainly discounted in working capital seasonality.

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As of March 31st 2011, net income amounts to 81.4 million euros, as against 38.9 million euros in the first quarter of 2010, due to a considerable EBIT improvement and to a lower taxation. The group's tax rate decreased to 37% due both to the improvement in the tire business results achieved in countries with lower tax rates, as I mentioned before, and to the housing of income before tax of minor businesses and of the holding company from -12.2 million on first quarter 2010 to -6.2 million in first quarter 2011.

Just a few words on the financial income and charges trend. Financial charges are expected to increase during the year, reflecting the 5.6% average cost of debt, average 1%... percentage point year-on-year, as already factored in the 2011-2013 plan.

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We see that Pirelli closed the first quarter 2011 with a negative financial position amounting to 712.8 million, with a negative operating cash-flow of 207 million euros, 51.5 million euros in the first quarter 2010. This trend is affected by the seasonality of the working capital, which is traditionally negative mainly in the first quarter, and which reflects trade receivables for a higher value than last year and the payment of fourth quarter 2010 capex, almost double those of fourth quarter 2009. Investment in first quarter 2011 accounted for 97 million euros, almost double that of first quarter 2010.

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Pirelli's gross debt amounts to 1.3 billion euros, 66% of gross debt is at fixed rate, 67% is euro-denominated. 500 million euros of bond issuance, mainly used to reimburse existing credit lines maturing in 2011 and 2012, allow us to extend the debt maturity to over 4 years with 47% of gross debt maturing from 2016 onwards. Pirelli can count on 1.2 billion euros of committed credit lines not drawn maturing in 2015, which (…) our cash and cash equivalence shows a strong liquidity margin. Last April we optimized the debt structure by reducing Pirelli Tire gross debt by 500 million euros, with a capital increase issued by the holding company Pirelli & Co. We reckon that this stresses Pirelli's commitment to its core business and to the investment plan for the next 3-5 years.

And now I leave the floor to Mr. Gori who will discuss Pirelli Tire performance in greater detail. Thank you very much.

Thank you, Mr. Tronchetti. Let's review Pirelli Tire's results starting from slide 12.
The first quarter posted a 24.7 growth in sales year-on-year, an unprecedented performance for Pirelli Tire, supported by both business segments. The driving force for this growth was the continued focus on premium products and the ongoing sound price discipline. In fact, the performance recorded by Pirelli in the last few quarters shows how effective our actions on price proved to be, in terms of magnitude, regions and, above all, timing.
The double-digit growth of the top line includes a 15.9% increase of the price/mix, once again the highest in the industry, and a volume growth in line with our target for the year, notwithstanding a temporary slowdown in the Middle East. Our value strategy led to a record profitability, 11% EBIT margin, which markedly improved, compared with both Q1 2010 and Q4 2010. This result is due to our continued efforts to improve the price/mix and has more than offset the impact of higher manufacturing costs. Net profit amounted to 88.5 million euros, up 77% year-on-year. Tax rate is approximately 35%, down year-on-year by around 2 percentage points, as a result of a profit improvement in countries with lower taxation.

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let us take a closer look at revenues by region. First quarter 2011 was characterized by a robust recovery in mature markets, +33% in North America and +26% in Europe. Growth in these two regions was driven by premium product sales in both the replacement and the OE channels. The tendency to expand in Asia Pacific with +33% year-on-year, continues. In this region Pirelli is starting to supply premium OEMs in China. Double-digit growth also in Latin America, +25% year-on-year, despite the growing competition in the lower-end segments, where the strong Reais attracts Asian importers in the Brazilian market.

On the contrary, performance in the Middle East and African area was only 5%, year-on-year, discounts the impact of the geopolitical crisis in Egypt, that resulted in a slowdown of production in our factory and sales down in both the domestic market and in the region in Q1 2011.

