

**Pirelli&C. S.p.A**  
**Conference Call 1H 2011 Financial Results**  
**Milan – July 27, 2011**

**Ladies and Gentlemen, good evening and welcome to our Conference Call.**

Before reviewing the economic and financial performance of the Company, I wish to make a few remarks on market trends.

On slide no. 3 you see that demand remains supportive:

- The Winter season is expected to go well; dealers' inventory levels are low and pre-orders started to come in as early as January this year. To meet this increased demand, we upgraded part of our standard tyre production. We are also extending our foothold to the Bus and Truck Winter Tyre Business.
- The outlook for the Truck Business is also positive. We are expecting a demand rebound in Middle East Africa, where conditions are now sound enough. In Brazil, in the second half of this year, the OE trend is expected to be good, being sustained by the Euro3 to Euro4 upgrade.

Price discipline remains the golden rule in the Industry. All the major players increased their prices to respond to raw material headwind.

In this scenario, Pirelli has not only been able to protect, but also to achieve a record two-digit profitability through its Premium and Value strategy.

One of the major results achieved is the rebalancing of our profitability among Regions, also by raising this ratio in Europe.

In addition, the development of our business in countries with a lower taxation, like Romania and China, is driving the overall tax rate down.

We have just announced our Joint Venture in Russia, a protected market with very high potential in terms of Premium development and very high profitability.

The JV investment amounts to 420 mln euro:

- 25% is paying for the acquisition of the Kirov plant
- 25% for other assets with brand new equipment, which are going to be completely installed, and
- 50% is going into upgrading technology and quality of all assets.

In the Kirov plant, over 60% of production is currently done with equipment with an average life shorter by 5 years.

In short, by 2014, we shall have assets producing 11 mln high standard tyres with a 20% market share.

Let's move to next slide.

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

Results achieved in the first six months of 2011 show that we are perfectly on track to rebalance profitability among regions.

By focusing on Premium and efficiency, we brought Europe from a mid-single-digit to a double-digit profitability, a significant result achieved in just two quarters.

- The quality of our products and the exposure to Formula 1 allowed us to grow our Premium revenues by 33% and to increase our specific market share in Europe by over 1 pp.
- At the same time, efficiencies were achieved in our European plants, mainly by gradually increasing capacity in the fully automated Settimo Torinese site, and the scale in our Premium facility in Rumania.

Premium is also our reference in Nafta, where we recorded an overall 20% revenue growth. Our future growth in the Region will be supported by the new plant in Mexico that will start producing in the first half of 2012. This 5-million-tyre facility, we will benefit from:

- better service and lower delivery times to our clients (from 45 to 3 days),
- competitive manufacturing costs,
- and lower logistic costs.

By 2013, we will be able to boost our profitability and reach a double-digit margin.

In Asia, we posted a 20% revenue growth and a stable high single-digit profitability. We are expanding our homologation portfolio with the major European Car Manufacturers, such as BMW, Audi, Mercedes, etc., while increasing our Premium capacity which will double by 2013.

In Middle East Africa, the situation went back to normal and our plants are again working at full capacity and ready to cope with a market recovery.

Last but not least, Latin America, where we consolidated our leadership, and are exploiting growing Premium opportunities in the Consumer Business. We recently launched the Green Performance product range and will introduce SUV tyres in the second half of the year. In the Industrial Business, we are ready to benefit from the expected market rebound in the medium-heavy truck tyre segment in the 2H2011.

### **Slide 5: Russia, ready to go**

I now would like to give you more details about our development project in Russia, a country where we need to be present, to complete our three-year Industrial plan.

This plan was a must to make Pirelli grow in a market which, although global, is still strongly affected by custom and regulatory barriers.

Last November, we signed a Memorandum of Understanding with Russian Technology, 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, and Sibur Holding, the Group leading the Russian and East-European Petrochemical Industry, which expressed its intention to get out of the Tyre Business which is no longer deemed strategic for the Group. The Memorandum aimed at identifying

tyre plants of the Sibur Group which could be of interest for Pirelli and Russian Technology, to be acquired through two Joint-Ventures, called JV1 and JV2.

On July 25th this year, the Agreement was finalized, setting forth the transfer of the Kirov plant to JV1 in November 2011, whereas other assets, also to be acquired by JV1, are being assessed.

Before reviewing the details of the possible JV1 developments, I would like to give you some more elements on the rationale behind this investment of over 420 mln Euro.

First, Russia is a country where a strong macro-economic expansion is taking place, with a tyre market characterized by:

- Fast growth of car registrations, especially SUVs, resulting into a growth of the Premium Segment;
- Peculiar weather conditions, determining a definitely stronger demand for winter products than in any ordinary European Market
- Higher incidence of the Replacement Segment than in the other markets where Pirelli operates;
- International competitors having a limited production capacity;and
- Highly dynamic market and a frequent unbalance between demand and supply, basically due to high import customs that make the business interesting especially for those with local manufacturing facilities.

The backbone of this project allows us to get into the Russian market at once:

- with an already established industrial basis;
- 2 years earlier than in the greenfield project;
- with a strong local partner which incidentally holds shares of the major car and truck manufacturers, that is to say VAZ and Kamaz.

Let's see how the Russian Automotive and Tyre Markets are structured.

