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

Thank you. Good evening, ladies and gentlemen, and thank you for your attendance at our conference call. Together with the group's top management we will provide you with the first-half 2009 results just approved by the Board of Directors.

Chart number 3: despite the still severe macroeconomic scenario, we began to notice the first few signals of recovery that should gain further momentum in 2010. Therefore, the drivers that were a ground for our business plan announced in February 2009 can be confirmed. Pirelli Group recorded a second quarter still characterized by year-on-year negative signs, yet with a substantial improvement versus the first quarter of 2009. Last February we said we would have grasped the opportunity of exploiting this profound discontinuity of the external scenario to transform our group in the next three years. We are doing so in all the business segments in which we operate. First of all, I wish to emphasize that (…) in 2008, we started a powerful restructuring program which is already giving significant results in our P&L. In June 2009 we already achieved 48% of the group's 250 million euros of total savings target for 2009, 200 million of which come from the tire segments. Through this program our company will become more competitive versus its peers. Talking about Pirelli Tire, we are proud to announce that the reported EBIT margin for the first six months of 2009 is 7.1%, higher than our target top range, that was between 6.5 and 7%. All this thanks to the perfect match of a positive price/mix, the strengthening of our market share in priority countries, a streamlining process within our organization, and initial substantial benefits coming from the raw materials cost reduction. We are ever more focused on the group's industrialization and, in synergy with Tire, we are developing the anti-particulate filter business, where we confirm our full commitment. In a short while, I shall give you an update on the market and the results achieved so far. In July, two considerable accomplishments were obtained in the real estate business: a successful 400 million euro capital increase and a three-year refinancing of its debt. The refinancing is worth 320 million euros, providing the company with a strong financial position and the time needed to complete the turnaround process, which will allow it to confirm its leadership in this business. Yet, with a linear profile, ever more based on recurring activities. (…) and the banking system makes us confident despite a still tough real estate market that Pirelli Real Estate will be fully valued by the market; and I remind you that the main markets for us are Italy and Germany, markets that are less affected than other markets by the crisis of the real estate. As well, as we shall see later on, at the end of June 2009, our net asset value was confirmed to be 800 million euros. Going back to the group's transformation, last February we said that we would sell non-strategic financial assets; the sale of the Alcatel stake was 56 million euros, of which 45 million cashed in in the first half of 2009 and 1% of Telecom Italia, from January to July 28, and the both provided us a total amount of 200 million euros to be invested in our core businesses.

Going to chart 4, Pirelli Group's results, I confirm the group targets for 2009 in terms of sales and profitability, while our target in terms of net financial position shifts from 1 billion euros down to around 800 million euros, taking into account, as I said earlier on, the Pirelli Real Estate capital increase underwritten by the market, that we conservatively did not include in our February plan. Before leaving the floor to Mr. De Conto, who will expand on the group results, let us move to slide 25, as I wish to give you, as I have just anticipated, an update on the filters business. So, chart 25: the economic downturn impacted on the anti-particulate filters market, both deferring the demand on existing markets, UK and Scandinavian countries, and delaying the enforcement of traffic restriction standards for polluting vehicles in the low emission zones in Italy, Germany and Spain. We estimate an approximately 10 month market delay in our priority countries, Italy and Germany, and agree with external sources forecasting European sales for slightly less than 50,000 systems in 2009. We expected, within the February plan, around 100,000 systems. During the first half of 2009, Pirelli Ecotech proved both the quality and robustness of its technology in every market and engine application. Therefore, I can say that the proof of principle has been achieved. In May we obtained homologation in China; and, although with some delay due to German bureaucracy, we paved the way for German homologation over the next few months. In the meantime we got the first one in Germany, on Euro 3 light duty vehicles, in mid-July 2009. So sales' solid growth with about 2000 systems versus 400 in the first half of 2008, with an estimated European market share of 19% exceeding the 15% market share target for 2009. We also made a first supply of approximately 1500 filters to FIAT for original equipment on the Croma 159 platform. In the first half of 2009, we relocated filters production from Italy to a new fully-automated site in Romania.