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Pirelli posted a record profitability in the quarter. EBIT before restructuring amounts to 156 million euros, with an 11.2 margin, 11% after restructuring, notwithstanding the increase in raw material costs. The quarter results confirm Pirelli's market pricing power, determined by its strong brand, favorable market and segment positioning, which allowed us to more than offset cost headwinds and achieve some of the best results in the industry. Pirelli's operating performance also benefited from volume growth, in the consumer business and factory efficiencies accounting for 16 million euros. We are in line with our efficiency target for the year, amounting to 80 million euros in total, and with our project development plan, namely productivity improvement, making the new Italian plant fully operational by year-end, while optimizing manufacturing processes in other factories, use of alternative raw materials, weight and waste reduction, factory scale expansion, production increase in low-cost countries, mainly China and Romania.

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Pirelli Tire closes the first quarter of 2011 with a net debt of 1.359 million euros, and a negative operating cash-flow of 177 million euros, versus 33.4 million euros in quarter 1 2010. This trend discounts the seasonality and inflation of the working capital, -291.6 million euros versus -132.2 million euros in Q1 2010, as well as higher investments: 94.5 million euros this year versus 47.6 million euros in Q1 2010.

Major investments made in the quarter were directed to develop capacity in China, Romania and Latin America and to start building a new plant in Mexico.

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As shown by this slide, Q1 data confirms that mature markets are recovering strong, both OE and replacement businesses are benefiting, especially in North America, where OE grew by 16% due to the rebound of car demand.

Slide 17.

Our performance in the consumer segment was characterized by high double-digit growth in the top line, thanks to a sharp price/mix variation, +14.6%, and a +9% volume increase. During the last quarter, we took advantage from the upward trend of demand by increasing the premium products market share. In this business our sales grew by 36% year-on-year, driven by successful products, such as P-zero, Cinturato and Scorpion.

Mix improvement, together with effective actions on prices and the already mentioned efficiencies, allowed us to achieve new goals in terms of profitability, with an EBIT margin of 11.9% after restructuring and a 74% EBIT growth year-on-year.

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In Q1 2011 the global economy recovery also drives the industrial business, particularly in Europe, where OE growth continues consistently, +77% year-on-year. Also thanks to a low 2010 comparison base. Growth is also shown in the Mercosur region, mainly in the replacement market.

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Double-digit increase of sales also in the industrial business, with 21.9% year-on-year, almost entirely attributable to the price/mix component: +19%. As I already mentioned, the volume trend, that is negative by -0.7%, discounts the geopolitical crisis in Egypt, where Pirelli has an installed capacity accounting for over 10% of its total truck production. In quarter 1, such tensions, and especially in February, led us to only use 40% of the manufacturing capacity and basically brought exports to a halt. Now the plant is back to operation. This critical situation did not prevent Pirelli from closing the quarter with a high single-digit profitability, in line with the same period of last year, in spite of the stronger impact of raw materials, some 45% of the total impact.

This is the end of my presentation, and now we can open up the Q&A session. Thank you.

Q&A session:

1. Mr. Niels Fehre from HSBC:

Yes, good evening, it's Niels Fehre from HSBC. I have a couple of questions. The first one is on your guidance: you significantly raised your price/mix assumptions for the full year, but still you confirmed only your March guidance. So, having already in mind these strong Q1 results, what is the major reason behind this rather cautious view for the rest of the year? That's my first question. And then the second one is on your industrial business: maybe you can elaborate a bit more on the operating profit effect of the 40% of the under-capacity utilization of the Alexandria plant; you mentioned already that it was working only at 40% capacity utilization in Q1, maybe you can give us some more details on your operating profit effect? And then the third question is on Brazil: you mentioned already the risk of higher low-cost imports from Asian companies following a strong real. Do you see also any risk for your market shares in Brazil or for your pricing power going forward, especially in 2011? And what is your general view on the Brazilian market in 2011, especially in the replacement consumer tire market? Thank you, that's it from my side.