### **Slide 6: Russian JV1: early facts and figures**

In 2011, the Automotive Market is of approximately 37 million vehicles, 53% of which are locally manufactured, obsolete models, fitted with low-range tyres. It is reasonable to

assume that these old local Brands will be down to 39% in 2015, whereas 61% of the Automotive market will rise to a higher level, resulting into a higher incidence of Premium Tyres. The A Segment is expected to grow from the current 21% to approximately 31% in 2015. Segment B (ranking second in the Premium Market) will increase from 26% in 2010 to 35% in 2015.

In 2014, our newly acquired plants will produce 11 mln tyres, mostly for the Replacement Channel, with revenues in excess of 500 mln €. In 2015, 50% of the products will bear the Pirelli brand. In terms of market share, Pirelli should exceed 20% in 2015, as compared to the current share of barely 1%.

To upgrade the manufacturing facilities to Pirelli standards between 2012 and 2014, a CAPEX of 200 mln Euro is needed.

JV1 will be consolidated in Pirelli Financial Reports starting from the day of acquisition. In 2011, the financial impact on the NFP is expected to amount approximately to only 70 million euro. Major economic impact in terms of sales and profitability should start in 2012. Sales will reach approximately 300 mln Euro in 2012, with an Ebit in the mid-single-digit range, considering costs of industrialization, maintenance, equipment upgrade and setting up of new lines. Profitability will already be double-digit in 2013 and in 2015 will get closer to Nokian ratio once the start up is completed and the upgrade will allow a higher production of Premium tyres.

We are going to provide an exhaustive analysis of the Business Plan in Russia when we give you the update of the 2012-2014 Industrial Plan next November.

### **Slide 7: Keeping on creating brand value: F1**

Our focus on the regional Premium Segment is strongly supported by the Brand and levers to increase value.

I am referring here to Formula1, Fashion and the Cal.

Formula 1 keeps on giving great results.

Over 28 hours of pure brand exposure which means an equivalent advertising and media value of approximately 200 mln euro, only for the first 9 GPs.

In the first half of 2011, sales of Premium tyres have grown 33% yoy with almost identical dynamics in the first two quarters. The over 400 dealers who were invited to our paddock during the GPs are now committed ambassadors of our new reinforced premium strategy.

Last but not least, our R&D benefited from our Formula1 efforts:

- We were able to quickly improve our calculation and simulation models used to design our tyres both for F1 and commercial usage.
- Access to telemetric data allowed us to quickly monitor the performance of tyres fitted on a car and design the improvements needed, giving us indications on new equipment also to be fitted on tyres for the market. What we learned from the mixing process used to produce top performing tyres is essential for F1 racing as well as extremely useful for driving on ordinary roads.

Let's now analyze the financial results of the 1H2011 just approved by the Board of Directors.

### **Slide 9: Pirelli Key Financial Results**

Pirelli closed its 2Q with definitely improved yoy results due to the solid performance of its core business:

- Revenues grew by 16.2%, net of Exchange Rates. This is the outcome of an effective pricing policy and the continued strengthening of the Premium Segment;
- Record profitability, with a 10.6% margin for Pirelli & C (11.6% for the Tyre Business), which shows an improvement even compared to the previous Quarter despite the higher impact of raw materials (130 mln € vs. 81 mln € in the 1Q 2011) largely offset by the Price Mix;
- Remarkable Tax Rate reduction;
- Net Income doubled yoy and like-for-like;
- Positive cash generation in the Quarter before payment dividends worth 83 mln €.

### **Slide 10: Pirelli Net Income 1H'11 vs 1H'10**

As of June 30, 2011, Net Profit is worth 158.8 million Euro, more than double compared with 77 million Euro of the same period last year on a like-for-like basis, through a

meaningful improvement of the Operating Results and lower Taxes. Tax Rate is 35.5% (-2pp compared to the 2010 FY) mainly due to:

- A significant yoy improvement of Tyre results in countries with a lower tax regime (for example, Rumania, where the Tax Rate is 16%, or China with 25%); and
- A lesser impact of the results from Other Businesses (Income Before Taxes of minor businesses and Holding Company halved yoy from -31.7 to -18.2 mln €).

Based on this trend, we confirm our Tax Rate below 37% in line with our Guidance for the 2011 Fiscal Year.

Just a few words on the Financial Income and Charges. Financial Expenses in the 2H of the year are expected to be in line with 1H, reflecting the 5.5% Average Cost of Debt (+1 percentage point yoy) as already factored in 2011-2013 Plan.

#### **Slide 11: Pirelli Net Financial Position**

Pirelli closed its second Quarter with a Net Debt worth 778.9 million Euro, 66 million Euro more than on March 31, 2011, after:

- Investments worth 137.2 mln Euro (2.4X Capex/Depreciation ratio)
- Dividend payment worth 82.8 million Euro

#### **Slide 12: Pirelli Debt structure as of June 30, 2011**

Pirelli can count on a sound financial structure. Gross Debt is 1.4 billion Euro, over 75% of which at fixed rate, while 67% is denominated in Euro.

It is worth pointing out that the 500 million Euro Bond issued at the end of February allowed the Debt maturity to be postponed by two years. To date, 60% of this Debt expires from 2015.

Pirelli can also access revolving committed credit lines of 1.1 billion Euro, issued by a pool of 12 primary financial institutions and expiring in 2015.

I now leave the floor to Mr. Gori.