Moving to slide 26, in the second half of this year we expect new programs to improve our quality in autumn and winter. In Italy as of mid-October, traffic restrictions should be reintroduced (…) in this market and expect to make the most of the demand growth expected in the last quarter of 2009. As of January 2010, in most of German law emission zones access limitations will be further restricted; over the next few months we expect to complete the range of homologated applications, both for the area and light duty segments; in the light duty segment we expect to be (…) to serve the large camper market. Only in Germany there are over 300,000 of these campers and light duty city vans. In China, traffic restriction programs are increasingly being extended to more metropolitan areas besides Beijing. We set up a strong commercial organization and we are about to reach partnership with solid local automotive aftermarket players, which will allow us to offer our highly competitive rubbers and effective closed filter technology, highly qualified customer care and after sales support services available on site. Last, we will follow along our roadmap for original equipment, both by consolidating our relationship with FIAT and by establishing contacts with other manufacturers, our focus being on both passenger and commercial vehicles.

Moving to the economic performance, as you see on slide 27, the company sales went down by 15% (…) sales the white oil reduction, the industrial crisis and the drop in oil prices are the only reasons for this reduction. Filter sales are behind our schedule, due to market delays. Profitability is also impacted by the start-up costs of a new production plant in Romania, which will serve our wholesale markets, including OEMs; the development of the marketing organization and the three marketing programs of (…) markets; the delay of approximately 8-10 months on filter market demand, due both to the economic crisis and the late enforcement of the relevant regulations, will impact on 2009 results causing a PBIT around breakeven versus a previous EBIT target of over 10%, with sales higher than 100 million. In 2010 we expect growth trends should be confirmed, through a further development of German, Italian and Chinese sales, as well as new opportunities which are emerging in other European and Latin American countries.

Now, I'd like to give the floor to Mr. De Conto for the group's results analysis, and I wish to thank you all for your attention and then I will return back to you for the Q&A session. So, thank you again and I give the floor to Mr. De Conto.

Thank you, Mr. Tronchetti, and good evening to you all. If you could please go back to slide number 6, I shall review the main drivers of our group's performance in the second quarter 2009; despite the difficult macroeconomic and business scenarios, the second quarter's operating performance is gradually improving versus first quarter 2009, mainly thanks to the reorganization program we launched last year. (…) economic downturn which led to a general volume reduction, Pirelli Tire posted a 6.7 revenue increase versus first quarter 2009 by increasing its market share and kept on increasing its price/mix level year-on-year. The benefits brought about by this restructuring program… Mr. Gori will talk about them in a few minutes… the price/mix improvement and the positive impact of the raw material cost reduction explained the profitability rebound recorded in the second quarter of Pirelli Tire and, as a consequence, of the whole group. In the first half of 2009, Pirelli Real Estate continued its restructuring program by laying off over 200 employees, in line with our plan, which foresees a total of 890 employees related to the real estate business. This means that Pirelli Real Estate posted savings worth 29 million, or 60% of the 2009 full-year target. As Mr. Malfatto will show you on chart 32, on the basis of this trend, we expect to review our 2009 savings target, shifting it from 50 million to 55-60 million euros. Pirelli's second quarter net result is negative by 3.2 million and it includes the effect of Telecom Italia's adjustment to the market value at the end of June, 0.99 versus 1.15 per share book for a total of 19.8 million euros.

Let us now move to the group's net financial position compared to March 31st: net debt improved by 170 million, due to Pirelli Tire's cash generation, cash from the sales of Telecom Italia shares and the 25 million payment received as the second tranche of the 5% sale of Alcatel Submarine… I'll just remind you that the last 11 million is due in the third quarter of this year. In line with the focus on core businesses and the right sizing program, in the month of July we further reduced our stake in Telecom Italia from 0.93 to 0.29%, through the sale of 84.8 million shares, with a cash income of 87.4 million at an average price slightly over 1.03.

If we move to chart 7, you can see that the group's year-on-year profitability trend is definitely improving, and -10.2 million was the group's year-on-year organic EBIT variation in the second quarter, against the previous negative difference of 69.6 million in the first quarter 2009 versus the first quarter 2008. The main drivers of our improved performance are, as said, the raw materials cost reduction and the benefits deriving from the restructuring. Compared to the second quarter 2008, earnings from investment improved due to the positive year-over-year variation of TI devaluation.