In terms of guidance review, the review is basically on the price and mix, we were already showing a positive trend back in March, when we presented results for full-year 2010, and now we see that the industry is following. We have been in some areas the first to announce price increases, also because you may know that we have a faster transition from the purchase of raw materials to the sale of products, roughly 1 quarter, and so we tend to transfer and advance the announcements in price/mix. We see the industry is following and, most of all, we see that market demand is stronger than expected, on both OE and replacement. So this led us to increase the guidance. As far as the industrial business is concerned, 40% was the rate of utilization of the factory in February, already at the end of January we had to slow down, and we had, of course, then a ramp-up in March. So overall the quarter was affected, and that is the main explanation of the poor performance in terms of volumes. No major impact on the operational costs, I mean, the real impact is on the loss of margin, because we could have sold those tires, but we were not able to produce them. Now we are back to full… nearly full utilization of the production, and we are back at capacity also in Egypt. The third question, Brazil: well, the imports from low-cost is not just a Brazilian issue, I mean, low-cost from Asia are strong in Europe, strong in America. So, that's it. We don't see major problems. We are investing clearly to add capacity. As you know, the new factory in Mexico was… will be instrumental to free capacity up in Brazil and Argentina for local sales that keep and remain competitive, because transportation from Asia is definitely not cheap. So we believe that also next year, 2012-2013, the replacement markets will keep growing in that area, and we will have the opportunity to access, to increase capacity and increase our sales, in line with the three-year plan.

Okay. Thank you very much. May I ask you a follow-up on the guidance again? So, should we understand that this better price/mix assumption is more like a volume guidance hike, I mean, you're hiking your sales guidance by 170 million, roughly, that is the effect from better price/mix but on the margins finally only 17 million, so probably 10%, up to 10% for the margin, I mean, that speaks in favor, that is just that is more like a volume guidance or a mix, a mixture of guidance, probably, or what is behind that?

The answer is mix.

Okay. But this better mix should also lead to a better margin, shouldn't it?

Yes. No, you're right, you're right. The fact is that in such a volatile market in terms of price of raw materials, we rather prefer to wait until the six months results in order to see how the winter campaign is going on, which we expect will be good, what the price of the raw materials will be in the next months. So we rather prefer to be cautious and you're right, there is an opportunity in the mix, but it's better to be on the safe side.

Okay, that's it, then. Okay. Thanks.

2. Ms. Monica Bosio from Banca IMI:

Yes, good evening everyone. I would have a couple of questions. The first one is a follow-up on the guidance: during the last conference call, it was stated that you were confident to achieve the top of the guidance range. Is this still. can you confirm that Pirelli is going to achieve the top even with the upside in guidance? The question is related to the fact that there is a time-lag effect on the raw materials, so in the second quarter of this year I can imagine that it will be difficult to replicate an 11% EBIT margin. So I would just like to know if you can give some flavor on the second quarter also. And the second question is related to the growth in consumer and industrial. Would you see a homogeneous growth in industrial and consumer or would you see a different trend? Maybe more price effect in industrial and more mix in consumer? Thank you.

So, starting with the first question through the second question. In fact, there is an opportunity on the mix mostly in the consumer side. The truck business is also having more and more a differentiation in the mix, but the real opportunity is in the mix in consumer. The effect on, let's say, the targets: of course we run for the, let's say, the higher side of the range, and we expect we can achieve it. But, as I mentioned before, we want to remain cautious until we have in our hands the first six month results.

Okay. And so at the end would you see a homogeneous growth for both of the two segments? So that the guidance is equal both for industrial and consumer, even if with differentiation between mix and pricing?

If we have an opportunity, we have an opportunity in the consumer side.

Okay.

The mix allows us to improve profitability. All we want to target is to keep profitability in the industrial where we were the top of the industry in terms of profitability. So, these are the targets we had.

Okay. And just a quick follow-up: is it correct to assume a lower EBIT margin in the second quarter if compared to the first one because of the time-lag effect on raw materials?

The effect on raw materials will be offset partly comparing quarter to quarter in second quarter and will be definitely covered in the third quarter.

Okay.