Thank you Mr. Tronchetti, good evening Ladies and Gentlemen,  
Let's review Pirelli Tyre results starting from slide 14

### **Slide 14: Pirelli Tyre Key Results**

Pirelli Tyre closed the first Half of this year with:

- A high-teen Revenue growth;
- Another record Profitability, with an Ebit growth rate twice the growth of Revenues, and a Margin of 11.3%;

A Net Result of approximately 163 mln Euro, with a 48% growth.

Let's review what happened in the second quarter, starting from the top line:

Revenues grew by +17%, net of Exchange Rates impact (-3.7%) due to the depreciation of the US Dollar, the Argentinian Peso, the Venezuelan Bolivar and the Egyptian Lyra;

- Price/mix is confirmed to be the main driver of the top line growth: +15.8%, in line with the 1Q 2011, yet with a different comparison basis (+1.4% Price/Mix growth in 1Q 2010, +10.1% in 2Q 2010). This trend shows how effective the actions carried out by Pirelli were in terms of:
  - Continued Mix improvement; and
  - Price increase, through targeted actions by product, region and especially time. Pirelli was one among the first players to increase prices from January 2011 in response to raw materials tensions.
- A double-paced volume trend for the two different business segments:
  - A growth rate higher than the market in the Consumer business (+2.6% vs. +2% of the market) especially in Europe where Pirelli increased its market share by focusing on Premium products;
  - In the Industrial business, instead, volumes shrank by 1.9% yoy, due to the trends in the Middle East and China and the reduction of sales in the non-radial truck segment in Latin America;
  - Our outlook for the 2H of this year remains positive with an expected growth of 6% in the Consumer business due to a positive trend in winter tyres and the recovery of volumes in the Industrial business, (+6%) due to improved markets in the Middle East and Africa compared to the first half and growing demand in Mercosur, especially Original Equipment, due to the switch from Euro3 to Euro4 vehicle production.



Let's move to slide no. 15

### **Slide 15: Pirelli 1H Operating Performance**

Profitability topped up in the 2Q, with an Ebit before restructuring worth 164.6 million Euro, setting a Quarter-on-Quarter improvement (1Q 2011 Ebit worth 155.6 mln €) despite the stronger impact due to increased input costs (145.5 mln € vs. 95 mln Euro in 1Q 2011).

Quarterly results confirm once again the strong Pirelli track record in the Industry. As a major player, Pirelli could more than offset the headwinds, through:

- A strong Pricing Power;
- A more vigorous Premium Segment which – as you may know – is characterized by a high-teen marginality, three times that of the standard segment.

Such good Operating Performance also came from efficiencies worth 22 million Euro (15.6 mln € in the 1Q 2011), mostly in the Consumer Business. We are perfectly in line with the target worth 80 mln Euro set for the year and with the development of the following projects:

- Productivity enhancement;
- Use of alternative raw materials;
- Scale increase;
- Increase in production from low-cost countries (mainly China and Rumania).

### **Slide 16: Pirelli Tyre Net Financial Position**

Pirelli Tyre closed the First Half of 2011 with a Net Debt of 963.9 million Euro after a capital increase worth 500 mln Euro entirely paid by Pirelli & C last April, with the aim of:

- Optimizing the financial structure within the Group;
- Funding Investments in the Tyre Business;
- Confirming its strong commitment to its core business.

Net of the Capital Increase mentioned above, the quarter-on-quarter variation of Indebtedness is of 105 mln Euro, in spite of investments worth 134 mln Euro and the payment of dividends worth 121.7 mln Euro to the Parent Company.

Investments are in line with the financial year targets, envisaging over 500 million Euro of Capex and a growth of production capacity of up to 10% in the Consumer Business and 9% in the Truck Business by the end of the year. Over the first six months of the year, major investments were made in capacity development in China, Rumania and Latin America as well as the building of the new Mexican plant where construction works are progressing in line with the expectations, and production is due to start by the 1H of 2012. Let's now review the performance by Business Segment.

### **Slide 17: Consumer Business – Key Market trends**

Market trends are mixed in the different Regions:

- In Europe, demand remains positive in both Channels, but higher growth rates are recorded in the Premium Segment with a yoy +12% in the first half;
- As for the North American Replacement Channel trend, data in June showed some recovery (-1% yoy in June vs. -10% in May);

The Quarterly trend of OE in Mercosur is stable, while the Replacement Channel trend of the local pool members improves posting a -1% vs. -2% of the 1Q2011 as local capacity is being absorbed by strong OE demand at +8% vs. previous year.

### **Slide 18 Consumer Business: Pirelli Performance**

Pirelli Tyre performance in the Consumer Business improved by 18.8% net of Exchange Rate impacts, driven by a gradual improvement of the Price/Mix to 16.2% and a volume growth of 2.6%.

Our sales growth was concentrated in the Premium Segment with a revenues growth of 30% yoy, basically in line with the 1Q, and driven by successful products such as P Zero whose sales increase is also the outcome from Pirelli going back to Formula 1.

Yoy sales in the Standard Segment are down following the decision to advance production capacity for winter products to meet the sustained demand expected by 3Q.

Our Mix improvement, together with our effective pricing policy and the already mentioned efficiencies allowed us to achieve new profitability targets in the 2Q, with an Ebit margin of 13% after restructuring costs and an Ebit growth approximately 4 times that of revenues in absolute terms.