If we move on to chart 8, attributable net income, you can see that we posted a net result of 6.3 million versus a loss of 36.2 million. In first half 2009 we didn't have any disposal, while the negative result of the first half 2008 is related to the disposal of photonic and of Pirelli Real Estate facility management; and the main positive variation is that the year-on-year minority variation is positive by 45 million, and reflects the acquisition of… the full control of the tire business, the Turkish tire business and the year-on-year variation of Pirelli Real Estate's net result.
Going on to chart 9, you can see that the group's net financial position is equal to 1.1 billion and improved by 170 million versus March, and you can see what… which have been the main effects driving this reduction.
If we move on to the following chart, chart number 10, we can see that the gross debt maturity as of June 30 was 49% of the debt maturing in 2012. As of June 2009, Pirelli still had an availability of 700 million of committed lines not drawn. Exactly the same amount it had at the end of March.
If we move to chart 11, you can see that the Pirelli Real Estate capital increase, as you know, was successfully concluded with a strong market participation, underwriting 41.93% of the newly issued shares, for a total value of 167 million, 75% of which was institutional and 25 from retail investors. So this cash-in and the additional TI shares sales, slightly higher than what we had originally forecasted, the group's net financial position improved and should reach about 800 million by year end. As you all know, the business plan set forth the full underwriting of the 400 million capital increase of Pirelli & C. by converting the shareholder loan into equity.
Briefly, on the net financial position of Pirelli Real Estate, that you will find in appendix on slide 56, the net debt gross of shareholders loans amounted, at the end of June 2009, to 228 million euros, improving from the first quarter thanks mainly to the disposal of the 20% of the credit servicing and the relating refinancing of the vehicles in which we invested with Galian. Taking into account the capital increase as a pro-forma data, Pirelli Real Estate net debt dropped at a level of 429.2 million and gearing went from 281 at the end of March to 0.61 taking into account the capital increase.
The last chart, chart number 12, as it has been anticipated, an agreement has been reached with a pool of 8 leading financial institutions to issue a credit line for a total amount of 320 million with a maturity in July 2012; the club deal will allow Pirelli Real Estate to have access, in total, to 470 million committed bank lines, with an average residual maturity shifting from 9 to 29 months; and this has been in line with what we have been anticipating when we were in the road show for the capital increase. Therefore, as a consequence of this, in 2012 the group's average maturity of committed lines increased from 30 to 34 months.
Thank you very much once more for your attention and I'll now give the floor to Mr. Gori, who will illustrate the results achieved by Pirelli Tire.

Thank you, Mr. De Conto and good evening to you all, ladies and gentlemen.
Chart 14: the tire business scenario remains difficult, with double-digit declining volumes in Q2 09, mainly in the industrial segment, the most cyclical one, while the first few signs of improvement are coming from the markets where our exposure is higher, like Mercosur, the Middle East, Africa. In this scenario, we closed the second quarter with a significant improvement in our operating performance, confirming the targets announced on February 11, 2009, when our business plan was presented.
The second quarter was characterized by: a 6.7 quarter-on-quarter growing revenues, due to our geographic positioning and to the increased market share in all major markets with no negative change in our price/mix level. The profitability rebound coming from the positive impact of raw materials cost reduction and the year-on-year price/mix improvement in both business segments, plus, in the consumer segments, the benefits connected to the restructuring plan, launched in late 2008, and in the industrial segment the growing importance of rapid developing economies, like South America, the Middle East, Africa, as well as the gradual… the profitable improvement in China.
Finally, a sound cash generation, through a tight management of inventories, a careful management of commercial receivables and a selective investment approach.
In chart 15, we analyze in detail the results of the quarter. The revenues strain in the second quarter improved through a lower volume decline versus the previous quarter, -13% versus -18 in Q1, especially in the consumer segment, where from a 15% reduction in Q1, we now have a -9.8, thanks to the good performance in the replacement markets. A positive price/mix variation in both business segments.
Chart 16. If we analyze the profitability trend we immediately realize that the second quarter improvement is due to a positive price/mix contribution, 35.6 million euros, and to raw materials cost reduction, 18 million euros, net of exchange rate variations and, finally, to net efficiencies on the materials used as well as labor efficiencies that were achieved in an overcapacity scenario.