In the second quarter there is the implementation of the price increase we made and in the third quarter, thanks also to the winter, there will be another step in this direction. What we do expect is to cover the entire effect of the price by year end. Quarter-on-quarter we can have some differences, but we are running for it… anyhow, I confirm what I said before, so we are running for the top profitability.

Okay. Thank you.

Thank you.

Okay. Thank you very much.

3. Mr. Martino De Ambroggi from Equita SIM:

Yes, good afternoon and good morning, everybody. The first question is on Russia: any news on the Russian expansionary project? I'm obviously referring to the Memorandum of Understanding already signed. The second question is on the price effect: can we assume that the 15% is just factoring in all the already announced price increases? So, in case of further announcements, this should be further increased or we have to take into account some, let's say, delayed effect? And still on the price effect: all other things being equal, what's the projectable impact for next year? Because, if I'm not wrong in the business plan you assumed a 2% price/mix effect for next year. So, all other things being equal, what's the projected impact for next year? Plus another two follow-ups later. Thank you.

So, answering to the question on price, what we have already announced covers the price increase of the input costs and we are following these costs and in second quarter we are implementing the price increase, then we will implement the price increase on winter tires. All in all, we are able to cover the entire effect of the price/mix. The question is there will be another need of price increase. That's why I'm cautious. Because I don't know what's going to happen to raw materials. The expectation we have today is that natural rubber will remain around the prices that we have today, that are a bit lower than what we have in our plan for year-end and the synthetic rubber is the opposite. So the price increase of synthetic rubber is a little higher than what was in the plan. That's why we increased winter tires up to 12%, because we see an effect on consumer related to the oil price. With the price increase we announced we cover the effect of the actual price of raw materials, which is around 110 dollars per barrel for oil and the effect on butadiene and all the other materials related to oil and in synthetic rubber… and in natural rubber we cover an average cost that is around 4900, average, for 2011. And so we are fully covering the input cost growth, ready to increase the prices in case there will be another change in the cost of raw materials. Going to Russia: the negotiation is underway, to define the additional aspects and the Memorandum of Understanding we signed on November 26, and we have as, let's say… the finalization of the agreements we expect to finalize within the summer. So within next July we should sign the final agreement. So we continue with the negotiations and we are confident that they will be finalized by July next.

Okay. So start-up of production can be confirmed by the end of this year or is it postponed to next year?

No, we expect that if we finalize by July next we will be able to be in the market with some products before year-end.

Okay, and on the price effect for next year as a sort of rolling effect of the announcement issued during this year, the 2% price/mix effect that you probably if I'm not wrong, that you have in the business plan has to revised upwards anyway?

No, the expectations on raw materials have always been wrong in the last few months. So any visibility that goes beyond the next 3-6 months is only betting on something. What we can say is that being the industry today sound, with a demand that is still strong, with a growth of capacity of natural rubber going on, we expect that natural rubber will remain around the price we have today. The… the oil price, if nothing happens that can affect the oil price, which is something that is not related to the demand, because related to the demand we expect that this price is in line with a growth of the economy around the world. Only if something that happens in the Middle East or somewhere else that is not foreseeable could… affect the oil price and change the trend that we have today. But again, looking forward more than 3 months, 3-6 months it's really betting on something that we cannot forecast.

Okay, if I may ask two follow-ups, very quickly: what's the assumption on net working capital in your guidance of 700 million net debt? And what's your current output capacity? And if today you are able to confirm the increase in output capacity that you had in mind at the beginning of the year for the current year?

So, we confirm the capacity increase that we announced and the working capital effect will be around 100 million, but all in all we confirm the net financial position target by year-end. So we include dividends, increase in working capital and investments in our 700 million target by year-end.

Okay.

In net financial position.

And your current output capacity utilization?

It's growing every month, we expect the rate of growth to have a 10% capacity increase during 2011 compared to 2010.

Okay. So you don't have any… you are not incurring in any bottlenecks in production and so on?

Every day we have bottlenecks, but we are able to overcome them.

Okay. Okay, thank you.