### **Slide 19: Industrial Business Key Market Trends**

Demand in the Industrial Segment remains sustained, especially in NAFTA and Europe where growth continues both in the OE (+42% yoy) and in the Replacement Channel (+11%), although at lower rates.

Mercosur growth was modest: +4% in the OE and +2% in the Replacement Channel.

### **Slide 20: Industrial Business: Pirelli Performance**

Sales double-digit growth also for the Industrial Business, +13% yoy net of Exchange Rates.

In response to the severe raw material tension, Pirelli maintained a firm price discipline.

The volume trend is driven by:

- Lower sales in Middle East Africa, and rebuilding our inventories in Egypt. In the 1Q 2011 inventories were used up to meet the demand when production was temporarily stopped;
- Slowdown of demand for truck tyres in China, both in the OE (-13% in the 2Q vs. +17% of the 1Q) and Replacement (up to -5% in the first six months of the year)
- Reduction of sales in the non-radial truck tyre segment in Latin America.

As already said, for the second half of the year, we expect volumes to grow by approx +6% driven in the Replacement by sales in Egypt and Mercosur and by an increase in OE in Turkey and Brazil, the latter benefitting from the Euro3 to Euro4 upgrade. Let me just give you an update on the market scenario in Brazil.

### **Slide 21: Focus on Brazil**

The economic scenario is still interesting. Brazil is a great country, no longer considered as an Emerging Country, given its considerable foreign currency reserves (approximately 340 bln USD), a very low unemployment rate at 5.9%, its recently discovered oil fields. Growth is expected to hit 4.4% this year and 5.5% in 2012. The outlook of the country is even more appealing, also due to upcoming events, which will help sustain the economy, such as the Soccer World Cup and the Summer Olympic Games in Rio de Janeiro in 2016. Early estimates of spending in infrastructures amount to 46 billion USD.

One of Brazil's major assets is its dynamic market. Recent history proves it: it was the last market to be hit by the crisis in 2008 and the first to recover.

The tyre market reflects these dynamics: things are moving so fast in Brazil that since 2009 tyre demand far exceeded local supply, leaving room for imports and foreign players. These gaps are not going to be filled so easily and so soon.

Through its market knowledge and due to its long lasting experience, Pirelli has devised the following strategy:

- freeing up capacity in Brazil by building its new Mexican plant on the one hand; while, on the other,
- leveraging the Premium segment in the new and richer Consumer market and technology evolution in the Industrial Business.

At present, Pirelli can sustain the increased Radial demand:

- currently, Radial Tyres account for well over 80% of our Industrial production, and
- we are further expanding our radial medium-heavy Truck tyre capacity in Gravatai by 10% in 2011 and 10% in 2012, to meet a demand which is increasingly more oriented towards technologically advanced products.

And now, I leave the floor to Mr Tronchetti who will discuss the 2011 outlook and give you an update on the targets

Thank you, Mr Gori!

### **Slide 23: Pirelli Targets Update**

Our performance during these first six months makes us confident that our top-line targets for the core business and at consolidated level are sustainable.

Trends in the single segments and markets led us to reconsider our expectations on the trend of Pirelli Tyres revenues drivers. Considering the strong demand for Premium products, our focus is more on optimizing the mix and as a consequence the pricing, stepping up our Guidance to >+16%, while on volumes we reconsider growth from  $\geq$ +6% to >+5%.

The positive trend of profitability in the 1H 2011, together with a different revenues mix and a better visibility on raw material trends, eventually led us to upgrade our profitability targets for the 2011 FY.

The expected Tyre Ebit Margin ranges from 10% to 11% (the previous target was 9 to 10%) assuming for the FY a raw material impact worth 540 mln Euro (40 mln Euro less than the previous Guidance).

Therefore, the expected Consolidated Ebit margin ranges from 9.5 to 10%.

We confirm our targets for the Tax Rate to be lower than 37%, for investments to be higher than 500 mln Euro and for the Net Debt to be approximately 700 mln Euro, excluding Russia.

### **Slide 24: Raw Material Impact**

Just a few word on our guidance on raw materials.

Lighter tensions on natural rubber pricing and the easier predictability on raw materials trends in the second half of the year led us to revise our expectations on headwind from 580 mln Euro to 540 mln Euro.

Although natural rubber pricing is definitely lower than the top levels recorded in the 1Q of this year (from 5,750 \$ in mid-February to the current 4,600/4,700 \$/ton), recent turbulences are affecting synthetic rubber and oil by-products, such as carbon black and chemicals.

The final results is a partial erosion of the gains produced by the price trend in natural rubber.

And I thank you very much for your patience and attention and we are now ready to take your questions. Thank you very much, ladies and gentlemen, for your attendance and the floor is yours.