Chart 17: we wish to update you on our structuring program that continues to adjust our cost structure to the new market scenario. The program is on track, we reached 45% of the 200 million euros of gross savings planned for 2009. Our headcount reduction plan continues and by the end of this year, we plan to close our Marese plant, to continue the development of the new integrated facility, at Settimo Torinese, with the closure of the old car factory by year end. And, of course, reducing our staff in Western Europe, where at the end of June we reached 82% of our target, that was 1500 headcounts, with a lay-off of over 1200 employees in Europe. The raw materials price index, which reflects the impacts on costs in market currency before the exchange rate difference, in our manufacturing process in Q2 09 recorded a 10% decline versus the previous quarter and a -16% decline year-on-year.

Next chart, page 18, will show you the net financial position evolution that in the second quarter was characterized by a positive cash generation of 130 million euros versus a negative cash generation of 227 million euros in Q1 09, due to seasonality factors. Besides the operating performance improvement, cash generation was impacted by: inventory reduction, over 100 million euros in Q2, a careful management of commercial receivables, limited and selective investment policies to mainly improve the mix as well as research and R&D; 50% of the cash so generated was used to pay 67 million euros worth of dividends and to reduce debt by 55 million euros, versus March 2009 financial position.

Now let's take into account the trends in each key business segment, starting, in chart 19, from the market trends of the consumer business. Q2 2009 is characterized by a strong decrease in volumes, although numbers look better than in the previous quarter, relatively better, the sales incentives plan favored new car registrations, mainly small cars, yet the level of production in many countries, especially in the mature markets, is limited by the destocking process of OEMs. And this is clearly visible in America, where, still, production is still 50% below the previous year. In Latin America we had a slight improvement in the replacement markets.

Moving to the next chart, in such a tough market scenario, Pirelli Tire comes to the closing of the second quarter with a good improvement in revenues, versus Q1, +4.6%, thanks to a market share increase in most replacement markets, while keeping the price/mix positive year-on-year: 5.1% positive. The raw material cost reduction, together with the benefits from the restructuring plan, contributed to the 0.9 EBITA and 0.6 EBIT profitability rebound.

Next chart: market trends in the industrial segment, which are still very critical and, as you see, the OEM doesn't show much improvement, at least in our areas and replacement stays negative… stays negative, even though slightly improving versus Q1's negative variations.

Chart 22: the economics of the segment; the performance shows a strong improvement in Q2 09, with 12% growing revenues versus Q1 and a 10.8 EBIT margin, up by about 1 point year-on-year. This level of performance benefits from our favorable geographic focus in areas such as: Latin America, the Middle East, Africa and China, that are clearly less exposed to the current crisis.

Next chart: some recent Pirelli Tire highlights; and I would like to emphasize the introduction in Europe of two new very important products: Cinturato P7, the new green performance car tire, and the R01 series, the first of a new generation of low rolling-resistant truck tires. I also wish to remember the 80-year celebration of Pirelli in Brazil, with a new investment plan announced there for 200 million dollars in the next few years. I thank you for your attention and let me leave the floor to Mr. Malfatto. Thank you.

Thank you, Mr. Gori, and good evening to you all. Before detailing Pirelli Real Estate first half results, let me go through some key messages concerning our company.

Please refer to slide 29. As already mentioned by Mr. De Conto, with the success of the 400 million capital increase and the negotiation and extension of the corporate bank lines to 29 months average maturity, we have achieved, in just a few months, the target of strengthening Pirelli Real Estate's financial structure, with the flexibility needed to reach the announced business target. We are still operating in a difficult market environment, with a limited access to credit negatively impacting the bulk of potential buyers and permitting only those with larger resources to operate. This makes transactions longer, leading to volume reductions. Despite this, price remained quite stable in the markets in which we operate, Italy and Germany, confirming their resilient nature versus the other European markets. During the second part of this year, we do not expect significant market improvements, but we are confident, based on the negotiations currently under progress, that we can reach 1 billion euros of sales by year-end with stable margins. In general, as to the first half results I'm about to comment upon, we can say that the real estate sales platform, including holding costs, is close to breakeven and will improve in the second half of the year. Investor activity still suffers the loss related to a few specific areas we have clearly identified and for which we are acting accordingly. So assets: we are continuing this disposal process; we have sold in the first half 133

million euros, against 77 in Q1 09. Over book value substantially in line with market value. Non-strategic activities, which we are working on to find solutions for medium-term valorization; German residential portfolio: we are looking to reduce the vacancy and strengthen the capital structure. The cost savings plan is ahead of schedule and we intend to reach 55-60 million by year end, versus the 50 million euro target previously announced. In 2009 we will continue the turnaround process, confirming the previously announced operating income including losses from investments before restructuring expenses and property writedowns/revaluations in a range from 25 up to 35 million euros.