Thank you.

4. Mr. Giuseppe Puglisi from Intermonte:

Good afternoon, it's Giuseppe Puglisi from Intermonte. I have a couple of questions. The first one: regarding your business unit consumer your target… your target at 11-12% of EBIT margin in 2013 but you already reached it. Can you tell us what is your normalized margin you can achieve in the medium term? My second question regards the.. your assumption… your dollar assumption with regard to raw materials, because with respect to last month we have a decline in rubber price and we have an increase in euro, we have a stronger euro with respect to the dollar. So, you should have a positive impact due to both these factors. Can you comment it please? And then maybe if I can follow-up. Thank you.

So, first of all, the guidance we made provides a profitability that is growing faster than what was expected presenting the plan November last. But it would be too early to change any guidance for the year 2013. I believe that if this trend continues, by November next we will be ready to look forward and to see what is going to happen in 2012 and 2013. So, any change in targets related to 2013 has to be reflected on a deep analysis on trends in each region, which have to be analyzed deeply and delivered to the market in some months. For what concerns the raw material… raw materials related to the exchange rate, our position is that we have a balance between the different currencies that offsets the major part of the effect of the currencies, between yen, reais, euros and dollars, at the end of the game we have a few million dollars effect all in all of the net exchange rate effect. So we don't see any major effect of the currencies on our P&L.

Okay. If I may, a quick follow-up on Brazil: we are seeing Volkswagen gaining market share with respect to FIAT, for instance. Do you see a structural change in the consumer business in Brazil with an increase in the premium segment with respect to three years ago, thanks to the improved economic scenario, maybe Brazilian people start buying cars with a higher price and… with respect to last year? Thank you.

What is in Brazil the segmentation of the market towards up… is happening. It's the beginning of a phenomenon that should characterize Brazil if the economy continues to perform as it is performing today and if security in the major towns in Brazil will be granted. So, we see this change in trend and we are following happily, and then the opportunity is there. And we… It's in line with our targets.

Okay. Thank you.

Thank you.

5. Mr. Gabriele Parini from Unicredit:

Yes, good afternoon to everyone. I have just a follow-up on Russia: I was wondering in particular if you could give us an idea of the potential additional capacity which these joint-ventures could give you if compared with your current production capacity. And the second point is just a confirmation: your targets set within the industrial plan do not consider this possible contribution from Russia. Is it correct?

Russia is not included, as you correctly mentioned, in our targets, we expect for 2012 to have between 3 and 4 million tires sold by the joint-venture in Russia. We haven't yet signed anything, so we can just…. make the picture as of today, what we can see. But the figures we are talking about are in line with the 3-4 million and are not included in our plan.

Thank you.

Thank you.

6. Mr. Michele Baldelli from Exane BNP Paribas:

Good afternoon to everybody. I have a couple of questions. First of all, on the raw material costs, because the guidance for 2011 is 580 million, so I was wondering what… assuming that the raw material index is stabilizing, so it's stable for the rest of the year, what should be the guidance expected for 2012 of the impact of raw materials? The second question is about mix: I would like to know what was the contribution in the first quarter of the mix, because it should be around 5%, but just to have a confirmation. And so for the full year what should we assume about the mix? If you can be more precise. Thank you very much.

So, the split between price and mix on first quarter is 50-50 and guidance on raw material prices for 2012 are really, as I've already mentioned, a bet on something. It depends on the real economy, if the demand continues to stay as it is today, the price will remain high, but it's impossible to forecast today a price for raw materials for next year. We believe that the price of 110 dollars per barrels and 4900, roughly, or less, for natural rubber are in line with the market that is sound as it is today. If the market will remain sound, we expect raw materials to stay at this level.

And if raw materials stay at this level you don't have in mind the, let's say, negative impact on EBIT for next year?

Why? I see that it's an opportunity; if the raw materials stay where they are, the price increases we are making are providing us the cover… the opportunity to cover the entire effect of the input costs. And it will remain so next year. So, we don't see… we will have the effect of the efficiencies, of the growth of capacity, so I think that if they remain where they are today and if the demand stays as it is today, it's an opportunity to have better results for next year.