### **Q&A session:**

1. Mr. Thomas Besson from Bank of America Merrill Lynch:

*I have three questions. Firstly, a quick question on your volume outlook: you said you reduced your volume target, but there's a bit a clear drop in Q2. Can you explain, beyond the Egyptian subsidiary issue, whether you are eventually leaving some OE in the Consumer business? That would explain eventually some of the weakness in volumes we've seen over the last two-three quarters, or it has nothing to do with that? And how you believe you can get to the 5% target given the H1 performance? Second question: I wanted to ask you something about the winter business.*

*You mentioned a bigger dedication to winter tire production over H1, partly explaining as well some of the weaknesses in volumes in the second quarter. Could you tell us what you've done in terms of sell-in business of winter tires in Q2 versus last year? Does it participate to the building margins you've been able to recoup in Q2? And thirdly I have a few quick questions on Russia. Specifically on your market share target do you get to the 20-25% simply based on your joint-venture capacity divided by your view of the market or is there something else that I don't see? Could you tell us a bit more of the Kirov plant: when was it built? Do you think that it really makes sense to go for that plant if a few other car makers actually didn't want to take over it but won't it make sense to go rather for Greenfield? And a final question on Russia: is there going to be a balance sheet impact of the joint-venture consolidation? Or is it going to be just a clean line-by-line consolidation of the revenues and margin that you've mentioned?*

Any other question?

*Well a lot more, but I'll leave the room for other people.*

Thank you. So, Mr. Gori, you will answer the first part and I will answer to the second part.

Okay. So, concerning the Q2 sales trend, this is a reflection of the market, basically. In reality we did not reduce sales in the original equipment. Actually, if you move to slide 31, you will see that in the first half of 2011 our sales to the original equipment were up to 26%, from a historic average of 25%, and this simply because the OE production of vehicles is moving faster than the replacement demand. So our sales in Q2 in the consumer business were in line with the market. Moving to winter production in Q2, in reality margins are not yet showing up because sales in Q2 are minor; a few pre-sales in June, but the bulk of sales will come in Q3 upon a pre-production that is, of course, starting already in Q2. I'll leave the floor to Mr. Tronchetti to answer to you about Russia.

I just want to add one word to what Mr. Gori mentioned, that regards first half: the volume trend was affected in the car business mostly by the fact that we moved the mix up and we reduced the production of standard tires. The effect is visible on mix and that is why we changed the guidance: mix increase is higher than the volume decrease with positive impact on profitability; our premium strategy has been more successful than expected in our plan.

Then, going to your third question about Russia: I have to tell you that Russia was a nice surprise for us, because in the factory that you mentioned, the Kirov factory, we found that 4 out of 7 million tires produced are produced with machinery that are not older than 4 years. So they are new machinery. And the other 3 million of production in Kirov are with machinery that are not older than

10 years, so that is one of the positive news. The second positive news is the quality of people. We found technicians that are really, really professional and that will be helpful also for other plants in other countries. So this is Kirov. Then the rest of investments, as I mentioned in my presentation, will be based on new investments having new machinery. So by 2014 we will have also in Russia, as in the rest of the world, the large majority of production that will come from new machinery based on new investments. I already mentioned the effect on our balance sheet this year, it's only around 70 million euro; the plant of Kirov it is performing very well: the profitability is around 14%, at EBIT level, we made a cautiousness in our forecast taking into account that we want to have at least half of the production that by the end of 2012 will be based on Pirelli technologies. So that there will be a number of actions inside the plant that will create some inefficiencies and so we reduce our expectations to around a mid one-digit profitability. So I think I answered all your questions. Thank you.

*Thank you.*

2. Mr. Philip Watkins from Citi:

*Thank you. I apologize if you answered this, the line was cut off a couple of times. But on price/mix 16% I don't know if you could say how much is price and how much is mix. And then that's looking forward to the 2012 and 2013. Is it still the case you're looking for a positive 3% mix and then a fairly margin progression based on that? And then finally just on the efficiencies, I think you previously talked about 80 million euro: is that the level which we're looking for this year? Thank you.*

Thank you. So, the impact of price/mix is approximately 9% price and 7% and more mix. Then the second question... the efficiencies: we will deliver by next November the figures about 2012 and 2013. We expect in any case that we have some other actions that could be positively affecting... and we confirm the 80 million for 2011.

*But positive mix is what you talked about in the past for future years that's still... obviously that's what you still think about the mix?*

The mix will continue. There is a simple reason why it will continue to improve. So we are going to double our capacity in Rumania and we continue to add capacity every month for premium tires. We have now back orders on premium tires. And also the Italian plant will continue to improve our capacity and we have to add to this the good news that comes from Brazil that the premium segment is starting being consistent, so also in Brazil there will be a premium effect.

*Thank you. And just very quickly. On the presentation on slide 21 about the tire market outlook in Brazil, I didn't quite understand the figures on export-import. Would you think that 30% of the market in Brazil right now reflects imported tires?*

So, if you look at this chart, we give you the key numbers of the tire production sales import and export limiting the picture to the so-called four-wheel business: car, light truck and medium-heavy truck tires. The demand went up from 42 to 58 million while local production went up from 41 to 52.

*Right.*

Exports went up from 10 million to 13 million and the gap was covered by imports increasing from 11 million to 19 million.

*Right. Okay.*

So clearly there is a trade unbalance and we see a similar trend in 2011 where the market keeps growing, the local production does not grow as fast as the market for the time being, but of course new production will come in the next few years, and consequently imports are still strong also in 2011.

*Do you clearly think that the extra production coming into Brazil is not going to fulfill the demand and that capacity will still be tight?*

We think it will be tight.