Let's now move to the results of this semester. As you see on slide 30, the H1 09 results posted a net loss of 42.3 million euros, versus a profit of 9 million euros in the same period of 2008; the result, which is obviously not satisfying, as we'll see later in more detail, shows in Q2 some preliminary signs of reversal trend; in fact, the operating income, including the income from participations, net of writedowns and restructuring costs, was negative for 8.2 million euros versus a 14.7 million loss in Q1 2009. All of this improvement is mainly due to investment activities; the services platform, including holding costs, is confirmed to be close to breakeven. And, apart from seasonality in Q3, we expect a positive reversal at year end. Compared to the same quarter in 2008, the operating loss, including earnings from investments, before restructuring expenses and property writedowns/revaluations, is 60.6 million euros. It is important to notice that the result in the same period of 2008 benefited from some one-off gains of over 30 million. Furthermore, in the first semester of 2008 we had a positive contribution in the P&L of 10.9 million euros related to the fair value adjustment of the derivatives, while in this year so far we had a negative contribution for 7.4 million. Before listing the non-recurring items, it is worth mentioning that the loss including shareholders loan was down to 9.2 million from 22.9 million euros. Non-recurring items, and more specifically losses due to restructuring costs, the company recorded losses for 11.5 million euros, mainly due to the early contract termination of the former CEO of the company and other associated costs. In the same period of last year we reported 16.2 million for the significant right sizing we expect to complete this year.

The following slide reports details on the bottom of the P&L on corporate assets revaluation writedowns in H1 09. The impact was negative up to 4.8 million; based on independent appraisal, on a like-for-like basis, we wrote down our portfolio by 2.3%. More specifically, on a country basis, we have: in Italy values went down by 1.7%, in Germany by 2.7%, with Highstreet up to 28 million for our quota, and in Poland by 6%. Let me also add that Pirelli Real Estate has always used a conservative approach regarding the appraisal of its portfolio. In fact, taking into account the 2005-first half 2009 period, on a cumulative basis, we wrote down our portfolio by 2.5% versus a revaluation of the market of more than 20%. Total revaluation accounted for 45.5 million related to the already announced change in the business strategy, moving from trading to an old approach, for a large part of the German residential portfolio and in Italy for some trophy assets we have in the Retail and Entertainment Funds.

Slide 32 shows the action, as mentioned, we are taking on the cost-saving side, that generated in the first half 2009 29 million of savings, more than compensating the revenues reduction experienced especially from the credit servicing and the agency division due to low transaction volumes. Let me add that our new target has been increased up to 60 million.

On slide 33 we reported the operating result, including income from participation, before the valuation and restructuring costs, of the service platform, on one side, of the funds and vehicles on the other side. The loss of 1.2 million is related to funds and vehicles… and the remaining for the service platform. For what regards these results, the service platform, including holding costs, improved by some 12 million versus last year. If we approved the mentioned one-off gain, the overall improvement is related to the mentioned cost-saving action.

Let's move on… let's now move to country-based results. Italy posted a loss of 3.6 million versus a loss of 3.3 million in the first quarter. Investments were negative for 10.3 million, while the service platform was profitable for 6.7 million.

As you can see on slide 35, Germany posted a positive result of 1.8 million versus a loss of 1 million in the first quarter. Investment result was negative for 0.9 million, while the service platform was positive for 2.7 million.

Slide 36 shows that Poland was positive for 1.6 million versus 1 million of profit in the first quarter and 19.3 million in the first half of 2008, but the 2008 result was also affected by a one-off gain.