Okay. Thank you very much.

Thank you.

7. Mr. Jose Asumendi from RBS:

Hi there, Jose Asumendi from RBS. A couple of questions please. The first one is on the replacement demand in Mercosur, both on the consumer and on the industrial side. If you look at more recent figures, April or May, I was just wondering if you are seeing a further slowdown in the second quarter or we are going in the same trend as Q1? The second question on the consumer side: I mean, I'm seeing all these price increases and, I mean, you obviously have gone through many cycles. I'm just wondering what is your sense in the market? Do you think the final consumer is able to take these price increases, I mean, I'm just wondering, you know, what is your sense in the market and whether the final consumer will continue to accept your price increases. And then the third one is on raw materials: the line was a bit bad at the beginning, but if you could just remind us of your… on the hit you are guiding for raw materials in 2011. What is the original assumption you based this on for natural rubber and for oil? Thank you.

So, again on raw materials: raw materials are an opportunity right now, because the industry has been able to pass the price increase that covers the growth of input costs, efficiencies are implemented, the capacity is growing, the raw material price remains an opportunity for next year, because we will be in a position to have higher volumes next year. The expectation of the demand is to maintain the rate of growth that we see today, unless something happens that is macro and not related to the, let's say, trend of the different economies around the world. So, raw materials, as it has been shown in 2011 until now, are an opportunity for the growth of the top line and they are pushing us to be more and more efficient in order to profit of it, to be more profitable. That's the… the effect of raw materials in our industry. It's up to us to be more and more efficient and to improve the margins. On consumer reaction: but the effect on the consumer business in our case is not so… so strong for consumers, because until now the effect has been mostly related to natural rubber and the, let's say, the content of technology and the price of our premium tires is such that the price increase effect of the input costs gives to the end… to the consumer an effect that is lower than two-digits, average. The effect on truck… on industrial business is higher, but it's also related to the growth of the… let's say, of the commerce worldwide, because the demand on the truck business is related to the increase of the different economies and that means that the owners of the fleet… they can easily pay the increase of price of tires even if it is two-digit, as it is this year. So, when the economy is doing well, we don't see any difficulty in reversing the input costs to our customers and for consumers mostly it's not… it's not something that affects their pockets. If not, for a very minor part. For the Brazilian consumer business and replacement market, the Brazilian replacement market is changing slightly, premium tires are starting being a segment of the market. The market was sound in the second part of last year, it's still sound today, so in Latin America we feel comfortable for the next months.

All right. Thank you.

Thank you.

8. Mr. Thomas Pierce from Deutsche Bank:

Hi there, good afternoon. I just had one quick question. With the substantial price hikes that you've announced for the rest of the year, is it fair to say that there's been a significant amount of inventory built up by the dealers in Q1, which may reverse in Q2? That's my question.

No, the dealers… they have a stock that is at a very low level. So the demand is doing well. As it was shown last year, the dealers they are handling average… their stocks very carefully. An example is the winter market. This year it will be very strong, and we know that dealers do not have any stock for the summer tires. We started delivering them at the beginning of this year and the dealer stock was very low. So, I think that the entire industry is more efficient. So the level of stocks is going down, both on the industry side and on the distribution side. And not… there is no effect of stocks made in the past, because of the expectation of raw material price. There was no time for anybody. We couldn't hedge when the price of raw material was growing, because it was growing very fast and rapidly, and so the effect has been both for the industry and the commerce that no one created a stock to cover the price increase… the cost increase of the raw materials.

Okay. Thank you.

Thank you.

So, we have come to the end of our conference call. We thank you once again for your attention. Next weekend we will have the pleasure to meet the analysts in Istanbul at the Formula 1 Grand Prix and for a visit to the "factory of champions", our plant in Izmit. In May and June we shall also be traveling across Europe and the US to meet our investors. So, thank you again and have a good evening.