*Thank you very much.*

3. Ms. Monica Bosio from Banca IMI:

*Yes, good evening, everyone. I have three questions. The first one is on the target: maybe I'm wrong but the target seems to me still quite conservative, if we consider that the second quarter was supposed to be the weakest one, and it wasn't, and the third quarter should be affected... positively affected by the winter tire season, together with a big softening of the raw material pricing pressure. If we can see also for that the truck... the industrial segment is expected to recover, I do not see any reason for an EBIT margin below 11% in the third quarter and I would see the same for the fourth one. So at the end of the day, if we can see all the EBIT margins for each quarter and if I'm not wrong, the guidance might be exceeded. Maybe if you can just give me*



*a check on this. And then the second question is on capex: could you please give us an updated guidance, if possible, on capex expected for 2012? Third and last question is on Russia: could you please give us an indication of the capacity utilization rate in Russia for the first year of operation? I'm referring to 2012. That's it for me. Thanks.*

Thank you. So the second quarter, in fact, was better than expected, I think, because the headwind of raw materials affected mostly the second quarter. The effect of raw materials will be also that in the second half, all in all it will be higher in the second half than in the first half, because in the first half the effect of raw materials was 220 million euro and our view that the total effect will be 540 million euro which means that in the second half we will have an effect of raw materials of 320 million. So, all in all, we think that we will have a strong second half with a strong effect of raw materials and the target of profitability has been improved in line with our expectations. Then, going to capex: we expect we are in line with our targets and total investments will be more than 500 million by year-end. Finally, for the Russian plant: we expect to work at full capacity. So there will be some, let's say, logistic issues inside the factory for investments we are going to make, but we expect to use the machinery at full capacity in 2012. So, I think and I hope I answered all your questions.

*Okay. Just a quick follow-up: 500 million euros for the capex and the... well above...?*

I'm sorry, we cannot hear you.

In 2011 it will be more than 500 million euro

*Yes, but in 2012 could you give us...*

In 2012 it will be without Russia around 400 million euro

*Okay.*

With Russia you can add another 100 million.

*Okay, fine, and just a quick follow-up on the target range: are you confident on the achievement of the upper end of the range?*

In the high-end of the market we have a price increase in line which covers the increase in raw materials. So we expect the price to be in line with the price increase we announced. And in case

raw materials will stay up, mostly Butadiene and so on and so forth, we are ready to increase the prices in case it is needed.

*Sorry, I was referring to the EBIT margin target range: I was just wondering if you feel confident to achieve the high-end of the range, so to be close to 11%.*

Sorry, but we just announced an increase of our target of profitability from 9-10% to 10-11% at the Ebit level for the tyre business. So we already increased by 1 point and so we confirm that our expectation is that we'll continue to have a high level of profitability in the second half.

*Okay, fine, thanks.*

4. Mr. Martino De Ambroggi from Equita:

*Good afternoon, everybody. Two more questions on Russia. The first one is on the marketing strategy: if you could clarify what the marketing strategy is in order to achieve the 300 and 500 million sales, particularly in terms of commercial network partners and so on. The second question is on the put-and-call agreement for the additional 25% stake: I was wondering if there is, I don't know, a fixed price or a specific role in order to fix the strike price and if it expires just after three years or if there is the possibility of an earlier exercise. Thank you.*

Thank you. So, the entering with an existing factory that is working at full capacity means to add to our sales force in Russia and our distribution channel the distribution channel of Antel. That gives us immediately a position in the market and a relation with the strategic partners in the dealership. We can add to this the experience of our partner, Russian Technologies, that can add the channel through which there is the sale of cars and trucks, which is very efficient. So I think that we are well-positioned in terms of distribution channel and we have the opportunity to upgrade the mix having already the availability of the customers directly in touch with us.

*How many dealers had you at the beginning?*

I think that more or less we are covered with 10 major dealers, which are the key dealers that are already covering the market and they are already distributing Pirelli products. The second question was about the put-and-call. So, the indicators are market indicators. There is a floor in the absolute level linked to the financial evaluation, then there is an evaluation based on EV/Sales and EV/EBITDA. The put-and-call will expire in 2015.

*So it can be exercised only in 2014? 2015... sorry.*

Yes. Yes.

*And the last question on Russia: tax rate and if you have any carry-forward losses that can be exploited over the three-five years?*

There are no losses that can be carried forward. The tax rate in Russia is 20%.

*Okay. Thank you.*

Thank you.

5. Mr. Massimo Vecchi from Mediobanca:

*Yes, good afternoon to everybody. I have three questions. The first one is always on Russia: the agreement seems very favorable to you, you are already finding a plant which is modern, even the distribution network. The market potentials are huge. I was wondering what you had to give in exchange. I mean, are Russian authorities pushing you to give them some technology, some patents? And do you think that in the long term they could try to build their own tire industry and probably try to make some more competition to you? That's the first question. Second question is on raw materials: clearly you show that prices are going down, the headwind has been reduced. Do you expect your dealers to call you and ask for price reductions and I would like to better understand how the industry dynamics work on that. The third and last question: synthetic rubber. Are you experiencing any issue in sourcing? I mean, do you still find raw materials available?*