Slide 37 shows that NPLs is positive for 1 million, of which 3.5 million refers to the investment which more than offset the 2.5 million loss reported by Pirelli Real Estate credit servicing. Let me add that investment results, positive for 3.4 million euros, suffered from negative impairment tests on some portfolios under management for around 9 million. In H1 09 we posted overall sales of 352 million, with a margin of 15% versus 525 million last year. In Italy we sold 274 million of which (…) and trading for 133 with an average margin of 5%, in line with the market value. If we consider what we

have already as an (…), what we have under contract and the offers already received, the total pipeline is 940 million, which makes us quite confident to reach 1 billion target of assets disposal for full-year with stable margins.
Slide 40 shows the Pirelli Real Estate net asset value of 1.2 billion euros, valued by independent appraisals, net of NPLs and this in line with the end of 2008. Despite relative writedowns occurred in the period, the realized capital gain is approximately 200 million euros.
Thank you to all of you. Now I'll leave the floor to Mr. Tronchetti.

So, thank you. It's now time for the Q&A session; together with the top managers I'll be delighted to answer your questions.

Q&A session:

1. Mr. **Giuseppe Puglisi** from **Intermonte:**

Good evening to everybody. A couple of questions. The first one on Pirelli Tire: sorry for the straight question, but when will you revise upward your guidance for 2009? And my second question regards winter tires: can you give us some early indication regarding the booking from distributors for winter tires? Thank you.

As you… as you see, we have achieved, in the first half, a result that is slightly over the performance we expected for 2009. In the first half it has been tough, the first quarter was still in a depressed market, with high costs of raw materials; we took advantage of raw materials only in the second half… in the second quarter… so, and we expect that the winter season will be far better than last year, because the dealers in 2008 reduced down to zero their stock and the season is starting well in terms of sell-in. So, we expect in any case a better season for the winter tires in the second half of 2009. So, all in all, we confirm our targets and we think that we will remain, also at the group level, in line with the group targets.

Yes, but if you… if we calculate the implied for the second half, and we take into account the possibility that this trend will continue, it seems to me that the revise of the guidance for 2009 could be possible. Can you exclude it or not?

Well, it depends. If you say that we cannot be in line with the target, it depends if you say this in terms of being better or worse than the targets. In my mind, we can be close to the higher part of the range of the result that has been given to the market.

Okay. Thank you.

Thank you.

2. Ms. **Monica Bosio** from **Banca IMI**:

I have two questions. The first one is relating to the price scenario in the tire segment; I was wondering if you could give us a flavor on the second part of the year? Over the first part we did not see any kind of price erosion, contrary to initial expectations from the market. How is it going now? And how do you see the pricing scenario for the full year? And I would also like to know if you could give us an update or a quantification of the impact from raw material costs on the second part of the year. Sorry… as a third question: are… is Pirelli sectoring a renewal of the incentives on the consumer market or not? For 2010, obviously. Thank you.

Gori speaking. As far as prices are concerned, in the second half we don't see any major issues. I mean, the variation versus the previous year for all competitors will be reducing simply for a mathematical effect, because prices last year were increasing…

Yes.

… quarter after quarter. But this does not imply that the prices are going to be reduced. Definitely not the margins, because of the positive support from the lower raw material costs. And you also have to consider that there is still a high saturation in all factories, which is increasing the cost of products on one side, then being reduced by the lower raw materials. And so, at the end, the costs of our products, even with lower raw materials, are not really cheaper than last year. There's really no reason to reduce prices.

Okay.

As far as raw materials are concerned, we don't expect rebounds; I mean, you know that some of them, like carbon black, are linked to natural rubber; natural rubber is now showing a kind of increase versus the second quarter, but I think it is a seasonal effect. Normally it goes back and down by the next months, September-October. So, I do not expect any dramatic change in raw materials. Finally, as far as incentives to support the sales of new cars, I don't know if they will be repeated next year, but I can tell you that as far as Pirelli is concerned, they are not really helping much, because these incentives are benefiting small cars and we are mainly, if not only, focused in Europe to supply medium-high platforms. So, for us it should not make a big difference versus this year.

Okay. Thank you very much.

3. Mr. **Gaetan Toulemonde** from **Deutsche Bank**:

Yes. Good evening. I've got a couple of questions. The first one is… they're all on tire, I'm sorry. The first one is on raw materials. Can you give us an idea about the potential positive of raw material in the second half? I made some calculations in the range of 100 million, which would be, roughly, two thirds of the negative impact of the second half of last year. Is it a number which makes sense or can you help us a little bit to get a more precise figure on raw materials? Thank you very much.