Well, thank you. The agreement is good for both: one wants to exit, the other wants to enter, they discussed for many months and then they reached an agreement. That has happened and I think they're happy and we're happy. It's a good deal and both parties are happy. It's not a regulated sector; there are no hidden agreements with governments or stories like this. It's a simple transaction, an industry that buys an asset. That's it. Second: the dynamics in industry on price. The industry, as it has been shown in the last few years, has kept a price discipline quite consistently around the world and the price of raw materials with a different mix between natural and synthetic rubber in terms of price evolution, but they are still high compared to the past. So there is no reason to expect a request of reduction. There will be the opposite: there will be the effect of improvements in price on original equipment where the dynamics are delayed because the contracts do not allow to immediately have the price increase on the original equipment. So we expect to keep at least prices as they are, and in case there will be a price increase not a price decrease. That's our expectation. On synthetic rubber we have a large number of suppliers, from Russia to Japan, and we kept this policy that is, for us, a very good policy, so there is no issue

about supply of synthetic rubber. We are an interesting partner for the suppliers of synthetic rubber because being focused on high-end and ultra-high-end we are an interesting customer for the suppliers of synthetic rubber because we can test their products in extreme conditions, including Formula 1. So that is why we have an easy access to the main suppliers of synthetic rubber.

*Thank you very much.*

Thank you.

6. Mr. Giuseppe Puglisi from Intermonte:

*Good afternoon to everybody. Congratulations for your results. A couple of questions. The first: your increase in the premium segment in terms of year-on-year growth seems to me that you are gaining market share with respect to your main competitors in some areas. Is this feeling right and if you can give me some more flavor on it? And the second question regards the second-half outlook: can you give us a rough indication of the extra costs that you are expecting for the second half? And the third question regards Brazil: can you give an update on premium cars in Brazil and some target in terms of production for the next 6-12 months? Thank you.*

Concerning the growth in the premium segment: yes, we believe we gained market share, definitely in Europe, we believe above 1 percentage point, while we see there still is a lot of room in the other markets, because the premium segment is growing across the regions. And I go directly to your question number 3 concerning Brazil: yes, in Brazil there is the start of the premium segment, the market is moving fast and we are well-positioned there, because we already have capacity for premium tires which currently we have to ship to NAFTA markets and as soon as the new Mexican factory will be able to start production we will be able to utilize the local production. Back to your question number 2: we see no extra costs in the second half. Actually, we are increasing efficiencies, targeting the 80 million euros efficiency we have in our plan, of course we confirm the 20 million euros restructuring costs that we announced at the beginning of the year and we are going to spend by year end.

*Okay if I may...*

Sorry, one more...

Yes, yes...

One thing that could be helpful to better understand what you asked about extra costs: probably with the headwind of raw materials in second half is 120 million more than in the first half and is covered by the price increase we are implementing. So now this is the only extra cost we see in the second half compared to what we had before. Then we expect to give a more, let's say, understandable visibility on targets; all these figures mean that we stay on the high-end of the targets. So in the second half we expect to be strong enough to keep profitability on the high-end of our targets.

*Sure. Thank you. Just a quick follow-up on margins by area: the chart shows that you are increasing margins in Europe. For the second half we will see the same trend or we will see some change in other areas? I mean, increasing the targets for 2011 means that the marginality will increase somewhere. Can you give us some indication of where there will be the highest increase in terms of margins? Thank you.*

Thank you. So we expect to continue to have an increase in profitability in Europe, because most of the effect of the seasonality in winter is in Europe and the European market is the one that provides more profitability. So the trend will be the same, we will have an improvement in profitability in Middle East-Africa, because we suffered in the first half of the effect of the revolutions on the markets and the effects in North America and China will start coming from second quarter of next year in NAFTA and then also in China. So the decision will be positively affecting us in the second half of next year.

*With stable margins in LatAm.*

Yes, we maintained the guidance of stable margins in LatAm.

*Thank you. Thank you.*

7. Mr. Edoardo Spina from Morgan Stanley:

*Yes, good afternoon. I have two quick questions. One on the winter tire sales, if you could give us an indication on the percentage of winter tyres on your third quarter sales. Is it fair to say maybe 25% of third quarter sales for passenger consumer division? And the second question is on the US market: I know that you are not a major player in terms of market share, but for that reason it would be interesting to hear what you have to say on the current trends, which on a market-wide basis seems to be a bit disappointing. At least versus my expectation. So, is it something that you see on your hands? What is the development for you there? Thank you.*

So, starting with the US market: we are focused only on the premium segment and we are increasing our market share in the premium segment even in 2011. Profitability will come with Mexico, but the increase in our presence in the high-end is such that we expect to cover 15% by 2013 of the high-end segment in US. Going to the winter market: on average year sales of the winter tires will be around 15% and will represent and will represent 25% of the sales of consumer business in the second half.

*Thank you very much.*

Thank you.

8. Mr. Neil Feirs from HSBC:

*Yes, hello. Neil Feirs from HSBC. Just a small follow-up again on headwind assumptions: is it a fair assumption that the bulk of the remaining headwind cost we will see in Q3? So something like 200 million headwind from that and then the rest in Q4? And then I'm more interested in the industrial business: is it then also a fair assumption that margin in Q3 should go down further sequentially versus Q2 having in mind that it was already in Q2 slightly weaker than in Q1 from the strong headwind? And probably if you can give us just a picture of the price/mix effect in the industrial business year to date and in H1 it was 17%: is it a fair assumption that most of that is coming from price increases and it's not so much mix in the industrial business as it was also in the past case? Thank you very much.*

So, thank you. We already mentioned that the headwind on raw materials will be 100... will be 320 million in the second half, distributed in third and fourth quarters. So half of it, more or less. Then... no, the profitability of the industrial business will improve in the second half thanks to the price increase and thanks to the fact that the headwind of raw materials has been affecting mostly the second quarter, it will continue to affect the third and fourth but mostly in the second quarter. And the third question is about price/mix. Price/mix is more or less 9% price and around 7% and more mix.

*In industrial or in general for tires?*

In general. In general.

*And in industrial is it fair that most is price and that there isn't a huge mix effect, right? In industrial only, right?*

Of course. Yes, yes.

Yes, sure. Thanks.

Thank you.

9. Mr. Michele Baldelli from Exane BNP Paribas:

*Hello to everybody. I have just a couple of questions. First of all, it's just your feeling on the current consumer sentiments and so what's your visibility on the number of the strong recovery of volumes in H2? Do you see a strong demand? So was July a good month already or is it something more on expectation for, let's say, August and the next months? The second question relates to just timing: I would like to know the timing of the opening of the new capacity in China and Romania; and in terms of efficiencies - that should be half in the second half of this year, so roughly 43 million – we should see most of this in Q4 or is it evenly split between Q3 and Q4? And then the other question that I have got is about the prices in Europe that you have announced a price increase since June. Is this price increase effectively 100% implemented or shall we see the price announced only 80% implemented? Thank you.*

Thank you. So, the sentiment of consumers remains the same around the world. So the effects we'll see in the second half, as I mentioned before, are mostly related to the winter tire season that should be strong, but we do not expect any major change in the trend in the second half. In Rumania and China the growth of capacity is linear. So we continue to have capacity. We are going to double in the three-year plan the capacity from 5 to 10 million tires, that is more or less what is going to happen in the next months and years. Prices: the revealed increase in prices in the second half, refer to the cost of synthetic rubber.

*So a further price increase?*

Yes. We expect that something will happen.

*Okay. On top of the already announced one implemented in June. Okay.*

Yes, yes.

*And in terms of efficiencies, the 43 million is evenly split between Q3 and Q4?*

Yes. We confirm the guidance.

*Okay. Thank you.*

Thank you.

10. Mr. Thomas Besson from Bank of America Merrill Lynch:

*Thank you. I just have two very quick follow-up questions, if I may. Firstly, do you get for your Russian investment any incentives either from the local government or from the Federal government? And a last quick question just to confirm something you put in the introduction. Your Middle East and African margins are only going on slightly in H1 11 compared to H1 10 despite a sharp drop in volumes and the big headwind in raw materials?*

Sorry, can you repeat the second question? Because it was not understandable.

*Okay, of course. Second question is on your Middle East and African margins. You put on slide 4 a small reduction in margins and I was a bit surprised by that, given that your volumes have come down sharply and raw materials have had a significant headwind for this region which is mostly I think an industrial tire region. So, I just wanted to check that you were effectively still in double-digit margins in MEA in H1 11. Thank you.*

Thank you. So, we gave the guidance on Middle East-Africa saying that second half will be better, because first half was affected by the revolution both in Tunisia and Egypt. Egypt was affecting mostly for us because of our strong presence, but now we are working at full capacity and we expect a better second half. That is why we underline that we expect on the truck business to have a better profitability in the second half. It will come mostly from Middle East-Africa. That is, I hope, the answer to your question. Sorry, it was very difficult to listen because the microphone doesn't work very well. There was another question..

*My other question was on potential incentives for Russia.*

No, there are no incentives in Russia. So, no incentives.

*Thank you very much.*



Thank you.

11. Mr. Philippe Barrier from Soci t  Generale:

*Yes, good afternoon. Just one question on the Brazilian operation. I see you expect some increase in the truck tire business due to the turn from Euro 3 to Euro 4? I'd like to know what's your view on the replacement market which is not effective as a change in your regulations. So do you expect some rebound taking place in the truck tires replacement market in Brazil in the second half of the year to support the sales? And the second question is regarding Russia: can we have a view of the present situation on the winter market in Russia? Is the market share of the main players Nokian and also the Sivrall operation? And so what is the potential market share today of the plant you are buying? And what improvement do you expect in the coming years? Just to have a view of the present situation of market share in Russia and the picture as you think you can improve in terms of sales.*

So, starting with the second question: in Russia we'll keep around 20% market share. This is actually the position of the Kirov production and adding the capacity we are going to add from now to 2014 we will keep more or less the same market share. The mix will change. So, today it is 100% segment B, what we expect is a better mix to go up to 50% segment A and 50% segment B at least. Mr. Gori for the first question.

About market in Latin America for medium-heavy truck tires we expect a rebound in the production of new vehicles in the second half of the year because of this move from Euro 3 to Euro 4 but also in the replacement we believe the market will be strong. However, remember that the comparison base with Q3 and Q4 2010 is pretty strong because last year there was an improvement in replacement of more than 20%. Nevertheless, we believe that the market will remain strong also in the second half 2011.

*Yes. Thank you. Just a last question, if I may, just regarding what is the rationale for the capital increase of tires and actually the transfer of cash from the holding to the tire company.*

There will be from the holding to Russia the injection of capital.

*Okay. Thank you.*

Thank you.

So, thank you very much, ladies and gentlemen for your attendance, I hope you will enjoy your summer vacations. We shall be back in touch with you in September during our road show in America and Asia. Have a good evening.