As far as raw materials, 100 million is too high and then it is, I assume, based on market currencies, strong currencies. On the other hand, in our P&L we have to translate the lower raw materials in dollars or euros with weaker exchange rates from our manufacturing countries, whether it is Turkey or Romania or South America. So, at the end, the impact is going to be much less. I think that if you take the second quarter as an average and you translate it into next year… sorry, into next half, you are probably closer to the reality.

So, that would mean that…

Giusto?...

Because remember that we keep moving production from Europe to lower cost countries. And these lower cost countries have weaker currencies, which partially offset the advantage of the lower raw material costs.

Yes, but…

Dedicated…

…those tires…

Go ahead.

No, no, sorry, but those tires are sold in Western Europe so they're still sold in our currency. Even if you produce them in Romania.

No, but in terms of variation, when you asked me about raw materials, the variation of raw materials is with the exchange rate impact under a cost variation. Then, if I export to a strong euro or dollar, I benefit on another side of the P&L and, of course, I agree with you. It is a good exercise.

Okay. I'll get (…) I have a second question regarding the sell-in and the sell-out market on the tire side. So far, the sell-in has been much worse than the sell-out because of the destocking effect from the dealers. Do you think that the situation is over now? We should have much more sell-in numbers in line with the sell-out numbers and can you give us a little bit more detailed situation on the truck market, which has been extremely weak? Do you think we are at the end of this very weak performance? So, do you think that the next coming months will be as bad as the recent months? Thank you.

I have to give you four answers: one is on the winter tires; sell-in is going to be much higher in the third quarter, while, as far as sell-out is concerned, we have to wait for the fourth quarter because it really depends a lot on snow and so on. Overall, the sell-in in the second half will be higher than last year, clearly, but the real support may come in the fourth quarter with a strong winter season. Then the overall situation in terms of stocks, I think it is better than in the first quarter, but it is still not normalized and it will depend on the… on consumers and, for instance, an important positive sign is coming from the US, where the mileage driven index is finally showing an improvement for the third… months and an important reversal trend after 18 months of negative signs. So, the consumer overall is not so bad. The industrial business, the truck business, I'm afraid with these numbers will not improve much. So, I'm not so positive, at least as far as Western Europe is concerned; we are, as you know, selling 80% of our products in the industrial business in South America, China, Middle East, so we are not affected by this crisis; of course we are for the 20% of this business which is in Europe, but we can manage it.

Okay. Last little question. You answered previously that you are not too much worried about pricing pressure in the next coming quarters; I've heard from Goodyear that there was some sign on the truck tire market in Europe, some sign of negative pricing. Is it something you agree with or is it something you disagree with?

I cannot disagree, I cannot agree. We are in a different picture and position in Europe. We are strong in Southern Europe. We maintain our prices and we do not intend to reduce our margins. You see it clearly from our results in the industrial business. We can avoid the price war in Europe thanks to our exposure to the emerging markets.

Okay. Thank you very much.

4. Mr. **Edoardo Spina** from **Morgan Stanley**:

Good evening. This is Edoardo Spina from Morgan Stanley. I have two questions, and both on tires. The first one would be on Brazil. I'd like to ask if you could comment a bit on the mix you have in there of original equipment versus replacement tires in both industrial and consumer businesses. And the second question would be on labor costs, on the tire business as well. I remember in the presentation you gave in February on the industrial plan you showed that labor cost was 21% of sales in 2008 for the tire business and I was *wondering if you can… if you could tell us a bit more on this? If you could break it down on what percentage is fixed and what is actually variable with production? The one you can decrease if you decrease production. And if you could tell us if that is a comparable number, so if it includes all costs related to labor, such as pension costs as well and not only, like, wages. Maybe this is too detailed of a question, but… and if you can comment on where do you see this number going this year? Thank you.*

Okay. Concerning Brazil, the weight of OE is higher, of course, than in the rest of the world, because the production of cars this year is not suffering and is… is not suffering so much and we compare it with record year 2008 when the industry was picking up. So, when normally we have a 20-80 proportion between OE and replacement sales worldwide, in Brazil we are definitely higher than that. We may be around 30-70 or so. This is valid for the combination of consumer and industrial tires. Now, again, industrial tires, truck tires… trucks are not being manufactured much nowadays in brazil, so there there is a lower rate, but it's nothing really material. As far as labor costs are concerned, we are now probably moving down to 20% from 21% and this number includes all labor-related costs, whether we have the people in the factory, whether we have the people home, whether we give advanced holidays, whatever we do, these costs are the labor costs of the period. And, as far as fixed and variable, it's difficult to answer you, because we have tems and in the appendix you will see that we have 8% of our workforce being on a temporary basis, so that is clearly variable. But it's the only real variable I consider, because then the people you have in the factory, who are trained and so on, you cannot send them home easily. And, with the exception of the so-called Cassa Integrazione in Italy and some similar but not so helping institutes in other European countries, basically we have to keep them on the payroll for the time being and for the future. So, there's not much flexibility except for that 8% of tems people.

Thank you very much. A follow-up, if I can, on winter tires. Could you please remind us what is the percentage contribution to your revenues of winter tires?

It's around 10%, depending on the season.

Thank you very much, Mr. Gori.

5. Mr. **Michele Baldelli** from **Exane BNP Paribas:**

Good evening. I would like to ask two questions about Brazil. I would like to know if the destocking effect in the Mercosur area is already finished, differently from Europe, I think. I would like a confirmation from you. And the second question is about the outlook for the rest of the year in this area of Mercosur. If you see positive volumes in the aftermarket and if you could give us a figure about it. Thank you.

The destocking process in Brazil or in South America was completed in Q1. So, I believe that the issue today is over. As far as the second-half perspective, normally South America shows an improvement in the market scenario in demand in the second half versus the first half. And I think this is going to be confirmed also this year. However, the market trends are the ones we show you on the Mercosur. So, I expect OE, especially on the truck side, to stay at a lower level than last year, probably two-digit lower, and replacement to improve but not to become positive versus the previous year. Overall, I mean, Brazil will maintain a good trend in the second half and will probably improve.

But in the consumer aftermarket especially?

Well, you know, you have to remember that Brazil was the last country last year to enter into the global crisis. Till mid-November, they were confident that they were excluded from the crisis. So, when you will compare our results or the market trends, remember that the third quarter was a record quarter last year and also half of the fourth quarter was a strong quarter. So, to be in line with that period or, except for the truck side, which will be slightly negative, still means to have a very good season.

Okay. Thank you very much.

Thank you.

6. Mr. **Alberto Villa** from **Intermonte:**

Good evening. I have two quick questions on the real estate business. One is related to the devaluation of the portfolio: it's 2.3% in the first half of the year; it was below 1%, if I remember well, at the end of March. What could we expect for the remainder of 2009 in terms of potential further devaluation there? And are you expecting to reclassify as holding other assets in order to get revaluation to market value of those assets, as you did in the first half of the year? Thank you.

Malfatto speaking. As far as the revaluation-devaluation process, it depends on the strategy we are going to take for the portfolios under… asset management. I want to make it clear that, first, we have had a very conservative approach over the past four years. If you look at the like-for-like analysis, we didn't revaluate our assets, while our competitors revaluated by over 20% and, of course, in terms of strategy for the management of the portfolio we need to consider that we are going to have a tough market and it's not… it's out of means selling a trophy building at this type of value… the market value and the offer we can receive right now. So our strategy is to try to sell as soon as possible the asset and keeping the best part of the portfolio under management. I'm not sure that we will change part of the portfolio from trading portfolio into hold and this will depend even on the decisions that our partners are going to make, because you should consider that the strategy is approved by the Board of Directors of the vehicles or if we are talking about funds, by the advisory committee of the Funds. So, the relevant decision must be made with our partners.

Okay. Thank you.

7. Mr. **Gianni Piazzoli** from **Equita:**

Yes. Thank you so much for the number of details you already provided us. The last question that remains to me is: could you give us some flavor of how you think your working capital is going to evolve? Thank you.

As far as the tire business is concerned, we are going to keep it under control; and the same is for the rest of the company. So, we don't see any… any surprise. We keep inventories under control, on both raw materials and finished products, and we are avoiding sales to risky markets, so as not to have risks on the receivables side.

Thank you.

There are no more questions for the moment.

So, I want to thank you all very much for the deep analysis we made together. Thank you and have a nice summer.

Ladies and gentlemen, the conference call is over. Thank you very much for your attention.